

# COMPAGNIE DE FINANCEMENT FONCIER

## 2017 Registration document

including the annual financial report







Activity report 2017



Report on corporate  
governance



2017 Management report



Risk control  
and monitoring report



Financial report



Legal information



*This is a free translation into English of Compagnie de Financement Foncier 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 Registration document has been submitted to the AMF. It is therefore the only version that is binding in law.*

This Registration Document was filed with the Autorité des Marchés Financiers (AMF) on 28th March 2018, pursuant to Article 212-13 of the AMF General Regulation.

It may be used to support a financial transaction if completed by a transaction note approved by the AMF. This document was prepared by the issuer and is the responsibility of its signatory.

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



# Activity report 2017

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# Profile

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

As a wholly-owned subsidiary of Crédit Foncier [A- (positive)/A2 (positive)/A (positive)/AA- (stable)]<sup>(1)</sup> and as an affiliate of BPCE [A (positive)/A2 (positive)/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 are French legal covered bonds that comply with the European directives UCITS 52-4<sup>(4)</sup> and CRD<sup>(5)</sup> and with the Article 129 of the European Regulation CRR<sup>(6)</sup>. The *obligations foncières* of Compagnie de Financement Foncier are eligible for the European Central Bank (ECB) refinancing operations, except for certain private placements and issuances in foreign currencies.

Since 2012, Compagnie de Financement Foncier is a member of the ECBC<sup>(7)</sup> Covered Bond Label.

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 €63.4bn as of December 31, 2017 and an issuance volume of €6,1bn.

(1) Standard & Poor's/Moody's/Fitch/Scope Ratings, updated as of the 2017 Registration document's filing date.

(2) Standard & Poor's/Moody's/Fitch Ratings, updated as of the 2017 Registration document's filing date.

(3) Standard & Poor's/Moody's/Scope Ratings, updated as of the 2017 Registration document's 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.

# Chairman's message

## “COMPAGNIE DE FINANCEMENT FONCIER IS CRÉDIT FONCIER'S PRINCIPLE FUNDING VEHICLE”

BENOÎT CATEL



### **In the current economic climate, what is Compagnie de Financement Foncier's role within Crédit Foncier?**

Compagnie de Financement Foncier, which is wholly owned by Crédit Foncier, is the main vehicle for raising finance against Crédit Foncier's real estate lending business. Its capacity to raise sufficient finance, in a sustainable way and on the best possible terms, means Crédit Foncier can offer its customers competitive financial terms in addition to its expertise. In 2017, Crédit Foncier made €11.8bn in new loans, of which €8.8bn went to individual borrowers, a 24% increase on 2016. Compagnie de Financement Foncier is therefore at the heart of Crédit Foncier's operations.

### **How do you see 2018 developing for Compagnie de Financement Foncier?**

The European Central Bank has already said it will gradually wind down its Quantitative Easing programme,

starting in 2018, and Compagnie de Financement Foncier has already anticipated this move by developing the volumes it issues under private placements. Assuming market share close to that of 2017 and with the ambition of matching last year's new lending volume, Crédit Foncier will need to raise an equivalent amount of finance to 2017. Compagnie de Financement Foncier's 2018 issuance programme is therefore set at €6.5bn, of which €0.7bn has already been raised at the end of 2017 on highly attractive terms.

In 2018, Compagnie de Financement Foncier will continue its mission to refinance Crédit Foncier's assets, delivering the resources it needs on the best possible financial terms.



# Message of Executive Management

“IN 2017, HOW DID COMPAGNIE DE FINANCEMENT FONCIER POSITION ITSELF IN THE COVERED BOND MARKET?”

OLIVIER AVIS



## How was Compagnie de Financement Foncier positioned in the covered bond market in 2017?

In 2017, covered bonds were once again front and centre of capital markets with nearly €110bn of new issuance. Throughout 2017, the ECB's asset purchase programme helped keep spreads on covered bonds low.

In this environment, Compagnie de Financement Foncier was again able to respond in a way that met investors' demands and also optimised Crédit Foncier's refinancing costs by seizing market opportunities on favourable spread terms.

## How would you sum up 2017 for Compagnie de Financement Foncier?

2017 was a year that confirmed the position of Compagnie de Financement Foncier in the covered bond market with €6.1bn of new issuances. This included 4 benchmark issuances: two of €1.5bn each with 6 and 5-year maturity, respectively, one of €1.25bn with a 7-year maturity and one of €500m at 15 years. The last long-term issuance was placed at one of the lowest spreads ever paid by a French issuer. All these benchmarks were placed with a lower proportion of Eurosystem finance. Even so, all were

oversubscribed on a scale that confirms Compagnie de Financement Foncier's high standing among investors and the quality of its name.

Compagnie de Financement Foncier also confirmed its positioning in the private placement market, issuing €1.3bn and passing the milestone of its 300<sup>th</sup> registered covered bond (RCB) issue.

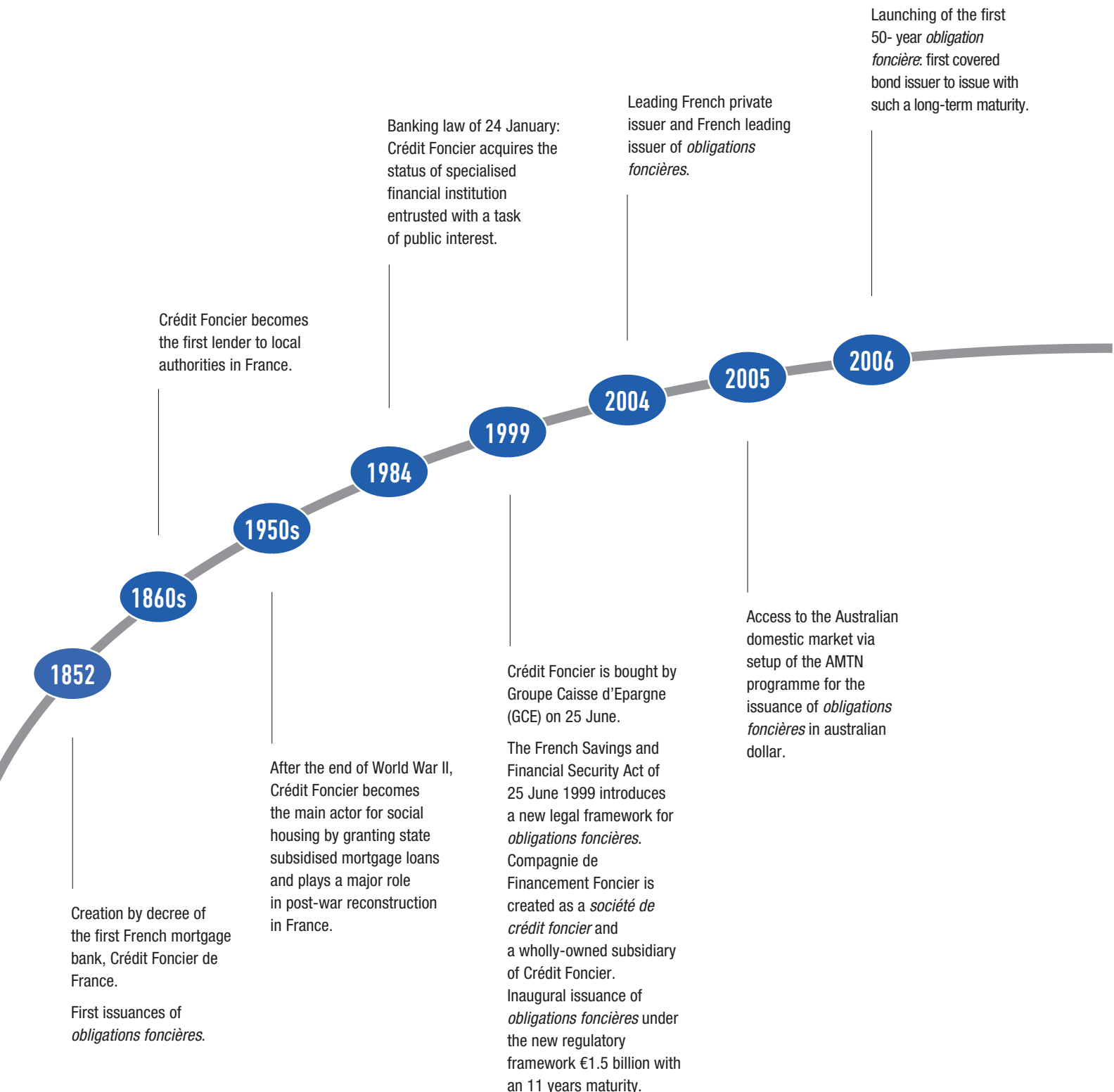
## Following this performance in 2017, in both public and private issues, what is the outlook for 2018?

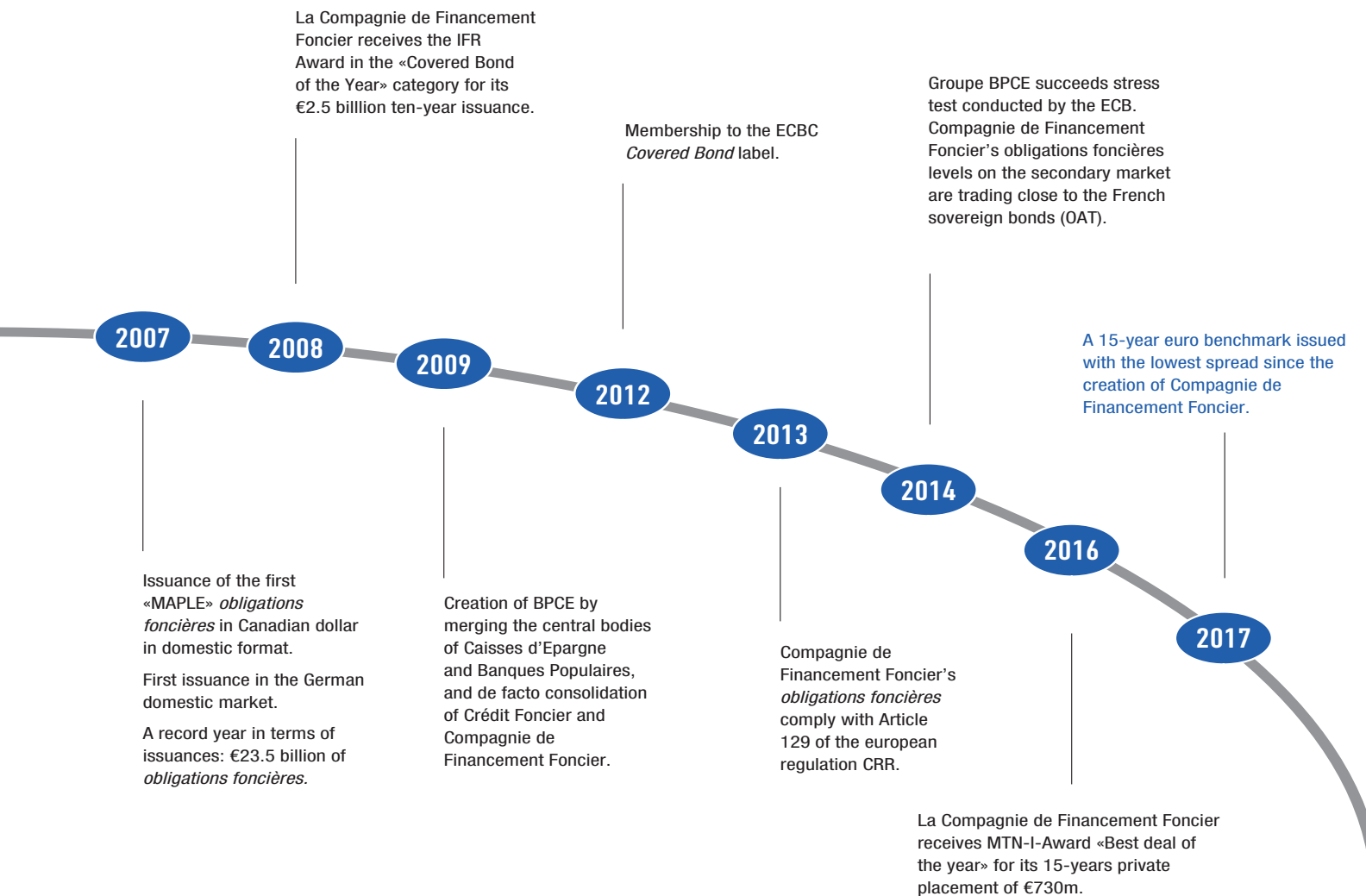
In 2018, the covered bond market will unquestionably be sensitive to the ECB's tapering of its asset purchase programme.

In this context, Compagnie de Financement Foncier, capitalising on the diversity and depth of its investor base, will continue its strategy of expanding private placements and optimising public issues.

# History

Created in 1852, Crédit Foncier, whose main activity is to grant property loans backed by first-ranking mortgages, became the leading lender to local authorities in France and maintained that position until World War II. From the 1950s onward, Crédit Foncier was entrusted with numerous public interest assignments and has continued to play a key role in the real estate sector, becoming one of the State's major partners in this area.





# 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 programmes:** EMTN, AMTN & USMTS

**Sole service provider:**

Crédit Foncier [A-(positive)/A2(positive)/A(positive)/AA-(stable)]<sup>(1)</sup>

A subsidiary of BPCE [A (positive)/A2 (positive)/A (positive)]<sup>(2)</sup>

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

(1) Ratings Standard & Poor's/Moody's/Fitch/Scope Ratings updated as of the 2017 Registration document's filing date.

(2) Ratings Standard & Poor's/Moody's/Fitch Ratings updated as of the 2017 Registration document's filing date.

## SIMPLIFIED ECONOMIC BALANCE SHEET

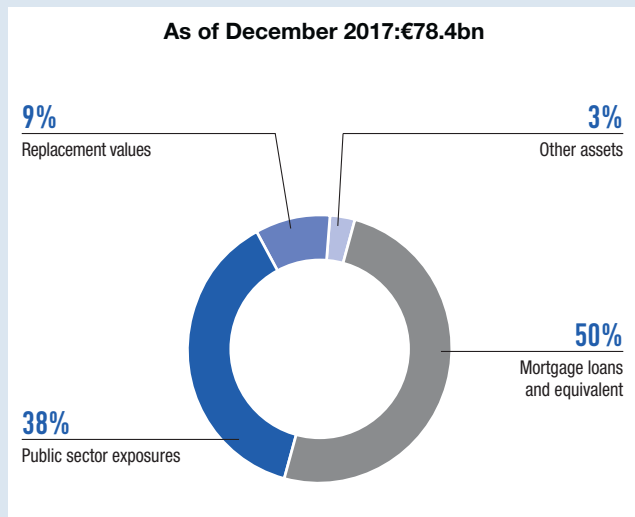
Assets (by type of exposures)	At 12/31/2017		At 12/31/2016	
	€bn	%	€bn	%
<b>Mortgage loans or equivalent</b>	<b>39.4</b>	<b>50.3</b>	<b>39.4</b>	<b>46.7</b>
<b>Public sector exposures</b>	<b>29.8</b>	<b>38.0</b>	<b>34.7</b>	<b>41.2</b>
French Public sector *	21.2	27.1	25.0	29.6
Foreign Public sector	8.6	11.0	9.7	11.5
<b>Replacement values and other assets</b>	<b>9.2</b>	<b>11.7</b>	<b>10.3</b>	<b>12.2</b>
Replacement values	6.8	8.6	6.8	8.1
Other assets	2.4	3.1	3.4	4.0
<b>TOTAL ASSETS</b>	<b>78.4</b>	<b>100.0</b>	<b>84.3</b>	<b>100.0</b>

\* Including deposits and short term loans at Banque de France of €0.7bn at the end of 2017 and €2.4bn at the end of 2016.

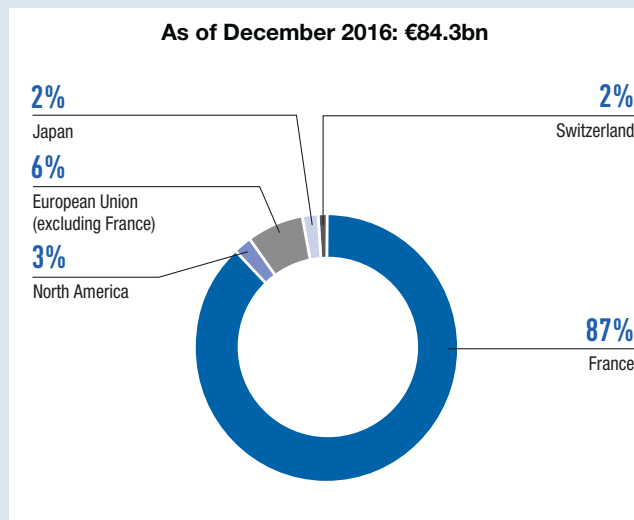
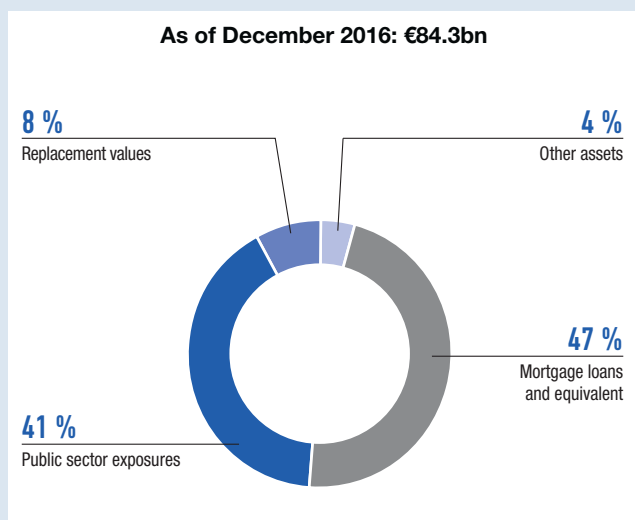
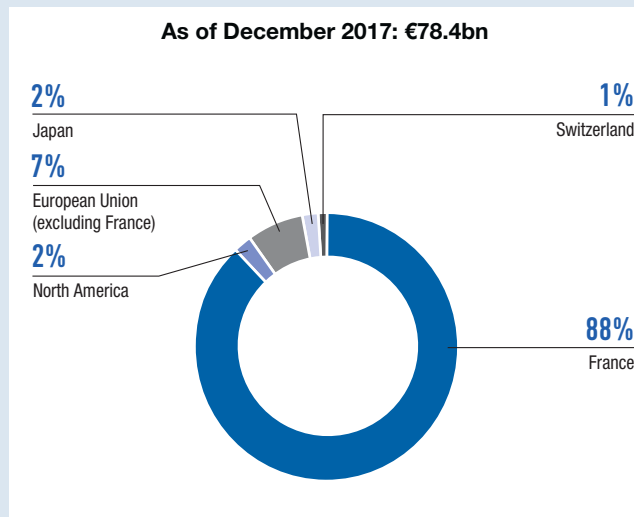
Liabilities	At 12/31/2017		At 12/31/2016	
	€bn	%	€bn	%
<b>Privileged resources</b>	<b>63.3</b>	<b>80.8</b>	<b>66.8</b>	<b>79.2</b>
<i>Obligations foncières</i>	63.4	80.9	67.4	80.0
Foreign exchange rate difference on <i>obligations foncières</i>	-0.3	-0.3	-0.8	-1.0
Other privileged resources	0.2	0.2	0.2	0.2
<b>Difference associated with hedging balance sheet items</b>	<b>0.9</b>	<b>1.2</b>	<b>1.6</b>	<b>1.9</b>
<b>Non-privileged resources</b>	<b>14.1</b>	<b>18.0</b>	<b>15.9</b>	<b>18.9</b>
Unsecured debt	8.7	11.1	10.5	12.5
Subordinated debt or equivalent	2.3	2.9	2.2	2.6
Shareholders' equity, provisions and reserve for general banking risks	3.2	4.0	3.2	3.8
<b>TOTAL LIABILITIES</b>	<b>78.4</b>	<b>100.0</b>	<b>84.3</b>	<b>100.0</b>
Regulatory capital according to CRR/CRD IV	3.1	4.0	3.0	3.6

## BREAKDOWN OF ASSETS

### By type of assets

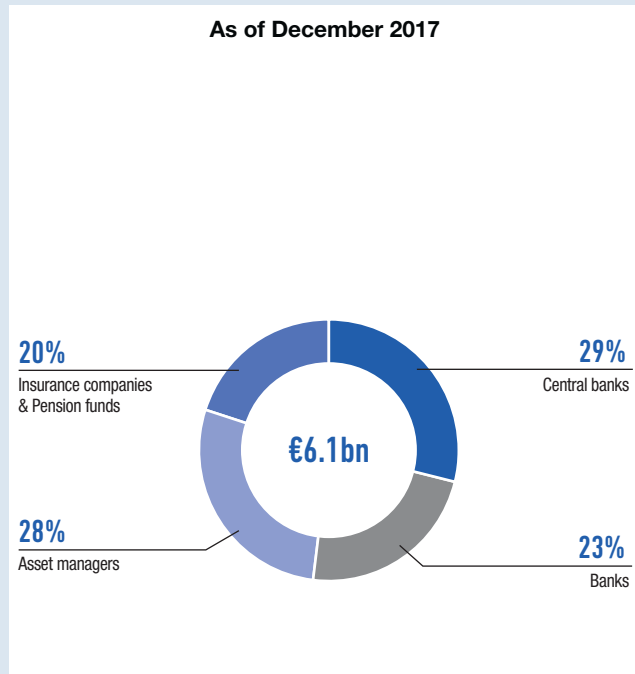


### By region

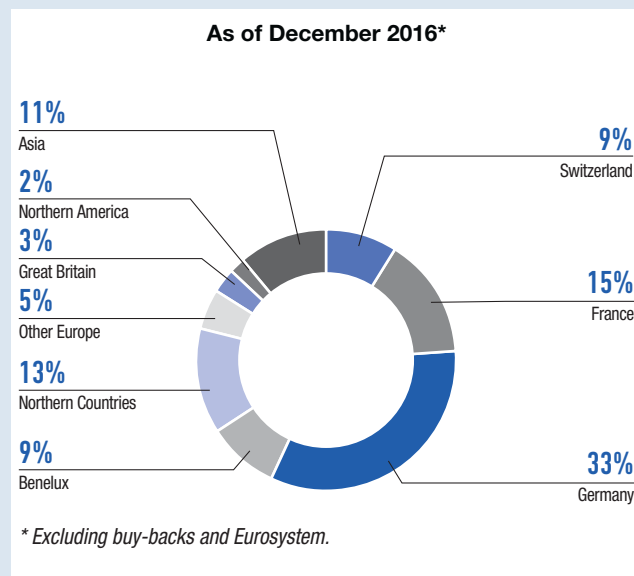
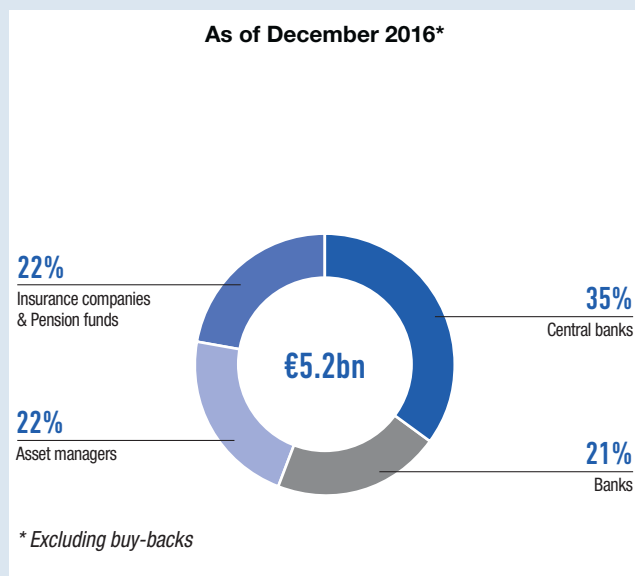
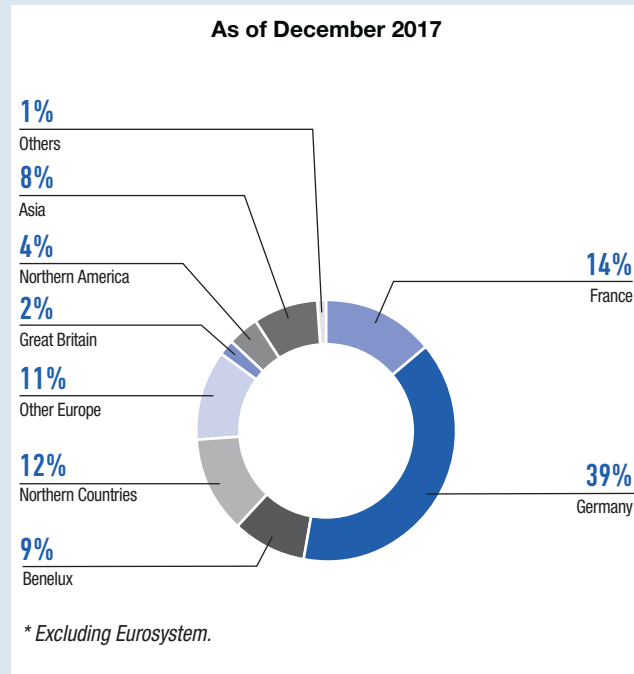


**BREAKDOWN OF ISSUANCES**

**By investor type**



**By region \***



## PERFORMANCE INDICATORS

### Activity

	December 31, 2017	December 31, 2016
Average LTV of mortgage loans for individuals	73.5%	74.9%
Obligations foncières issued*	€6.1bn	€5.2bn
Privileged liabilities	€63bn	€67bn

\* Excluding buy-backs (€0.2bn in 2016)

### Results

	December 31, 2017	December 31, 2016
Net banking income	€200m	€359m
Net income	€58m	€94m

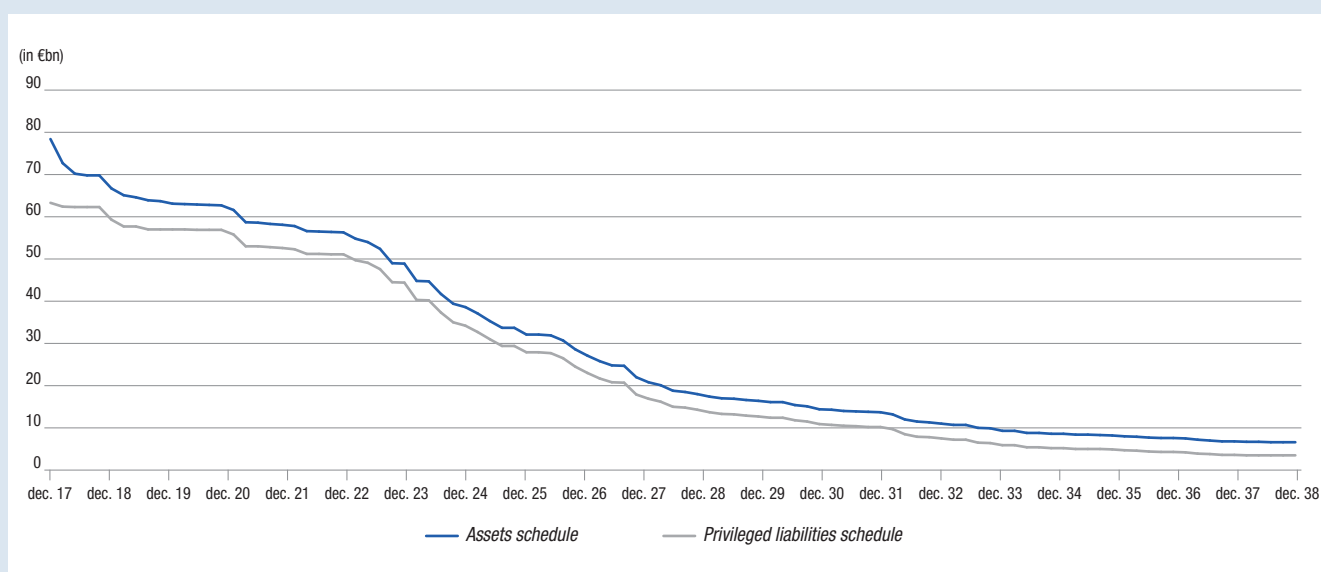
### Solvency

	December 31, 2017	December 31, 2016
Regulatory capital	€3.11bn	€3.04bn
Solvency ratio (calculated according to the standard method)	21.3%	18.5%
Common Equity Tier-1 ratio	21.3%	18.5%

### Société de crédit foncier's specific ratios

	December 31, 2017	December 31, 2016
Regulatory overcollateralisation ratio	117.2%	117.6%
Non-privileged resources/privileged resources ratio	19.6%	18.5%

## AMORTISATION OF ASSETS AND PRIVILEGED LIABILITIES



# Ongoing synergies with Groupe BPCE

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## Crédit Foncier at a glance

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Crédit Foncier is a leading specialist in real estate financing and services in France. As a wholly-owned subsidiary of Groupe BPCE, Crédit Foncier serves all those who seek the expertise and unique insight that will help them find the answers tailored to their real

estate needs: individuals of course, but also professionals, investors and local authorities. Crédit Foncier has provided, to all these players, its innovation and creativity as well as its market experience for over 165 years.

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## Groupe BPCE at a glance

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Groupe BPCE is the second largest banking group in France <sup>(1)</sup> with over 106,500 employees, serves a total of 31 million customers, 9 millions of whom have decided to become cooperative shareholders. Groupe BPCE posted solid performance in 2017, with a moderated risk profile and a strong improvement in solvency. The

2017 net income attributable to equity holders of the parent increased remains stable at €3.4bn. The Common Equity Tier-1 ratio of the group has strengthened further from 14.2% in 2016 to 15.4% in 2017. The group regulatory capital amounts to €74.0bn at December 31, 2017.

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## Synergies

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In 2017, groupe Crédit Foncier continued to develop synergies with other Group entities, in particular with regard to individual customers and social housing but also within the syndicated operations with other entities of Group BPCE.

The development of synergies with BPCE also focused on the Group's IT systems. In fact, Crédit Foncier is engaged in the

CHROME program with the aim to transfer the management of its financial operations to a commun BPCE platform.

Crédit Foncier Immobilier also develops its activities with other Group entities in line with their requirements and their customers' needs.

*(1) Market shares: 21.6% of market share for customer savings and 21.1% for customer credits (source: Banque de France Q3-2017 – all non-financial customers).*



# Covered bonds: legal and regulatory framework

The European regulatory framework regarding covered bonds has been constantly undergoing changes since the beginning of the financial crisis and this has translated into the European and National legislative frameworks.

At the European level, two pieces govern the legal framework of covered bonds: the UCITS and the CRD directives. These European directives are transposed into French law in the CMF <sup>(1)</sup>.

## Covered bonds

Covered bonds are bonds backed by an asset cover pool. Cash flows deriving from these assets enable bondholders to be repaid, in priority over all other creditors.

In the European Union, covered bond features are defined by Article 52-4 of the European UCITS directive (2009/65/EC amended), according to the following criteria:

- the issuer must be a credit institution having its registered office in a European Union Member State and subject to a specific and legal supervision;
- the bondholder must have a preferential claim on cash flows deriving from underlying assets, in the event of the issuer's default, over all other creditors. The exposure limit to this type of assets can be raised up to 25%.

### UCITS directive – Article 52-4

**Directive 2009/65/EC of the European Parliament and the Council of July 13, 2009 (initial directive 85/611/EEC of December 20, 1985)**

[...]

4. Member States may raise the 5% limit laid down in the first subparagraph of paragraph 1 to a maximum of 25% where bonds are issued by a credit institution which has its registered office in a Member State and is subject by law to special public supervision designed to protect bond-holders. In particular, sums deriving from the issue of those bonds shall be invested in accordance with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

[...]

The compliance of covered bond issuers with the Article 52-4 of the UCITS directive has enabled to standardise the asset cover pool controls and their banking supervision.

The second European text providing definition of covered bonds is the Capital Requirements Directive (CRD) on regulatory capital adequacy. Covered bond holders, particularly European banks and insurance companies, benefit from a favourable regulatory framework. Indeed, the latter are taking advantage of a favourable risk weighting of their covered bonds with the highest rating.

(1) CMF: Code Monétaire et Financier (French Monetary and Financial Code).

**CRD IV directive: 2013/36/EU, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, repealing directives 2006/48/EC and 2006/49/EC.**

**CRR Regulation: No. 575/2013 of the European Parliament and of the Council, on prudential requirements applicable to credit institutions and investment firms.**

**Article 129 – Exposures in the form of covered bonds.**

1. To be eligible for the preferential treatment set out in paragraphs 4 and 5, bonds referred to in Article 52(4) of directive 2009/65/EC (covered bonds) shall meet the requirements set out in paragraph 7 and shall be collateralised by any of the following eligible assets:
  - a) exposures to or guaranteed by central governments, ESCB <sup>(1)</sup> central banks, Public sector entities, regional governments or local authorities in the Union;
  - b) exposures to or guaranteed by third country central governments, third-country central banks, multilateral development banks, international organisations that qualify for the credit quality step 1 as set out in this Chapter, and exposures to or guaranteed by third-country Public sector entities, third- country regional governments or third-country local authorities that are risk weighted as exposures to institutions or central governments and central banks in accordance with Article 115(1) or (2), or Article 116(1), (2) or (4) respectively and that qualify for the credit quality step 1 as set out in this Chapter, and exposures within the meaning of this point that qualify as a minimum for the credit quality step 2 as set out in this Chapter, provided that they do not exceed 20% of the nominal amount of outstanding covered bonds of the issuing institutions;
  - c) exposures to institutions that qualify for the credit quality step 1 as set out in this Chapter. The total exposure of this kind shall not exceed 15% of the nominal amount of outstanding covered bonds of the issuing institution;

[...]

- d) loans secured by:
  - i) residential property [...]

[...]
- 4. Covered bonds for which a credit assessment by a nominated ECAI <sup>(2)</sup> is available shall be assigned a risk weight according to Table 6a which corresponds to the credit assessment of the ECAI in accordance with Article 136.

**Table 6a**

Credit quality step	1	2	3	4	5	6
Risk weight	10%	20%	20%	50%	50%	100%

The main feature of covered bonds is the specific mechanism established to protect bondholders. Indeed, bondholders benefit from a special legal privilege on the underlying assets of the cover pool in case of the issuer’s default, giving them the right to be paid

prior to all other creditors. To ensure a sufficient level of quality, said assets are strictly defined in the appropriate legislation (mainly real estate with first rank guarantee and claims on central or regional governments, or local authorities).

(1) ESCB: European System of Central Banks.

(2) ECAI: External Credit Assessment Institution.

The LCR (Liquidity Coverage Ratio) Regulation, which came into force on October 1, 2015, enables investors to include covered bonds in their liquidity reserves, as long as they comply with certain criteria. The main eligibility criteria for covered bonds at each liquidity reserve level are as follows:

Eligibility criteria	Level 1A	Level 2A EU member issuer	Level 2B *
Compliance with Article 52-4 of the UCITS directive or with Article 129 of the CRR			
Minimum rating or, in case of no available rating, risk weighting in accordance with the CRR	AA- or 10%	A- or 20%	35%
Minimum issuance amount	€500m	€250m	€250m
Minimum overcollateralisation ratio to be respected	2%	7% or 2% if rating ≥ AA-	10% and monthly disclosure
Disclosure of the information below, in compliance with Article 129 (7) of the CRR Regulation, and according to the applicable periodicity :	Semi-annually	Semi-annually	quarterly
	<ul style="list-style-type: none"> <li>• the value of the cover pool and the outstanding of the covered bonds;</li> <li>• the geographical distribution and type of cover assets, loan size, interest rate and currency risks;</li> <li>• the maturity structure of cover assets and covered bonds;</li> <li>• the percentage of loans more than ninety days past due.</li> </ul>		

\* For level 2B, the cover pool must consist of residential property and exposures on public entities.

The European Covered Bond Council, an association representing mainly issuers whose members account for over 95% of outstanding covered bonds, established the Covered Bond Label in 2012, who performs its own governance in which French issuers are represented. For investors, regulators and key market players, the label promotes access to relevant, uniform and transparent information on 95 issuers and 112 cover pools in 16 countries. This quality label is based on a convention, which defines the core characteristics and criteria for a covered bond programme to qualify.

For issuers, the label requires compliance with Articles 52(4) of the UCITS directive and 129 of the CRR Regulation and enhanced transparency of information provided. Information for investors is also subject to specific reporting drawn up in accordance with common national frameworks and harmonized under a signe format by the end of 2016.

Under this label, the French template already allows all information required pursuant to Article 129(7) of the CRR to be provided to investors.

Within the context of ECBC Covered Bond Label reporting, Compagnie de Financement Foncier publishes the information listed in the table above on its website ([www.foncier.fr](http://www.foncier.fr)) according to the periodicity scheduled, with the exception of each issuance size. The latter is available on the Company's website in the legal documentation related to each issuance.

Compagnie de Financement Foncier complies with all the label requirements, and has therefore renewed its membership for 2018. All information and reports are available on the website [www.coveredbondlabel.com](http://www.coveredbondlabel.com).

## A French covered bond: the *obligations foncières*

### THE BASICS OF OBLIGATIONS FONCIÈRES

#### FRENCH LAW AND COMPLIANCE WITH EUROPEAN REGULATIONS

In 1999, the French government passed legislation on the modernisation of the *obligations foncières* framework. This law provides the French financial markets with a category of bond instruments, which are competitive and uniform in terms of risks and liquidity, controlled by the Autorité de Contrôle Prudentiel et de Résolution (ACPR)<sup>(1)</sup> and by a Specific Controller. Until then, the legislation of 1852 on *sociétés de crédit foncier* allowed only Crédit Foncier or Crédit Foncier et Communal d'Alsace et de Lorraine to issue *obligations foncières*. Since 1999, *société de crédit foncier's* business activities have been governed by the French Monetary and Financial Code (CMF).

French law is the transposition of the European directives UCITS and CRD on covered bonds:

- *sociétés de crédit foncier* are credit institutions having their registered office in a Member State of the European Union, France. They are legally subject to specific supervision protecting the holders of those bonds, *via* a Specific Controller, whose appointment is approved by the ACPR;
- bondholders of *obligations foncières* are protected by a pool of underlying assets (whose eligibility criteria are defined by law) towards which they have priority recourse in the event of the issuer's default: this is the legal privilege granted to bondholders.

The French legal framework imposes additional liquidity and disclosure requirements for the benefit of investors.

Their financial statements must provide a clear view of major balance sheet items, including:

#### Structure of a *société de crédit foncier's* balance sheet

Assets	Liabilities
<ul style="list-style-type: none"> <li>• Guaranteed loans: backed by a first-rank mortgage or real estate securities conferring at least an equivalent guarantee</li> </ul>	<ul style="list-style-type: none"> <li>• Privileged resources (mainly <i>obligations foncières</i>)</li> </ul>
<ul style="list-style-type: none"> <li>• Exposures on public entities</li> </ul>	<ul style="list-style-type: none"> <li>• Non-privileged resources: senior debt (unsecured debt), subordinated and related debts</li> </ul>
<ul style="list-style-type: none"> <li>• Replacement values</li> </ul>	<ul style="list-style-type: none"> <li>• Provisions</li> <li>• Shareholders' equity</li> </ul>

*Obligations foncières*, which finance eligible assets, are covered bonds that have a legal privilege that confers to their holders a preferential claim on cash flows deriving from the underlying assets.

#### Article L. 513-2

##### 1. – *Sociétés de crédit foncier* are specialised credit institutions, whose sole purpose is:

- 1° to grant or acquire guaranteed loans or exposures to public entities and securities as defined in Articles L. 513-3 to L. 513-7;
- 2° financing these types of loans, exposures, investments and securities by issuing covered bonds (*obligations foncières*) benefiting from the "privilege" defined in Article L. 513-11 and raising other resources, whose contract or public information document within the meaning of Article L. 412-1 or any equivalent document required for admission on foreign regulated markets mentions this privilege.

[...]

<sup>(1)</sup> French Prudential Supervisory and Resolution Authority is an administrative authority that supervises the activity of financial institutions. For further details, please refer to the dedicated paragraph under "Regulatory bodies" on page 22.

The eligibility criteria for *sociétés de crédit foncier*'s assets are defined in Articles L. 513-3 to L. 513-7 of the French Monetary and Financial Code. The following assets are eligible:

- loans guaranteed by a first-rank mortgage or equivalent guarantee, when the underlying assets are located in the European Economic Area or in a country with the highest credit rating;
- exposures on public entities such as loans or off-balance sheet commitments, when they concern public entities or entities that are totally guaranteed by them (central administrations, central banks, public institutions, local authorities or their associations, etc.), and having the highest credit quality step established by an ECAI recognised by the Autorité de Contrôle Prudentiel et de Résolution (ACPR French Prudential Supervisory and Resolution Authority) in accordance with Article L. 511-44 (or the second highest quality step under conditions). Exposures to public entities particularly include debt securities issued or totally guaranteed by one or more public entities. Shares and debt securities issued by securitisation vehicles as well as those issued by similar entities are considered as loans and exposures;

- replacement values (limited to 15% of the face value of the privileged resources): securities, and deposits that are adequately safe and liquid.

All eligible assets are held by the *société de crédit foncier* in a dedicated balance sheet separated from the parent company's.

## INVESTOR PROTECTION

### LEGAL PRIVILEGE OF HOLDERS OF OBLIGATIONS FONCIÈRES

According to Article L. 513-11 of the French Monetary and Financial Code, which defines the legal privilege on cash flows from assets and the terms of the guarantee that it provides, the assets held by a *société de crédit foncier* allow the priority repayment of privileged debt, *i.e. obligations foncières*. The legal privilege is the fundamental principle of legal security for *obligations foncières*' holders. It remains valid even if the *société de crédit foncier* or its parent company goes bankrupt or goes into receivership. It thus affords investors the maximum protection. Privileged debts are paid on their contractual due date, in priority to all other debts, for both their interest and principal payments, until they have been fully repaid, under all circumstances.

#### Article L. 513-11

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

1. sums from the loans or similar debts, exposures, securities and instruments referred to in Articles L. 513-3 to L. 513-7 of the financial instruments referred to in Article L. 513-10, after compensation, if applicable, as well as claims resulting from deposits made by the *société de crédit foncier* with credit institutions, shall first be allocated to the payment of *obligations foncières* and other privileged resources referred to in item 2 of I of Article L. 513-2;
2. when a *société de crédit foncier* is subject to safeguard, restructuring or insolvency or conciliatory proceedings, the debts arising from the transactions referred to in item 2 of I of Article L. 513-2 shall be paid on their contractual due date and in priority to all other claims, regardless of whether the latter are backed by privileges or security interests, including interests from contracts, of whatever duration. Until the holders of preferential claims within the meaning of the present Article have been fully repaid, no other creditor of the *société de crédit foncier* may exercise any right over the Company's property or rights;
3. a *société de crédit foncier*'s liquidation does not accelerate the repayment of its bonds or other debt benefiting from the privilege referred to in part 1 of this article.

[...]

The bondholders of *obligations foncières* are also protected by the following legal and regulatory frameworks:

- Overcollateralisation

#### Article L. 513-12

The total amount of the *société de crédit foncier*'s assets must be higher than the amount of their liabilities benefiting from the privilege as indicated in Article L. 513-11. The Minister in charge of the Economy determines how to measure these assets and liabilities.

Article R. 513-8 of the CRBF (French Banking and Financial Regulatory Committee) Regulation sets the minimum legal overcollateralisation ratio at 105%. It should be noted that non-collateralised exposures in the group may not exceed 25% of

non-privileged resources. One of the Specific Controller's duties is to monitor compliance with this overcollateralisation rule. The regulatory overcollateralisation ratio of Compagnie de Financement Foncier has always exceeded 108% since its establishment in 1999.

**Article R. 513-8**

A *société de crédit foncier* must at all times maintain a cover ratio between its eligible assets, including so-called replacement values, and its liabilities benefiting from the *Privilège* of at least 105% in accordance with the criteria laid down by the Minister in charge of the Economy.

- **Asset-liability matching in terms of maturity and interest rates**

Article 12 of CRBF No. 99-10 requires that matching of maturity and interest rates of assets and liabilities has to be respected in the *société de crédit foncier*'s balance sheet management. It is subject to very close scrutiny by the Specific Controller, who instructs the executives and the ACPR if he or she determines that the matching of interest rates and maturity could create excessive risks for privileged creditors (decree of February 23, 2011). The decree of May 23, 2014 then the order of May 26, 2014 established a maximum duration gap between assets and liabilities. The average maturity for assets held to maintain a cover ratio of 105% and used by transparency in the case of collateralised assets (such as mortgage notes or mobilisations pursuant to Article L. 211-38), may not exceed the average maturity of outstanding privileged liabilities by more than 18 months.

Since May 2014, *sociétés de crédit foncier* are also obliged to prepare an estimate, based on a yearly plan approved by the

decision-making body and submitted to the ACPR, of the privileged resources' cover ratio up to their maturity, considering the available eligible assets and the forecasted new production based on conservative assumptions.

- **180-day liquidity buffer**

At all times, *sociétés de crédit foncier* must ensure that all cash requirements are covered for a period of 180 days. Therefore, *sociétés de crédit foncier* hold replacement values, cash deposits at Banque de France, assets eligible for Banque de France monetary policy operations or other assets defined by Article R. 513-7 that permanently cover all identified cash requirements for the next 180 days.

Further to the decree of May 23, 2014 and the order of May 26, 2014, refinancing agreements to cover these cash requirements at 180 days are no longer authorized.

**Article R. 513-7**

At all times, the *société de crédit foncier* hedges its cash requirements over a period of 180 days, recognising the hedging of forecasted cash flows of principal and interest on its assets as well as net cash flows relating to forward financial instruments mentioned in Article L. 513-10. Cash requirements are covered by replacement values, assets eligible for Banque de France monetary policy operations, in accordance with the procedures and conditions determined by the Banque de France for its monetary policy and intra day credit operations.

When the assets of a *société de crédit foncier*, excluding replacement values, include receivables guaranteed pursuant to Articles L. 211-36 to L. 211-40, L. 313-23 to L. 313-35, and L. 313-42 to L. 313-49, the calculation of cash requirements doesn't use the projected cash flows from the receivables recorded in the assets of the *société de crédit foncier*, but those arising from assets received in guarantee, in pledge or in full ownership.

**NON-EXTENSION OF THE PARENT'S INSOLVENCY TO ITS SOCIÉTÉ DE CRÉDIT FONCIER SUBSIDIARY**

Under French law, a *société de crédit foncier* has a specific legal framework guaranteeing that the holders of *obligations foncières* receive favourable treatment under normal management conditions and in the event of insolvency proceedings being initiated against its parent.

**Article L. 513-20**

Notwithstanding any legal or regulatory requirements to the contrary, notably those of sections II to IV of Volume VI of the French Commercial Code, any safeguard, restructuring or insolvency proceedings against a company holding shares in a *société de crédit foncier* cannot be extended to the *société de crédit foncier*.

The cash flows derived from *société de crédit foncier*'s assets are, under all circumstances, used to repay privileged debt. In the event of default of its parent, the *société de crédit foncier* and the holders of *obligations foncières* are fully protected by virtue of this non-extension rule.

If a French company is subject to insolvency proceedings, there will be no vacuum in authority at its level, as a legal receiver is appointed to ensure the continuity of management.

As a separate legal entity, a *société de crédit foncier*'s subsidiary is not affected by the insolvency of its parent, the management of a *société de crédit foncier* is conducted *in bonis*, i.e. under normal management conditions, by its own managers.

If the parent is subject to preservation or insolvency proceedings, the *société de crédit foncier* may terminate its service and receivable management contracts if it determines this course to be appropriate. The *société de crédit foncier* may therefore change its service provider at any time to ensure the continued management of its assets and liabilities.

Since the decree of May 23, 2014 and the order of May 26, 2014, the Company must also identify the staff and resources required to recover receivables and to enforce contracts entered into by the Company, in addition to drafting a plan defining the conditions for transferring all of the required technical resources and data to perform recovery actions.

## IMMUNITY OF OBLIGATIONS FONCIÈRES HOLDERS

In the event of insolvency proceedings being initiated against a *société de crédit foncier*, holders of *obligations foncières* are entirely protected by the following procedures:

### Repayment schedule of privileged debt is maintained

In the event of judicial liquidation, debt payment is not accelerated. The debts duly deriving from the transactions shall be paid on their contractual due date and repayment of debts that do not benefit from the privilege will only take place after repayment of *obligations foncières* and other privileged debts.

All other creditors (including the French State) are not paid until all *obligations foncières* holders' claims have been satisfied, as set out in the initial schedule. In contrast with the general law that transactions made when companies are in financial difficulty may be invalidated, *sociétés de crédit foncier*'s asset transfers made prior to a declaration of insolvency remain valid.

## Continuity of management in case of insolvency of a *société de crédit foncier*

Article L. 612-34 of the French Monetary and Financial Code provides that, depending on the situation, a provisional administrator may oversee or advise managers or be given full powers. The provisional administrator can use the same asset-liability management (ALM) tools that are usually available to a *société de crédit foncier*, such as:

- disposing assets;
- assigning assets;
- issuing new *obligations foncières*;
- issuing non-privileged liabilities.

A *société de crédit foncier* continues its business according to the same rules, under all circumstances.

Thus, a *société de crédit foncier* carries out its business under normal management conditions because the provisional administrator has the same duties as the managers had previously. All activities are carried on to ensure the Company is well managed, and all privileged debts are repaid in compliance with existing commitments.

### Article L. 612-34

The French Prudential Supervisory and Resolution Authority may appoint a provisional administrator to any legal person under its supervision, to which all of the legal entity's administrative, management and representative powers are transferred.

[...]

In the event of insolvency of a *société de crédit foncier*, the Specific Controller, as set out in Article L. 513-22 of the French Monetary and Financial Code, must file claim statements on behalf of privileged creditors.

The Specific Controller continues to inform and notify the French Prudential Supervisory and Resolution Authority (ACPR), just as he or she must do when the *société de crédit foncier* is operating normally.

## Affiliation to a central body

French cooperative banking groups have a central body and some of their subsidiaries may use a specific guarantee scheme: the affiliation. Compagnie de Financement Foncier is directly affiliated with BPCE SA, the central body of Groupe BPCE; holders of *obligations foncières* benefit from this additional protection.

### Article L. 511-31

The central bodies represent the credit institutions affiliated with them in relation to the Banque de France and the ACPR. They are responsible for the coordination of their network and for ensuring that the institutions affiliated with them, function properly. To this end, they take all necessary steps to guarantee the liquidity and solvency of each of these institutions and of the entire network.

### Articles L. 512-12 and L. 512-86-1

In order to ensure the liquidity and solvency of Banques Populaires and Caisses d'Épargne networks, the central body of the Caisses d'Épargne and Banques Populaires referred to in Article L. 512-106 has access to the common fund of guarantee and solidarity of Caisses d'Épargne network, and to the guarantee funds entered in the accounts of the Société de Participations du Réseau des Banques Populaires which, if they are used, it may decide to reconstitute by calling for the necessary contributions from Caisses d'Épargne and Banques Populaires.

**Article L. 512-107**

**The central body of Caisses d'Épargne and Banques Populaires exercises the powers referred to in Articles L. 511-31 and L. 511-32 of this Code. In this capacity it is responsible for:**

1° Determining the group's policy and strategic objectives and those of each of the networks it comprises;

[...]

5° Taking any measures necessary to ensure the liquidity of the group and of each of the networks and, to this end, to determine the group's liquidity management rules, inter alia by establishing the principles and terms applicable to the investment and management of its member institutions' cash resources and the circumstances in which said institutions may enter into transactions with other credit institutions or investment firms, carry out securitisation transactions or issue financial instruments, as well as any financial transaction required in connection with their liquidity management;

6° Taking any measures necessary to ensure the liquidity of the group and of each of the networks, inter alia by implementing the group's appropriate internal solidarity mechanisms and by creating a guarantee fund common to the two networks for which it shall determine the operating rules, the terms of intervention in conjunction with the funds referred to in Articles L. 512-12 and L. 512-86-1, and the affiliated institutions' contributions for its appropriation and reconstitution;

7° Determining the organisational principles and conditions of the internal auditing mechanism of the group and of each of the networks and providing monitoring of said organisation and of the management and quality of the financial situation of the affiliated institutions, inter alia through on-the-spot inspections within the scope of the intervention described in the fourth paragraph of Article L. 511-31;

8° Determining the risk-management policy and principles, and the limits thereof, for the group and for each of the networks and providing monitoring thereof on a consolidated basis at all times.

## REGULATORY BODIES

### THE EUROPEAN CENTRAL BANK

Since November 2014, Compagnie de Financement Foncier is supervised by the European Central Bank according to the Single Supervisory Mechanism (SSM); while remaining under the supervision of the national competent authority, the ACPR.

### THE AUTORITÉ DE CONTRÔLE PRUDENTIEL ET DE RÉOLUTION (ACPR – FRENCH PRUDENTIAL SUPERVISORY AND RESOLUTION AUTHORITY)

The tasks of the French Prudential Supervisory and Resolutive Authority are defined by Article L. 612-1 of the French Monetary and Financial Code.

The ACPR is responsible for three main tasks:

- contributing to the stability of the financial sector;
- protecting customers;
- strengthening the influence of France at European and international level.

As authorised credit institutions, *sociétés de crédit foncier* are placed under its authority.

The ACPR monitors these companies by examining reports and financial statements that they are required to provide and can also conduct on-site investigations.

As credit institutions, the *sociétés de crédit foncier* have to provide information about:

- internal control (Articles 258 to 270 of the Decree of November 3, 2014 on internal control of the banking sector).

The *sociétés de crédit foncier* must also publish specific reports about:

- the quality of their financed assets and, in particular, the characteristics and breakdown of loans and guarantees, liquidity at 180 days in a run-off scenario, as well as the level and sensitivity of interest rate positions. The report on these points is published on Compagnie de Financement Foncier's website and submitted to the ACPR four times a year, within 45 days following the end of each quarter;
- the calculation of the overcollateralisation ratio, which includes limits on the composition of assets, and the calculation of amounts eligible for refinancing by privileged resources.

The report on this information, completed with other regulatory indicators, is certified by the Specific Controller, and submitted to the ACPR within three months following the end of each quarter.



The *sociétés de crédit foncier* determine the solvency ratio and the regulatory overcollateralisation ratio provided to the French Prudential Supervisory and Resolution Authority. These audits performed by the ACPR are an additional guarantee for the holders of *obligations foncières*.

### **Order of November 3, 2014 regarding the internal control in the banking industry**

#### **Article 258**

At least once a year, companies subject to this regulation are required to prepare a report on internal control.

#### **Article 259**

This report covers the different categories of risk mentioned in this order, namely:

- a) a description of the main actions carried out in relation to internal control, pursuant to Article 13, and the lessons drawn from these actions;
- b) an inventory of enquiries carried out pursuant to Article 17 and the main lessons to be drawn, especially the main shortcomings identified and follow-up on any corrective action taken;
- c) a description of significant changes made in relation to permanent and periodic controls during the period under review, in particular to take into account changes in the business and risks;
- d) a description of the conditions under which procedures are put in place for new activities;
- e) a section relating to the permanent and periodic controls of foreign branches;
- f) a description of the main initiatives planned in relation to internal control;
- g) an appendix detailing the transactions concluded with executive directors, members of the supervisory body and, where applicable, with the major shareholders as defined in Article 5 of the aforementioned order of December 23, 2013;
- h) an up-to-date description of the classification of money laundering and terrorism financing risks, and justification of this classification.

#### **Article 260**

Companies subject to this regulation and financial holding companies, parent companies of financial institutions and mixed financial holding companies supervised on a consolidated basis or, as the case may be, on a sub-consolidated basis, shall also prepare a report on internal control at group level, at least once a year. Companies subject to this regulation shall include this group report in the report mentioned in Article 258.

#### **Article 262**

At least once a year, companies subject to this regulation, financial holding companies, parent companies of financial institutions and mixed financial holding companies supervised on a consolidated basis or, as the case may be, on a sub-consolidated basis, shall prepare a report on risk assessment and monitoring that provides an overall picture of all the risks to which they are exposed, including the risks associated with banking and non-banking activities.

[...]

For companies subject to this regulation, financial holding companies and mixed financial holding companies, this report shall include an appendix relating to the security of payment instruments. They shall describe the assessment, measurement and monitoring of the security of payment instruments they issue or manage with regard to their internal standards, if any, and to the recommendations that the Banque de France or the European System of Central Banks bring to their attention.

#### **Article 263**

The report referred to in Article 262 shall include an analysis of changes in cost-of-liquidity indicators over the period.

For investment service providers and the persons referred to in Article L. 440-2 (3) and (4) of the French Monetary and Financial Code, this report shall include, among other things, the assumptions used with regard to the monitoring of liquidity.

**Article 264****The report referred to in Article 262 shall also include:**

- a) an appendix containing the assumptions and methodological principles used as well as the results of stress tests performed by companies subject to this regulation [...];
- b) an appendix indicating the methods, including stress tests, used for identifying the risks resulting from the use of credit risk mitigation techniques [...], in particular the risk of concentration and residual risk.

This report may be included in the report provided for in Article 258.

[...]

**Risk assessment and monitoring**

Credit institutions subject to these rules must also implement risk assessment tools and methods in order to ensure effective management and monitoring of their risks. Selection processes (limits, approval delegations and methods of analysis) as well as monitoring tools and procedures for regularly assessing the levels of risks managed.

The regulation requires a periodic review of these assessment methods and tools.

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

- credit;
- liquidity;
- interest rate;
- foreign exchange;
- compliance;
- settlement and intermediation;
- legal;
- operational;
- extreme events (solutions provided in the Contingency and Business Continuity Plan).

**Documentation and information**

Credit institutions are required to document the following:

- their organisation and the role of their staff;
- their information systems security procedures;
- risk assessment systems and their operational characteristics (limits, selection criteria, monitoring, etc.).

The following supervisory and control bodies must be kept informed:

- decision-making body: the Board of Directors and its sub-committees, the Audit Committee and the Risk Committee;
- the Company's central body or its shareholder;
- external auditors (Statutory Auditors, Specific Controller);
- regulatory authorities (ACPR – Autorité de Contrôle Prudentiel et de Résolution, AMF – Autorité des Marchés Financiers: French Financial Markets Authority).

**STATUTORY AUDITORS****Appointment of the Statutory Auditors**

As a French public limited company, *sociétés de crédit foncier's* financial statements must be audited by Statutory Auditors. Article L. 511-38 of the French Monetary and Financial Code requires that credit institutions be audited by at least two Statutory Auditors, employed by two different auditing firms (whereas other countries require only one).

They are appointed by the General Shareholder's Meeting, and not by executive officers, for a six years term.

As credit institutions, *sociétés de crédit foncier* must first have their Statutory Auditors approved by the General Meeting for a six-year term, following a prior consultation.

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

**AUDIT AND CERTIFICATION**

Pursuant to the French Commercial Code, the Statutory Auditors must certify, while justifying their opinion, whether or not the annual financial statements give a true and fair view of the Company's results for the accounting period concerned and of its financial position and assets and liabilities at the end of each period. Their certification is published in this Registration document. For this purpose they carry out an audit, in accordance with the professional standards of the National Association of Statutory Auditors (CNCC, Compagnie Nationale des Commissaires aux Comptes).

**GENERAL REPORT**

In their report to the Ordinary Shareholders' Meeting, the Statutory Auditors must report on the execution of their assignment. By certifying the Company's financial statements, they express that during the course of their assignment they have obtained reasonable assurance that the financial statements do not contain any material misstatement.

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

**SPECIFIC VERIFICATIONS**

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

- the information provided in the Management report;
- the documents sent to shareholders concerning the financial position and annual financial statements.

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

Pursuant to the law, at any time of the year, the Statutory Auditors, together or individually, may carry out all verifications and controls

they deem appropriate and may provide on-site and request any documents they consider necessary for their assignment, including contracts, accounting records and documents, and minutes of meetings.

## Liability of the Statutory Auditors

### Liability of Statutory Auditors and Specific Controller

The Statutory Auditors and the Specific Controller can be held liable as follows:

- civil, according to Article L. 513-22 of the French Monetary and Financial Code concerning the Specific Controller and Article L. 822-17 of the French Commercial Code concerning Statutory Auditors specifying that they are responsible *vis-à-vis* the Company as well as third parties; for the damaging consequences that may arise due to errors and negligence committed by them while performing their duties;
- disciplinary liability, pursuant to Article R. 822-32 of the French Commercial Code, because the Specific Controller is a registered Statutory Auditor;
- criminal liability, pursuant to Articles L. 820-6 and L. 820-7 of the French Commercial Code.

## SPECIFIC CONTROLLER

The Specific Controller is selected from the official list of Statutory Auditors (French National Association of Auditors – CNCC). His appointment, proposed by the executive management of the *société de crédit foncier*, is subject to the approval of the ACPR for a four-year mandate. He is responsible for verifying that operations are functioning correctly and for ensuring strict compliance with laws and regulations. To avoid any conflict of interest, the Specific Controller may not be a Statutory Auditor for the group that consolidates the *société de crédit foncier*.

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

- assess the quality of the risk management and monitoring procedures that the *société de crédit foncier* has implemented in order to respect the principles above;
- control the eligibility of loans and other assets held by the *société de crédit foncier*;
- ensure the appropriate overcollateralisation of privileged resources by eligible assets, the compliance with regulatory limits and the LTV eligible for privileged refinancing;
- certify previous ratios, limits and LTV on a quarterly basis for the ACPR;
- issue certifications of quarterly bond issuance programmes and for issuances in euro equivalent of €500m or more;

- verify the asset-liability matching in maturities and interest rates of the *société de crédit foncier* (Article 12 of French Banking and Financial Regulatory Committee (CRBF) Regulation No. 99-10);
- appraise the valuation and periodic review procedures of the underlying assets backing the eligible loans, pursuant to Article 5 of CRBF Regulation No. 99-10;
- certifies, on a quarterly basis, the new reports introduced by the decree of May 23, 2014 and the order of May 26, 2014, in particular the items used to calculate the overcollateralisation ratio and the resources needed to cover cash requirements, the difference in average maturity between assets and the provisional cover of privileged resources with eligible assets.

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

During its missions as defined by law (Article L. 513-23 and 24 of the CMF), and for which he benefits from an extended investigation right, the Specific Controller can also:

- attend any Shareholders Meeting and be heard at its demand by the Management Boards of the Company. He also has a duty of alerting the supervisory banking authorities;
- establish, for all Management Boards and social bodies, an annual report on the accomplishment of its mission, a copy of which is sent to the ACPR.

In the event the *société de crédit foncier* is subject to restructuring or insolvency proceedings, the Specific Controller would become the legal representative of the holders of *obligations foncières* and other privileged resources.

**Article L. 513-23****Specific controller**

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

[...]

The controller shall supervise compliance by the *société de crédit foncier* with Articles L. 513-2 to L. 513-12. He shall ensure that the contributions made to a *société de crédit foncier* are in accordance with the purpose defined in Article L. 513-2 and meet the conditions provided for by Article L. 513-3 to L. 513-7.

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

He shall attend all Shareholder Meetings and at his request shall be heard by the Board of Directors or the Executive Board.

The Specific Controller, as well as his colleagues and experts, is bound by professional secrecy in respect of the facts, acts and information of which he may obtain knowledge by reason of his duties. However, he is released from the professional secrecy requirement with regard to the French Prudential Supervisory and Resolution Authority, to which he must immediately report any fact or decision of which he obtains knowledge in the course of his assignment that is liable to be detrimental to the operating conditions or continued operations of the *société de crédit foncier* [...]. The Specific Controller shall be responsible, as regards both the *société de crédit foncier* and third parties, for damage caused by faults and negligence committed by him in the performance of his office.

**Article L. 513-24****Specific controller**

When a *société de crédit foncier* is the subject of safeguard, restructuring or insolvency proceedings, the Specific Controller makes the declaration as stipulated in Article L. 622-24 of the French Commercial Code for and on behalf of the holders of the privileged debt referred to in Article L. 513-11.

[...]

By exception to Article L. 823-14 of the French Commercial Code, the Controller's right to information may extend to communication of the contracts and other documents held by the Company responsible for administering or recovering the loans, exposures, similar debts, securities and instruments, bonds and other resources, pursuant to Article L. 513-55, provided that these contracts and other documents are directly related to the tasks performed by this company on behalf of the *société de crédit foncier*.

## THE AUTORITÉ DES MARCHÉS FINANCIERS (AMF – FRENCH FINANCIAL MARKETS AUTHORITY)

**Prospectus directive**

The purpose of the European Prospectus directive, introduced in 2003 is to harmonise the format of bonds issued by all European issuers. It was transposed into French law in 2005.

Specifically, it requires choosing a listing market for registering securities from the issuing programme that matches either the issuer's home country or the country in which the issuer wants to have them listed.

*Sociétés de crédit foncier* who choose Paris as the place of registration must submit to the approval of the French Financial Markets Authority (AMF), in its capacity as the regulatory authority for issuers who register their programme in Paris, a prospectus that contains information intended for the public pursuant to the AMF's General Regulation and Articles L. 412-1 and L. 621-8-1 of the French Monetary and Financial Code.

The revised directive of November 8, 2012 sets out new cases exempting the obligation of drawing up a prospectus and permits, in certain cases, an increase in the threshold, beyond which a financial securities offer does not constitute a public offering.

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

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

Article 212-13 of this regulation also stipulates that *sociétés de crédit foncier* that choose to provide a Registration document, must do so under the conditions fixed by AMF's instruction.

**Transparency directive**

The Transparency directive of 2004 – transposed into French law by the Act of July 26, 2005 and the changes to the General Regulation of the AMF by the decree of January 4, 2007 – introduces transparency requirements for the quality of the information provided to investors regarding the Company's performance and financial situation. Thus, it contributes to better investor protection and enhance investor confidence. Specifically, it harmonizes the content and frequency of the publication of information.

In this respect, as issuers of debt securities admitted to trading on a regulated market, *sociétés de crédit foncier*, are required to comply with the permanent and periodic disclosure requirement as defined in the AMF General Regulation.

Thus, Article 221-1-1° of the AMF General Regulation provides regulated information that the *société de crédit foncier* is required to

disclose “effectively and in full” (Article 221-3 I of the AMF General Regulation). This disclosure consists in filing this information with the AMF and posting it on the issuer’s website as soon as it has been filed (Article 221-3 II of the AMF General Regulation). This list includes the annual financial report, the half-year financial report, and the statement of Statutory Auditors’ fees.

#### Article L. 412-1

I. – Without prejudice to the other provisions applicable thereto, persons or entities making a public offering shall, prior to doing so, publish and make available to any interested party a document designed to inform the public concerning the content and terms and conditions of the process which is the subject thereof and the issuer’s organisation, financial situation and business prospects and those of any guarantor of the financial instruments included in that process, as determined in the general regulations of the French Financial Markets Authority.

[...]

#### Article L. 621-8-1

##### The French Financial Markets Authority

I. – To issue the approval referred to in Article L. 621-8, the French Financial Markets Authority checks whether the document is complete and comprehensible, and whether the information it contains is consistent. The Financial Markets Authority indicates any statements to be altered or additional information to be inserted.

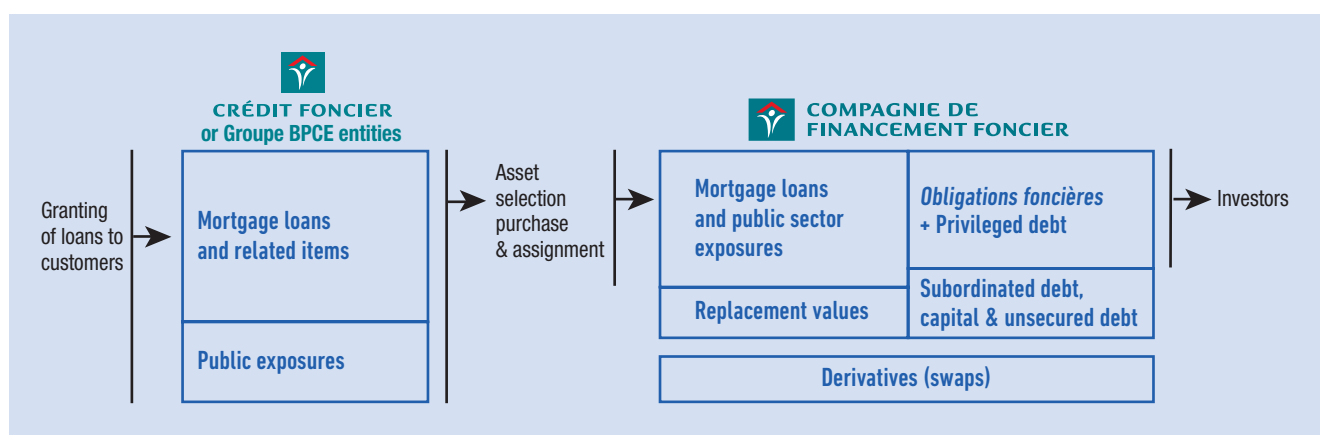
The Financial Markets Authority may also request any explanation or proof, particularly in regard to the issuer’s situation, business and results and concerning any guarantors of the financial instruments to which the transaction relates.

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

[...]

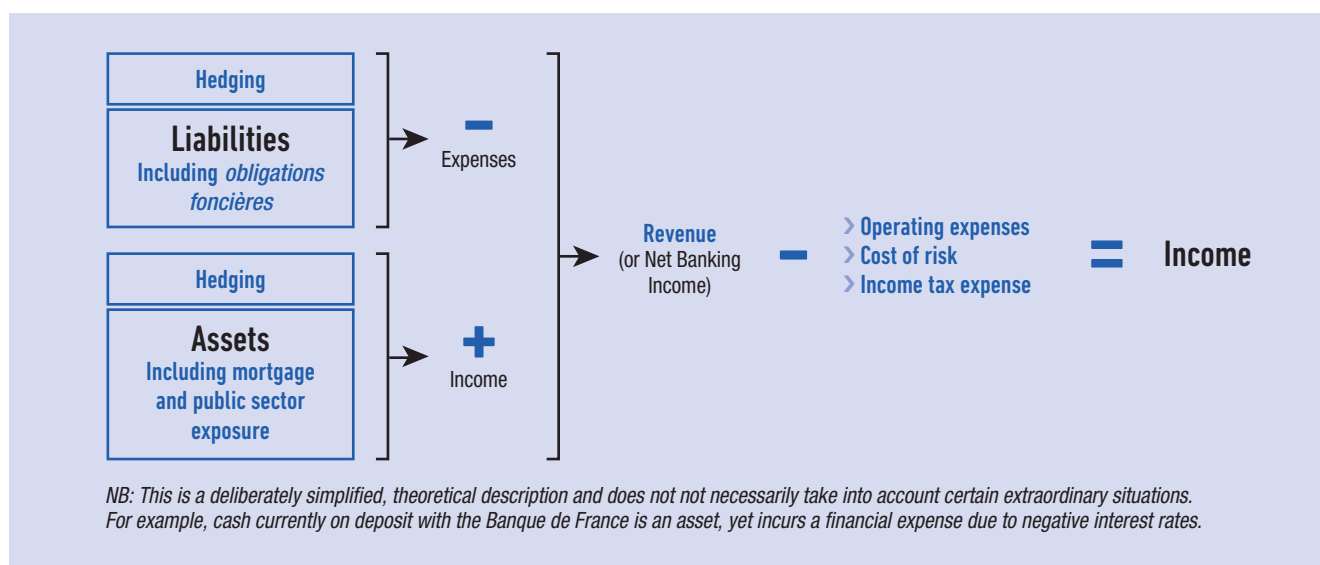
# Business model of Compagnie de Financement Foncier

Compagnie de Financement Foncier is a credit institution approved as a specialised credit institution and a *société de crédit foncier*. As a wholly-owned subsidiary of Crédit Foncier, affiliated to BPCE, Compagnie de Financement Foncier grants or acquires guaranteed loans or exposures to public entities, and finances them by issuing *obligations foncières*.



This model is based on the selection and purchase of eligible assets originated by its parent company, Crédit Foncier, or by Groupe BPCE's entities. These assets are financed by issuing *obligations foncières*, the holders of which are granted with a legal privilege on the flows from the assets guaranteeing both principal and interest, with priority over all other creditors.

Given that Compagnie de Financement Foncier is a refinancing vehicle, its activity depends foremost on Crédit Foncier, and to a lesser extent to the other entities of Groupe BPCE. If the market is buoyant and if Crédit Foncier has increased its production, Compagnie de Financement Foncier can buy or assign more receivables and thus increase its issuance volume. Conversely, if the market slows down, Compagnie de Financement Foncier may limit the volume it issues.



In addition to the quality of its asset cover pool, security and robustness are the main features of its economic model.

The asset selection and purchase are subject to rigorous scrutiny: this asset-selection process allows Compagnie de Financement Foncier to purchase only high quality loans, in line with its risk policy.

## Assets selection, management rules and control

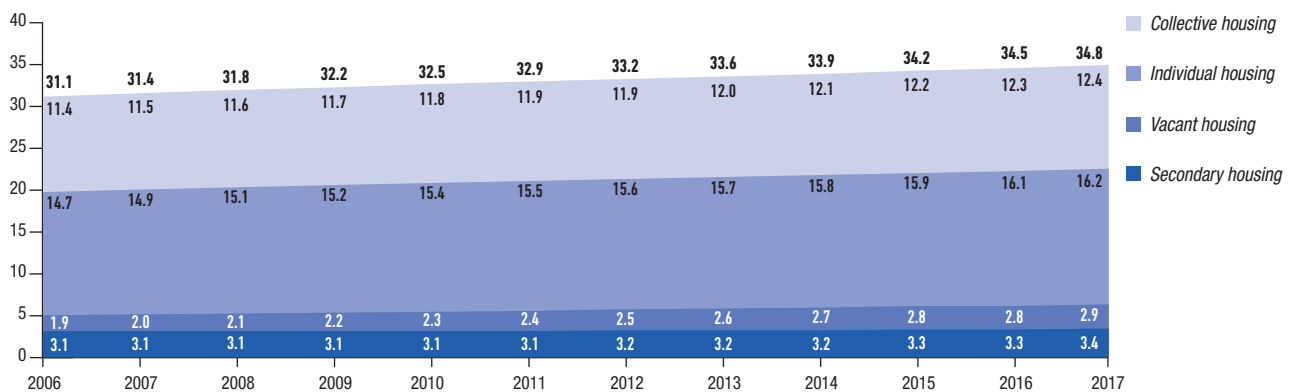
### MARKET AND OPERATING CONTEXT

The nature of the assets that Compagnie de Financement Foncier may acquire, results in links with the following markets:

- home loans to private individuals, a market which is closely linked to the housing market;
- funding of local authorities and local public institution investments.

Compagnie de Financement Foncier can also grant long-term funding to other Groupe BPCE entities, by refinancing through the intermediary of Crédit Foncier, Research Tax Credits (*Crédit d'Impôt Recherche – CIR*), Employment Competitiveness Tax Credit (*Crédit D'Impôt Compétitivité Emploi – CICE*) or other exposures to the French State.

### Distribution by type of housing (in million of units) <sup>(2)</sup>



Today there are 34.8 million housing units available in France, compared with 31.1 million in 2006, an increase of 3.7 million in 11 years. Principal residences represent 82% of the housing stock, with nearly 28.6 million units in 2017. Since 2006, collective housing has increased by around 1 million units and individual housing by 1.5 million units. This reflects the strong aspiration to individual housing, which has resulted, since the 1970s, in high concentrations of such dwellings in suburban areas.

Furthermore, its funding through the issuance of *obligations foncières* makes Compagnie de Financement Foncier one of the main actors on the covered bond market.

### THE FRENCH HOUSING AND HOME LOANS MARKET

#### The structural features of the French real estate market

The French housing market has been driven for many years by strong demand for new housing, due in particular to the country's demographic growth and societal changes such as the increase in life expectancy and the fragmentation of the family unit.

A study by the Credit Foncier Real Estate Observatory takes the view that in order to meet household demand, the construction objective in France over the next few years is to start 500,000 housing projects per year <sup>(1)</sup>.

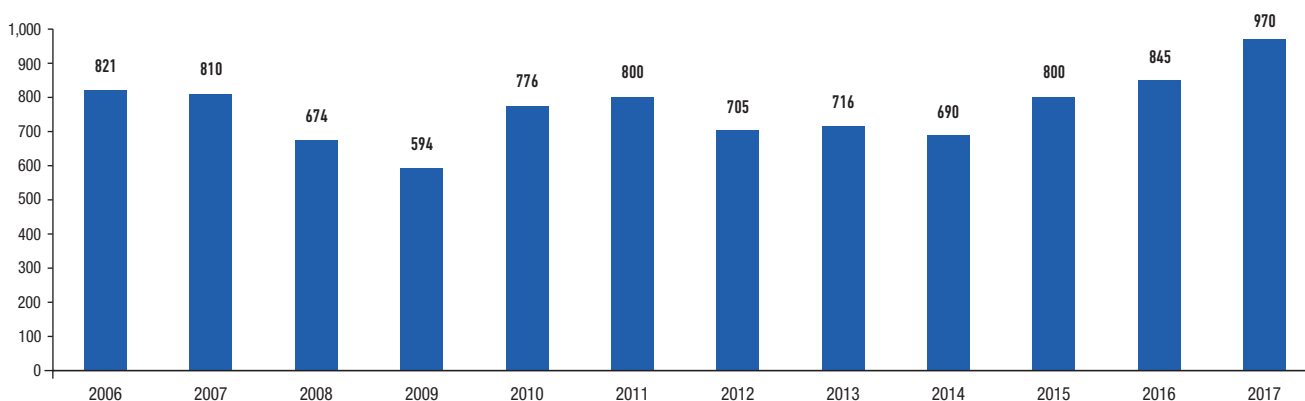
Most housing, whether new or existing, is in the private sector. However, there is also a system of Social housing for low-income households, which receives subsidies from the French government. France has always sought to foster free choice regarding occupancy status (home ownership, private rental, Social housing), while still attempting to maintain a balanced split between various modes of occupation.

(1) *Crédit Foncier Real Estate Observatory – n°95, November 2017.*

(2) *INSEE – Annual estimate of 2017 housing stock, September 2017*

**The housing market in 2017**

**■ Number of transactions in existing property over a sliding 12-month period (in thousands) <sup>(1)</sup>**



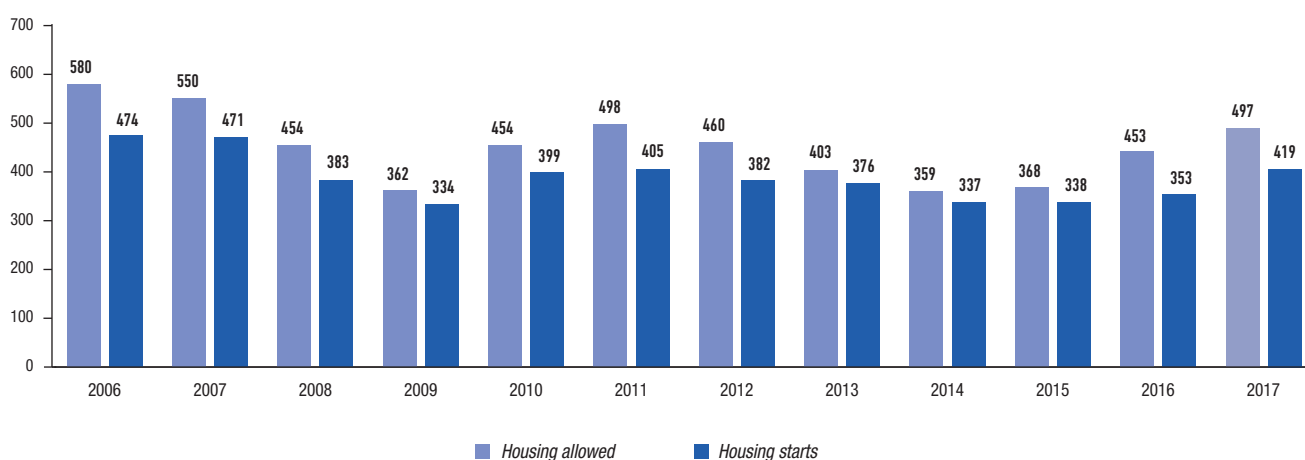
In the existing housing market, the price of existing housing continued to increase: +3.9% annually as compared to the 3<sup>rd</sup> quarter of 2016. This increase was greater for apartments (+5.1%) than for houses (+3.1%) <sup>(2)</sup>.

In Île-de-France, the upward price trend of existing housing has intensified. Over a year, the increase amounted to +5.8%. This acceleration is mainly due to higher prices for apartments in Paris, where prices have risen +7.8% in one year.

In the provinces, prices have risen, but less markedly than in Île-de-France (+4.5% for apartments and +3.1% for houses) <sup>(2)</sup>.

As regards the annual volume of transactions, it also continues to rise. In September 2017, it reached a new historic record with 970,000 transactions carried out during the past 12 months (as against 845,000 a year earlier) <sup>(1)</sup>.

**■ Number of housing authorised and started over a sliding 12-month period (in thousand of units) <sup>(3)</sup>**



In the new housing market, the recovery continued. Building permits for 497,000 new homes had been granted over a 12-month period (from December 2016 to November 2017), which is to say +9.7% compared with last year.

Likewise, the number of housing starts rose in 2017. The number of housing projects started over a rolling 12-month period amounted to 419,000 at end-October 2017, compared to 353,000 housing starts in 2016 <sup>(3)</sup>.

**The structural features of the housing market**

Home loans in France are, in accordance with the applicable regulations, firstly granted on basis of the ability of borrowers to meet their repayments, and not only on the value of the property financed.

**CONDITIONS FOR GRANTING LOANS IN FRANCE: A VERY SECURE SYSTEM**

In France, loans are granted after an examination of the borrower's situation. This review covers both the amount of the borrower's income and his or her non-inclusion on the Banque de France register of payment incidents among individuals. This study also ensures that the customer has a sufficient residual income. In practice, French lenders agree to cap the maximum indebtedness ratio of individual borrowers at one third of their disposable income. The down payment is usually equal to 10% of the total cost of the transaction.

In France, the conditions for granting loans are based on a personal approach, *i.e.* based on the borrower's ability to repay the loan and not only the value of the underlying property. Moreover, the French mortgage market offers other features that increase security:

<sup>(1)</sup> INSEE/CGEDD/notary bases – Annual volume of transactions, Q3 2017.

<sup>(2)</sup> INSEE – Notary/INSEE – Price indices on the existing market, Q3 2017.

<sup>(3)</sup> INSEE – Housing authorized and started in mainland France, November 2017.



- **for the borrower:** the existence of a usury rate, which is the maximum total effective rate at which a loan may be granted, set by the Banque de France. It prevents borrowers from being faced with rising interest rate, which could put them in difficulty when repaying their debts and, as such, control level of arrears. In December 2017, this rate was 3.35% for fixed rate loans (with a maturity of 20 years or more) and 2.89% for variable rate loans <sup>(1)</sup>;
- **for the lender:** a clearly defined role and responsibility. The lender is required to examine the situation of each borrower, and therefore only to grant loans to people with the strongest records. As a rule of jurisprudential origin, the lender is also under an obligation to caution borrowers against excessive level of indebtedness. Hence, the credit lending policy is prudent: the default rate of French households is among the lowest in Europe.

Guarantee requirements are associated with the granting of a loan. The main types of safeguards are mortgages and sureties.

- **Mortgage:** right granted to a creditor on a real property as security for a debt, without dispossessing the owner of his right to the property. In the case of non-compliance with the commitment guaranteed by the mortgage, the beneficiary of this guarantee can require the sale of the property and be paid on the amounts due. The lending institution has other legal remedies against the borrower such as direct claim on wages. A mortgage is defined by the following features:
  - registered in the “national mortgage registry”;
  - enforceable at first demand;
  - foreclosure process:
    - amount recoverable by the bank: principal + interests + late penalties,
    - average duration of the entire enforcement procedure: from 15 to 25 months.
- **Surety:** personal guarantee given by a third party (mutual guarantee company, insurance company, private person...) who undertakes to pay to the lending institution the amounts due if the borrower defaults.

Safety procedures secure the lending institution which grants housing loans, of which:

- **Right to follow:** right enabling the holder of a security to seize the property subject to the guarantee regardless of who possesses it, even between the hands of a third party purchaser, usually to sell the property and receive the sale price. So, the right to follow through a mortgage loan, enable the lender to seize the net proceeds of sale of the mortgaged property even if the property was sold by the borrower.

Most housing loans in France are redeemable loans, especially all loans to low-income families. The outstanding principal therefore decreases over time. The financing plan for the purchase of housing often combines a personal down payment and one or more home loans.

To promote home-ownership among low-income households, the French state put in place schemes to support the granting of interest-free loans, the allocation of subsidies to specific categories of home buyers and introduced public guarantees.

## THE FRENCH MORTGAGE MARKET

It exists two types of mortgage loans:

- property loan: the mortgage acts as a guarantee for the lender;
- unassigned mortgage loan: a financial loan, whatever its purpose, and secured by a mortgage.

The French market is characterised by mainly fixed rate mortgage loans with constant monthly repayment and full amortisation at the end of the loan. Early repayments are provided for, but only possible with early repayment fees paid to the lender.

Regarding the property value, it is valued through objective criteria and excluding fluctuations of value due to economic environment and speculative events. It is no longer possible in France to reload a residential mortgage loan if the value of the property increases.

Mortgage loans granted to first time home buyers can benefit from an additional guarantee provided by FGAS (*Fonds de Garantie à l'Accession Sociale* – Government fund promoting access to home ownership).

- FGAS provides services to banks which distribute subsidised loans established by the French government in order to promote home-ownership for low-income households (0% mortgage loans, 0% Eco-loans and first-time home buying loans).
- The assumptions of responsibility by the FGAS depend on the loan features.
- The French State intervenes as ultimate guarantor.

Furthermore, the borrower has to subscribe to mandatory death and disability insurances, taking over the lender repayments upon the occurrence of events covered. Voluntary supplementary insurances may also be subscribed by the borrowers, particularly the job-loss insurance.

## SUMMARY OF FEATURES OF HOUSING LOANS IN FRANCE

Every year, the French Prudential Supervisory and Resolution Authority conducts an exhaustive review of the home loans market based on data gathered from financial institutions and representing 96.8% of home loans outstanding. In 2016, the main features of home loans were as follows:

- 97.9% of home loans granted in 2016 were at a fixed rate, with an average affordability ratio of 29.6% and an average Loan To Value (LTV) of the outstanding amount of granted loans of 69.4%;
- 96.8% of outstanding loans were secured: mortgages or lender's liens accounting for 30.3%, credit institution sureties and financial guarantees accounting for 34.6%, insurance institution sureties and financial guarantees accounting for 23.7%, and other types of guarantees accounting for 8.2%;
- The doubtful loan rate was 1.54% and the rate of provisioning for these outstanding loans stood at 29.5%, primarily due to the extent of the guarantees referred to above.

## Real estate financing in 2017

The home loan market continued its upward trend for the third consecutive year.

(1) Banque de France – Statistics – Lending rates, Q4 2017.

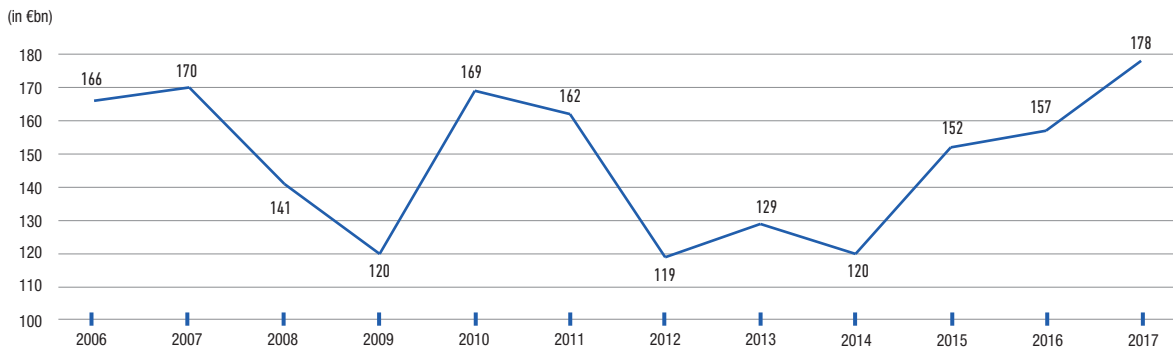
The overall volume of accepted loans is estimated at about €178bn in 2017 compared with €157bn in 2016 <sup>(1)</sup>.

In this contexte, the parent company of Compagnie de Financement Foncier, Crédit Foncier has granted €8.8bn of mortgage loans to individuals.

**Outlook 2018**

Despite credit conditions that should stay advantageous, the market is likely to be adversely affected by public decisions concerning the budget strategy of refocusing PTZ and Pinel loans and the withdrawal of APL Accession in the new housing market.

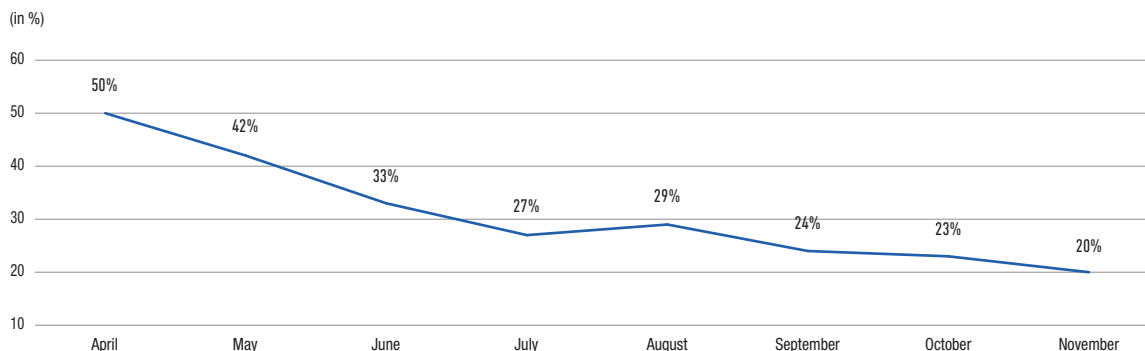
**Annual production of mortgage loans**



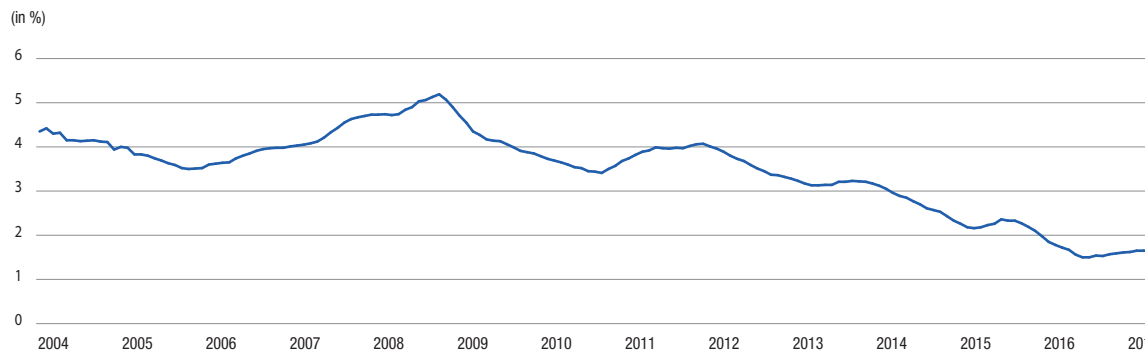
It is important to note that the loan originations shown above do not include debt renegotiations. In fact the year 2017 is the third year in a row that is marked by a continued drop in interest rates, resulting in high level of renegotiations and early repayment. However, for

the first time since a couple of years, the market witnesses a nearly non-stop decline of renegotiations over 2017. Thus, the part of renegotiations in the global volume of mortgage loans granted amounts to just 20% <sup>(2)</sup>.

**Renegotiations' share in the overall production of mortgage loans in 2017 <sup>(2)</sup>**



**Interest rates of mortgage loans with a maturity of more than one year <sup>(2)</sup>**



(1) Monitoring centre on mortgage loans production (FANIE model).

(2) Banque de France, Customer loans outlook, January 2018.

## THE COMMERCIAL REAL ESTATE MARKET

In 2017, the commercial real estate market as a whole was in line with the trend of the previous year with €25.5bn <sup>(1)</sup> in transactions, despite a mixed first half. The first six months of the year were burdened by a significant decline in large, mega-deal type transactions (-66% in the 2nd quarter on a rolling year <sup>(2)</sup>; whereas such transactions, *i.e.*, bigger than €100m, had contributed greatly to the historic volume of 2016, accounting for 59% of it through to end-September 2016.

In the 3<sup>rd</sup> quarter of 2017, the volume of real estate transactions reached €13bn, down €2bn compared to the same period the year before <sup>(3)</sup>. The regions are taking a growing share of the amounts invested, with €3.5bn, an increase of 25% compared to 2016, while demand in Île-de-France declined 26% over nine months, to €9.4m, as against €12.7bn over the same period a year earlier <sup>(4)</sup>.

Concerning property type, office segment represented 70% of the amount invested and retail properties came in at 14% while the share of logistics and business parks amounted to about 16% thus confirming the renewed interest of investors in this type of asset. <sup>(1)</sup>

As of December 31, 2017 Compagnie de Financement Foncier held an outstanding amount of €255m of Private Corporates loans assigned according to the Article L.211-38 of the French Monetary and Financial Code.

## THE FRENCH PUBLIC SECTOR

Regional and local authorities are French administrative structures separated from the State, which support the public interests of the population of a specific region and are defined by three criteria:

- contrary to State administration, they are endowed with legal personality. As they are decentralised, they have administrative autonomy. Thus, they have their own staff and budget;
- they have their own competences, entrusted to them by Parliament and, as such, by the legislative authority;

- they have regulatory decision-making authority that is exercised by deliberation within a council of elected representatives. The decisions are then applied by local executive authorities.

### Organisation

The French Public sector covers nearly 40,000 public structures. The most important are the regions, the departments and the municipalities.

- A region is a territorial authority with an elected regional council, headed by a president with executive powers, under the retrospective control of a regional prefect (Senior member of the French civil service, responsible for administration by the State at the territorial level). The region has its own budget and its main focuses are economic development, vocational training and education (final years of secondary school).

Operating expenses and investment make up the lion's share of spending by the region. Its revenues include taxes, incoming transfers <sup>(5)</sup> and borrowings.

- A department is a territorial subdivision between the region and the municipality, with an elected general council headed by a president with executive powers, under the retrospective control of a departmental prefect. The department has its own budget and powers covering social action, major road infrastructure, education (secondary school) and rural development.
- The municipality is in charge of local government programmes. It is headed by a municipal council and a mayor. Its spending is focused mainly on social welfare, road maintenance and the organisation of educational, cultural and sport activities. The municipality has budgets consisting mainly of direct local taxes (property, housing and professional taxes) and transfers from the State; it is responsible for local administration (water management, building permits, etc.). Its presence is mainly felt in land control, industrial development, architectural heritage and environment.

(1) *Crédit Foncier Immobilier/Immostat, Annual Crédit Foncier's Conference, February 1, 2018.*

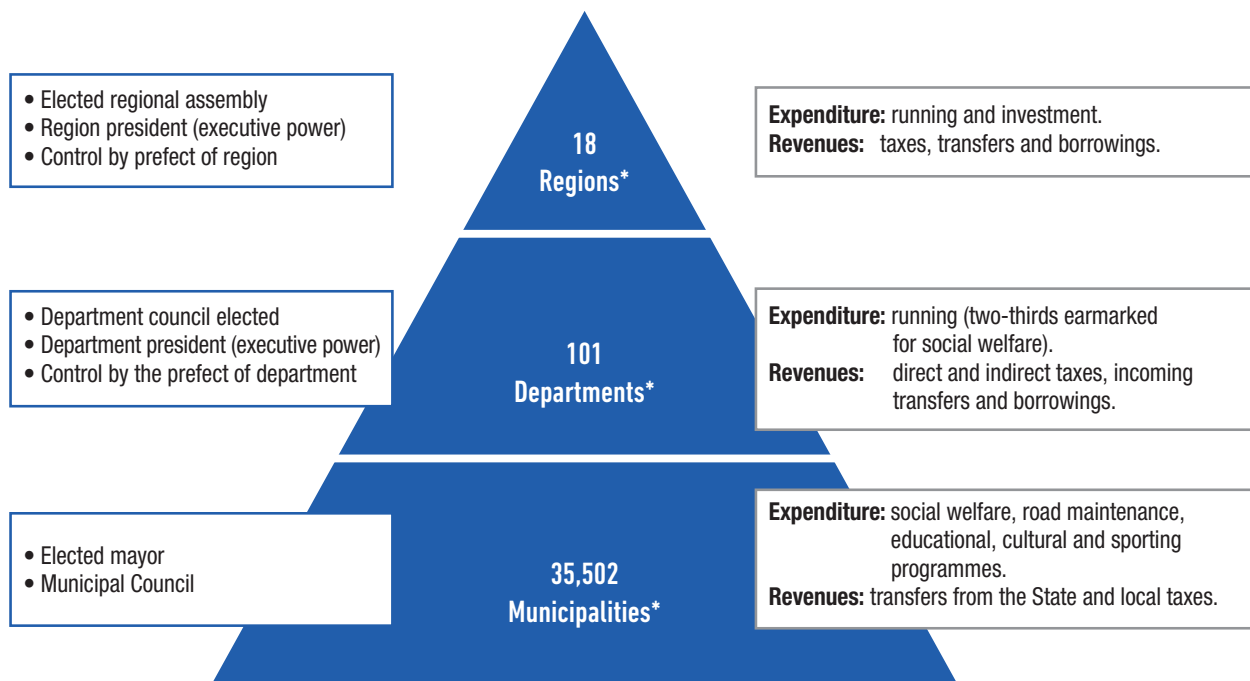
(2) *Crédit Foncier Immobilier, Commercial Real Estate Market, August 2017.*

(3) *Credit Foncier Immobilier/MSCI, Barometer of French real estate investment, November 2017.*

(4) *Crédit Foncier Immobilier, November 2017.*

(5) *Incoming transfers: local taxes rebates, transferred taxes, global operations endowment, collected revenues, etc.*

## ■ The Public sector is subject to controls and managed with balanced budgets <sup>(1)</sup>



\* Of which France mainland 13 regions, 96 departments and 35,287 municipalities

The French Public sector underwent significant reform in January 2014 with the enactment of the act to modernise public local and regional action and reaffirm the cities (*loi dite de modernisation de l'action publique territoriale et d'affirmation des métropoles*). This act seeks in particular to streamline the structure of the Public sector by clarifying and strengthening the powers at each level, with the goal of cutting public expenditure and better understanding the needs of citizens. In particular, this reform reduced the 22 metropolitan regions to 13. At the level of the inter-municipal map, in 2017, a vast number of mergers continued to take place. The decrease in the number of groupings has mainly involved towns of less than 15,000 inhabitants, whose numbers went from 1,225 in 2016 to 342 in 2017 <sup>(1)</sup>.

### Public sector financing

The French legislative framework makes the Public sector a highly controlled sector. The 1984 finance law <sup>(2)</sup> endowed public structures with management autonomy. As they are responsible for investment decisions to which they commit, they are required to repay their debts and fulfil their commitments at any time.

In the budget estimates, submitted to the Prefect's approval, revenues must be equal to or greater than expenditures to ensure the repayment of debts.

Borrowings are the third type of resources available to French regional and local authorities after taxes and transfers and support from the State. Regional and local authorities must follow a budgetary "golden rule", according to which the borrowing can only be used to finance investments and must be repaid from own resources.

As a public legal entity, a French local authority cannot go bankrupt (Article L. 620-2 of the French Commercial Code).

Repayment is considered a mandatory expenditure for the authorities. In case of a late loan repayment, the matter is referred to the Prefect and sufficient revenues are budgeted by a correcting decision to pay the unpaid amounts.

### Market and environment

The territorial reform continued to have an impact in 2017. The regions have taken on financial independence, while the departments (*départements*) have become more focused on social action. The inter-municipal map is marked by inter-municipalities which are larger and have expanded jurisdictions.

In 2017, the gross savings of local authorities rose again (+2.2%, after +4.4% in 2016). Capital expenditures are expected to increase 3.7% in 2017, although they remain low (€49.1bn).

Two significant changes will impact local authority taxation in 2018:

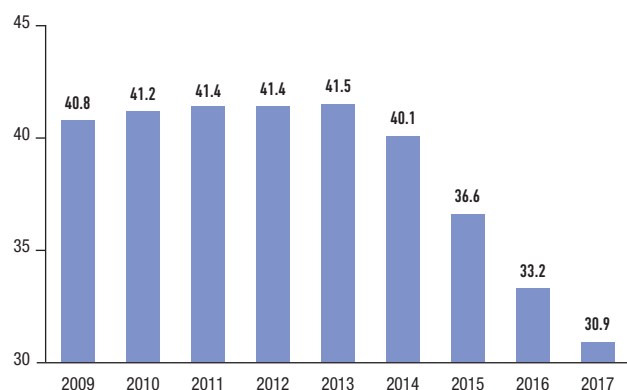
- the regions will benefit from the transfer of a fraction of VAT revenue to offset the elimination of the general operating grant (DGF). This fraction of VAT could reach €4.7bn, i.e. 25% of the 2017 regional tax revenue <sup>(3)</sup>;
- the housing tax, levied by municipalities, would then only be paid by 20% of households by 2020. According to the government's first estimates, the revenue paid by the 20% of households still subject to the tax represents approximately €9bn, or 40% of the current housing tax <sup>(2)</sup>.

(1) French government website ([https://www.collectivites-locales.gouv.fr/files/files/statistiques/brochures/chapitre\\_2\\_-\\_les\\_collectivites\\_locales\\_et\\_leur\\_population\\_0.pdf](https://www.collectivites-locales.gouv.fr/files/files/statistiques/brochures/chapitre_2_-_les_collectivites_locales_et_leur_population_0.pdf))

(2) Law No. 83-1179 of December 29, 1983 on the 1984 budget.

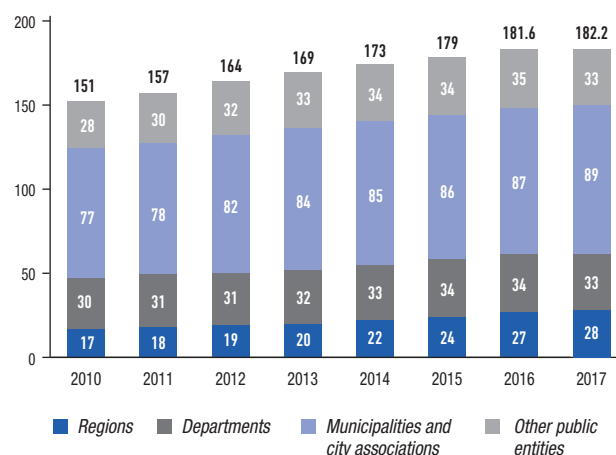
(3) La Banque Postale, 2017 trends at the level of the local authorities, September 2017.

## ■ The overall operating grant from the State to local authorities (in €bn) <sup>(1)</sup>



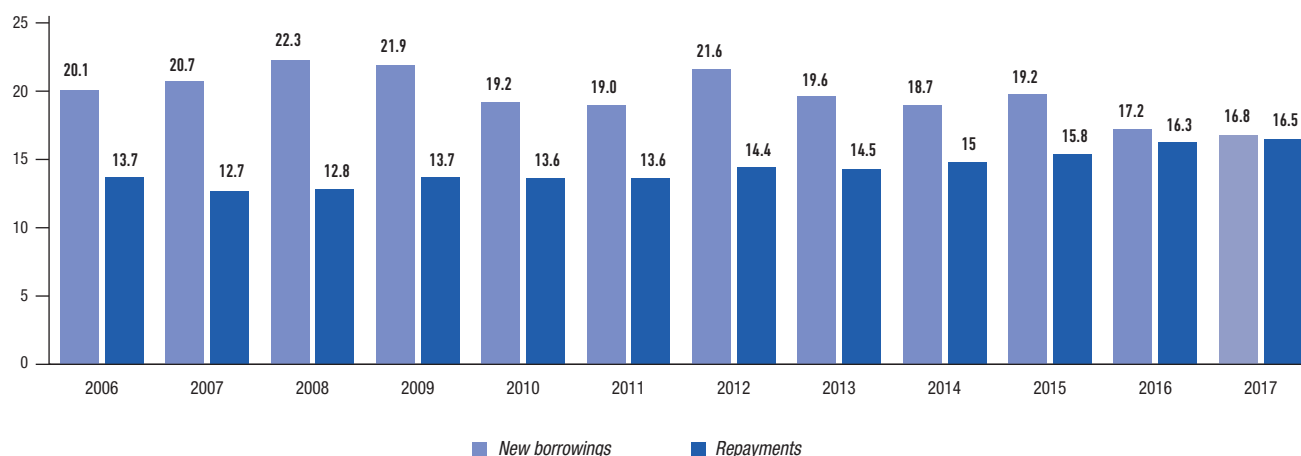
The French State's allocations were down for the fourth year in a row. In 2017 they were €30.9bn, down €2.4bn from 2016. This decrease stems from the contribution of local authorities to the rehabilitation of public finances.

## ■ Debt of local authorities (in €bn) <sup>(1)</sup>



The outstanding debt of local authorities is expected to reach €182.2bn, an increase of 0.3% compared to last year.

## ■ Repayments and local authorities borrowings in 2017 (in €bn) <sup>(2)</sup>



Over 2017, since investments were largely self-financed, borrowing decreased once again, by 2.5%, and amounted to €16.8bn. Loan repayments, in turn, increased by 1.5% to reach €16.5bn. As a result, debt (borrowings less repayments) was estimated to be around €300m <sup>(2)</sup>.

## COMPAGNIE DE FINANCEMENT FONCIER'S ASSETS

### COMPOSITION OF ASSETS, SELECTION AND MANAGEMENT RULES

#### Assets composition

The rules governing the acquisition of Compagnie de Financement Foncier's assets are strictly defined and closely monitored:

- the assets must be eligible pursuant to the law governing the business of *sociétés de crédit foncier*;

- their acquisition is subject to Compagnie de Financement Foncier's own additional requirements;
- these assets are purchased with a margin in order to ensure Compagnie de Financement Foncier's profitability at all times.

The quality of Compagnie de Financement Foncier's assets is also guaranteed by their intrinsic characteristics: they include loans or securities to Public sector entities or guaranteed by the Public sector and first-ranking mortgage loans or similar.

#### Asset selection

In addition to legal eligibility criteria and guarantees required before acquisition, Compagnie de Financement Foncier's business model is characterised by its rigorous asset selection process based on specific know-how, building on the expertise of Crédit Foncier's experienced teams dedicated to these activities.

<sup>(1)</sup> Observatory of local finance and public administration, *The finances of local authorities in 2017*, September 2017.

<sup>(2)</sup> La Banque Postale, *2017 trends at the level of the local authorities*, September 2017.

Eligible assets are selected and scored on their own characteristics, such as: the internal and/or external Basel rating, age, maximum financed loan to value (LTV – share of the project financed by a loan) for mortgage loans and related loans, statistical data including default experience, etc.

This selection process is subject to a permanent audit process to ensure the highest level of safety for *obligations foncières*'s holders.

The price that Compagnie de Financement Foncier pays for its assets is determined on the basis of its funding costs, hedging costs, default and loss probabilities, servicing costs and its profitability.

### Management of payment defaults

Loan management is delegated to Crédit Foncier by an agreement.

The debt-recovering process involves preventing problems, carrying out accurate analysis of risk, making use of guarantees if necessary, and ensuring the rigorous processing of loan applications.

For private individuals, the debt-recovering policy comprises three phases, depending on the length of arrears:

- automated recovery (arrears under two months) allowing arrears to be limited to three months;
- amicable recovery (arrears between two and three months, duration of the procedure up to six months), with a rate of return to normal management over 80%;
- litigation (arrears beyond six months) resulting in the settlement of a third of cases in the subsequent year.

## MANAGEMENT RULES

### Overcollateralisation

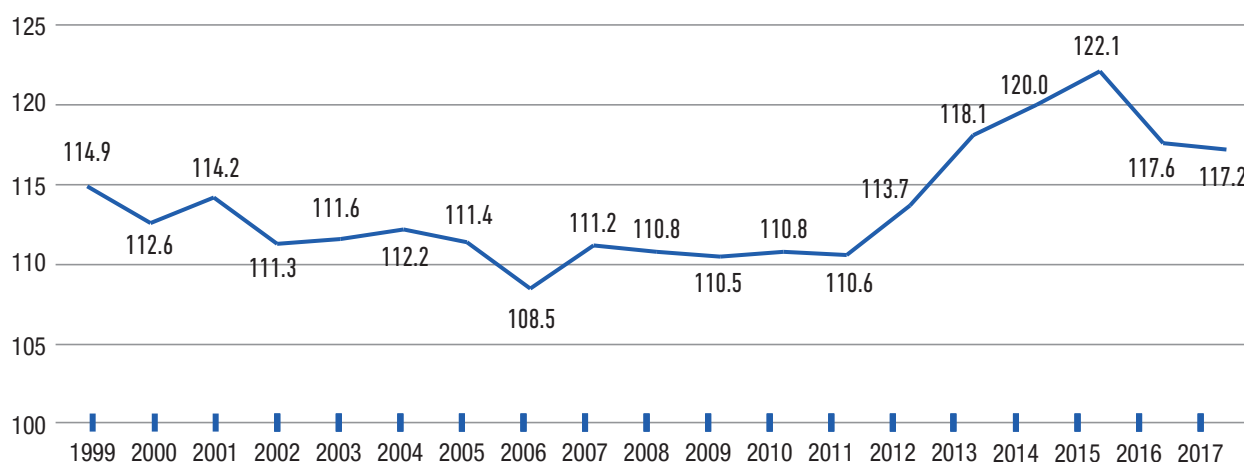
#### COMPLIANCE WITH THE REGULATORY OVERCOLLATERALISATION RATIO (COVERAGE RATIO)

Overcollateralisation, defined by law (Article L. 513-12 of the French Monetary and Financial Code), requires that the total weighted assets amount of sociétés de crédit foncier (in accordance with the regulations set by CRBF <sup>(1)</sup>) is always at least 105% of the total amount of liabilities benefiting from the legal privilege. One of the Specific Controller's duties is to monitor compliance with this regulatory overcollateralisation rule.

For the last ten years this regulatory ratio has been always managed to stay above 110%.

### Overcollateralisation ratio since 1999

(in %)



#### MAINTAINING A HIGH OVERCOLLATERALISATION RATIO SPECIFIC TO COMPAGNIE DE FINANCEMENT FONCIER

In addition to the safety provided by the institutional framework and to ensure the best ratings from the major rating agencies, Compagnie de Financement Foncier has initiated additional management measures.

These measures result in compliance with a specific collateralisation ratio for each rating agency based on its methodology.

In particular, since 2009, it set up measures to maintain at all times a volume of non-privileged liabilities at least equal to 5% of the liabilities that benefit from the legal privilege.

The holders of *obligations foncières* who benefit from the privilege are also protected by the relative weight of non-privileged resource holders, since these are not repaid in priority.

<sup>(1)</sup> Regulation No. 99-10 of July 9, 1999 concerning sociétés de crédit foncier and sociétés de financement de l'habitat amended by regulations No. 2001-02 of June 26, 2001 and No. 2002-02 of July 15, 2002 and orders of May 7, 2007 and February 23, 2011.

As part of its internal rules, two minimum overcollateralisation levels, based on asset quality and interest rate risk, are regularly calculated in relation with the quality of its assets and with the interest rate risk estimated on Compagnie de Financement Foncier.

The first ratio covers the credit risk on its assets, while the second ensures that the overall interest rate risk on its balance sheet is covered.

The sum of these two ratios must meet Compagnie de Financement Foncier's minimum overcollateralisation commitment. Overcollateralisation – which in Compagnie de Financement Foncier's case consists of equity and long-term subordinated and unsecured liabilities – must enable a *société de crédit foncier* to withstand stress test scenarios on credit, interest rate and liquidity risk.

If some or all of these risk scenarios occur, this high level of overcollateralisation will enable Compagnie de Financement Foncier to maintain payments on its *obligations foncières*.

- Regarding overcollateralisation associated with credit risk, Compagnie de Financement Foncier's loan portfolio is divided into six sub-categories, by type of borrower, type of property being financed and type of collateral provided. Each sub category has its own minimum overcollateralisation ratio for outstanding loans and an overcollateralisation for the estimated loans anticipating a two year-production (see table below).

**The following minimum overcollateralisation ratios are currently applied:**

Asset class	Outstanding	Origination
Subsidised sector (in run-off)	3.0%	n.a.
Low-income home loans and Interest-free loans	2.5%	3.0%
Individuals/First-time home ownership loans	3.0%	3.5%
Individuals/Buy-to-let	25.0%	30.0%
Public sector	3.0%	3.0%
Social housing	4.5%	4.5%

- The overcollateralisation required to cover Compagnie de Financement Foncier's overall interest rate risk depends on the size of its balance sheet and equals to 0.5% of Compagnie de Financement Foncier's total assets.

The overcollateralisation required is equal to the credit overcollateralisation to which the overcollateralisation related to the

interest rate risk is added. The level chosen is thus globally more conservative.

**Continuous monitoring of overcollateralisation levels**

To ensure that compliance with the overcollateralisation requirements is maintained at all times, it is monitored on an ongoing basis. In addition to the compliance of the regulatory ratio, if Compagnie de Financement de Foncier observes on a quarterly basis, one of the above thresholds, all asset purchases are immediately suspended and non-privileged resources are used to increase overcollateralisation above the minimum required amount.

**Principle of financed LTV for residential mortgage loans**

The Loan-to-Value ratio on residential mortgage loans is the ratio of the outstanding principal over the value of the underlying real estate asset. The present value of the asset is revalued annually to monitor compliance with this ratio.

The regulatory annual valuation of assets, as required by the regulation, is based on a prudent assessment of the property's long-term characteristics, local market conditions, the current use of the property and other possible uses. All of this information is provided by Crédit Foncier Immobilier – Expertise, Crédit Foncier's wholly-owned subsidiary, Veritas-certified, of which experts are either certified by a court and/or qualified as Chartered Surveyors (MRICS) <sup>(1)</sup>.

The Specific Controller monitors these appraisals each year to verify compliance with the real-estate market parameters used in the valuation process, as described in the risk control and Management report of the Registration document.

**Crédit risk**

**ASSET PURCHASING CRITERIA BY CATEGORY**

Although regulations require that a *société de crédit foncier* invest only in high quality assets, Compagnie de Financement Foncier sets up additional asset purchasing criteria for each asset category, so as to limit its exposure to credit risk. Compagnie de Financement Foncier selects the assets that it wishes to acquire based on their rating, probability of default, score at origination, expected loss and any hedging of assets, as well as yield curves. The assets that meet Compagnie de Financement Foncier's criteria are then purchased at a price determined by the previous study.

Furthermore, Compagnie de Financement Foncier replacement values have very good external credit ratings. The minimum acceptable credit rating for each asset (except for intragroup assets and assets guaranteed by collateral) depends on the investment horizon and must meet the minimum rating criteria of each of the three major rating agencies, as shown below:

	Standard & Poor's	Moody's
From 0 to 59 days	ST: A1	ST: P1
From 60 days to 1 year	ST: A1+	ST: P1 and LT: Aa3

\* Scope Ratings applies no predefined minimum rating. The analysis is done on a case by case basis.

(1) MRICS: Members accredited by the Royal Institution of Chartered Surveyors (RICS). The RICS is a professional organisation whose mission is to regulate and promote the real estate profession.

### Limiting market counterparty risk

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

For its hedging transactions Compagnie de Financement Foncier executes a framework convention with each of its counterparties, with asymmetrical collateralisation and other specific terms set forth in an appendix to this agreement. Each counterparty agrees to pay Compagnie de Financement Foncier on a daily basis (or on a weekly basis for some of them) depending on the counterparty's rating a security deposit equal to its net debt position, without reciprocity from Compagnie de Financement Foncier.

### Managing balance sheet risks

#### MANAGING INTEREST RATE RISK

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

Interest rate gap observation periods	Maximum interest rate gap as a % of the projected balance sheet
Less than 2 years	2%
2-5 years	3%
5-10 years	5%
10-15 years	10%

As part of the annual limits review and with an aim of further harmonization with Groupe BPCE's standards, the limits on interest rate gap of Compagnie de Financement Foncier are updated as follows starting from January 1, 2018:

Horizon	Limits as a % of N-1 balance sheet (start of period)
Less than 2 years	2%
2-4 years	3%
4-8 years	5%
Threshold of 8-15 years	5%

This update doesn't change the risk appetit of Compagnie de Financement Foncier.

### Liquidity risk hedging

Beyond the legislative constraints requiring that *sociétés de crédit foncier* ensure that, at all times, all of their cash flows are hedged for a period of 180 days, Compagnie de Financement Foncier has its own additional strict rules. These rules guarantee that it always maintains enough liquidity to honour its privileged liability

commitments with no need for new resources for one year in a run-off scenario (*i.e.* with no new activity).

The high quality of its eligible securities and receivables enables Compagnie de Financement Foncier to have an immediate access to significant amounts of funding from central banks, such as the ECB.

Thus, Compagnie de Financement Foncier cash position is sufficient at any given time to meet the contractual payments on its privileged debt over the coming twelve months.

In accordance with regulatory provisions, Compagnie de Financement Foncier limits the difference between the average duration of its total assets and its privileged liabilities to 18 months. At December 31, 2017, the total assets average duration was 7.3 years and the privileged liabilities average duration was 7.4 years. In addition, Compagnie de Financement Foncier committed to maintain a maximum difference of 2 years between the average duration of its total assets and the one of its total liabilities.

### No foreign exchange risk

Compagnie de Financement Foncier prohibits any open foreign exchange positions. As such, all asset purchases or refinancing transactions that are not denominated in euros are systematically hedged against foreign exchange risk.

In practice, Compagnie de Financement Foncier limits its residual foreign exchange positions to €3m by currency with a €5m cap for all currencies.

### ORGANISATION OF CONTROLS

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

Compagnie de Financement Foncier committees also support risk monitoring and control. Their operations are described in detail in the Risk Management section of this document.

Moreover, in accordance with the legal framework that provides a legal privilege for holders of *obligations foncières*, the law stipulates that *sociétés de crédit foncier* may not have their own personnel. Compagnie de Financement Foncier draws on the resources of its parent company, Crédit Foncier, to carry out its activities. Crédit Foncier provides Compagnie de Financement Foncier with a number of services, under a series of agreements. These outsourced activities are set out in the report of the Chairman of the Board of Directors and the Risks Management report in this document.



## Refinancing through the issuance of *obligations foncières*

### ECONOMIC AND REGULATORY ENVIRONMENT

#### FASTER ECONOMIC RECOVERY

The recovery of the world economy began in mid-2016 and continues to grow stronger. While only a year and a half ago the economy was sluggish, with flagging growth and turmoil in the financial markets, the landscape today is quite different, with an acceleration of growth in Europe, the US, China and Japan.

After low growth in 2016, of 3.2% <sup>(1)</sup>, the lowest since the financial crisis of 2007, worldwide growth is expected to be 3.6% in 2017 and 3.7% in 2018 <sup>(1)</sup>.

As regards Europe, the economic recovery has benefited from three drivers, which, however, will not be lasting: a decline in the price of oil equivalent to a gain in purchasing power of 1 to 1.5 point of GDP for consumer countries <sup>(2)</sup>, the decline and then stabilization of interest rates and, lastly, the decline in the exchange rate of the euro. The rate of growth of the eurozone is expected to flatten slightly in 2018 to 1.9% after a 2.1% rebound estimated in 2017 <sup>(1)</sup>.

The trend in France is positive. The IMF anticipates growth of 1.6% in 2017 and further growth in 2018 of 1.8% <sup>(1)</sup>. Growth is thought to be based in particular on vigorous new investment by both businesses and households.

In a generally improving economic environment, growth in the UK stands as an exception, with projected declines of 1.7% in 2017 and 1.5% in 2018 <sup>(1)</sup>.

Though the main effect of Brexit is yet to come, the first consequences are already being felt; indeed, inflation in the United Kingdom reached 3% in September 2017 <sup>(3)</sup>, its highest level in five years. The uncertainties surrounding Brexit are also beginning to weigh on investments by companies, which are acting on a wait-and-see basis as to the future of the country outside the EU.

In the United States, the economy's potential to accelerate remains limited, in as much as the stimulus reforms expected from the Trump administration are late in coming and in any case will not be of the magnitude promised during the 2016 election campaign. However, growth is expected to be between 2.2% in 2017 and 2.3% in 2018, supported by a weakening dollar but limited by higher key interest rates.

The growth of emerging economies should also rise to 4.6% in 2017 as against 4.9% in 2018 <sup>(1)</sup>, buoyed by a favorable global financial environment.

After a 2016 marked by a significant recession in Brazil (-3.6%) and near zero growth in Russia (-0.2%) the situation is improving; these two countries should get back to growth as early as 2017 with rates of, respectively, 0.7% and 1.8% <sup>(1)</sup>.

Uncertainties remain as to growth in China. In fact; in its publication of April 2017, the IMF criticized Beijing for giving priority to short-term growth, to the detriment of the remediation of its financial system.

It also asked Beijing to do more to curb the increase in credits, warning that the lending race could lead to problems with bad debts.

China's total amount of debt, which includes borrowing by companies and households, exceeds 260% of GDP, as compared to 160% in 2008 <sup>(4)</sup>.

Restraint is clearly called for. Though the global economic environment shows signs of strengthening, driven notably by favorable financial conditions, growth is nevertheless far from assured. A private debt crisis in China, uncertainty about the US economy, new slip-ups due to Brexit, and of course and unfortunately, the risk of terrorist attacks and geopolitical crises remain major difficulties that could weaken global growth in the years to come.

#### EUROPEAN MONETARY POLICY

As announced, the European Central Bank has turned a monetary corner in deciding to reduce, as was widely anticipated, its program in the euro zone, while leaving its rates unchanged.

The purchases of public and private debt carried out at a rate of €60bn per month terminating at December 31, 2017 will be reduced to €30bn per month between January and September 2018.

The ECB has kept the main bank refinancing rate at zero, while bank deposits continue to be penalized with a negative rate of -0.40%.

In 2017, the ECB purchased €658bn of assets, including €37bn of covered bonds <sup>(5)</sup>.

(1) International Monetary Fund, *Global economic outlook, October 2017*.

(2) Coe-Rexecode, *2018 outlook, October 2017*.

(3) Bank of England, *Inflation report, November 2017*.

(4) Coface – *Economic studies of China, June 2017*.

(5) European Central Bank statistics, *December 2017*.

## THE COVERED BONDS MARKET

The issuance volume of euro benchmark covered bonds reached €110bn in 2017; down by 11% compared to 2016.

In the euro benchmark covered bonds sector, redemptions for the year amounted to €134bn, the largest of which involved France (€31bn), Spain (€29bn) and Germany (€17bn)<sup>(1)</sup>.

2017 saw a reversal of the trend. The *Pfandbrief* which until then dominated this market are positioned behind France, with market shares of respectively 17% and 23%. The Netherlands follow with 10%, while the Scandinavian countries kept their ranking (Norway 7%, Sweden 6% and Finland 5%). The shares of Italy (5%) and the United Kingdom (4%) were stabilized.<sup>(1)</sup>

As in 2016, the spreads of covered bonds have been particularly influenced by the European Central Bank's asset purchase programs, which has been extended until end-September 2018.

In 2017, the green bond market was very dynamic. The overall volume of green issues reached a record of \$156bn compared to \$87bn the year earlier (i.e. almost €130bn). In the primary market,

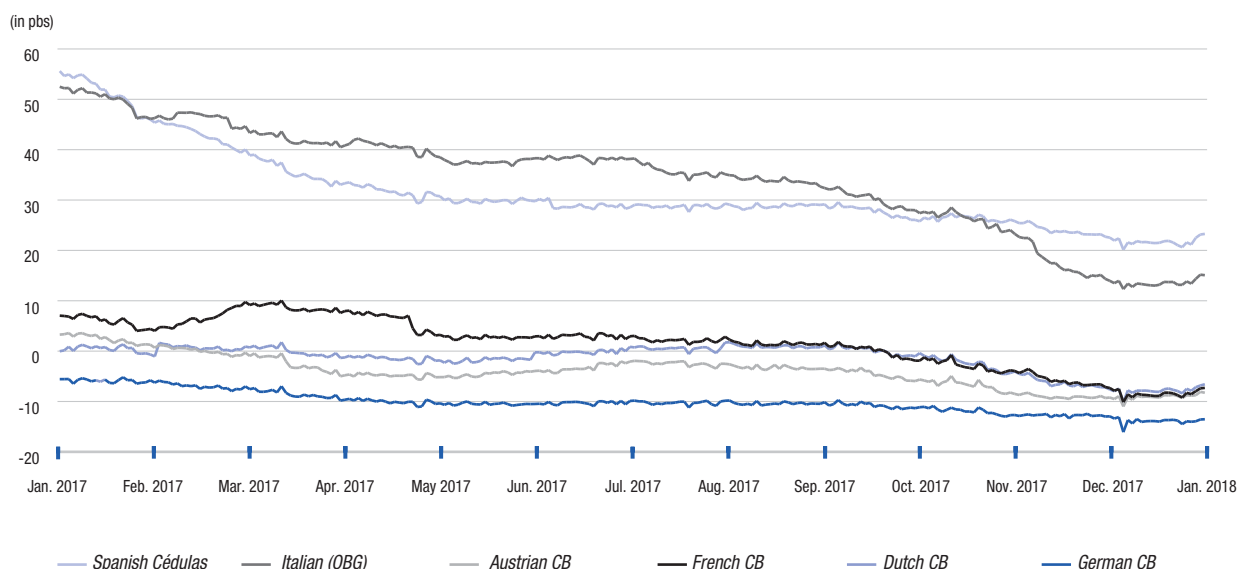
the symbolic €100bn - threshold has been crossed with the issuance volume of euro benchmark green bonds totalling €112bn.

With nearly \$21bn raised, France is in the top three and affirms its pioneering position in green bond market. According to the survey organized by the NGO Climate Bonds Initiative, the United States are in the first place with the green issuance volume of \$42bn, closely followed by China (\$22bn) and France (\$21bn).

The 2018 forecasts by Natixis<sup>(2)</sup> are based on a decline in the supply of euro benchmark secured bonds to €95bn, i.e., down 14% from last year. This strong contraction is attributable mainly to fewer redemptions (-32%) and to a strict regulatory environment, with the European banks having to meet the TLAC requirements by 2019 and the MREL requirements by 2022. However, in the second half of 2018, some banks could begin to pre-fund before the expiration of the quantitative easing coming at the end of September 2018.

As in previous years, France (€16.5bn) and Germany (€14bn) should be seen as the most active markets. The Spanish and Italian banks should be slightly more active in 2018, with issuances of €5.5bn and €5bn respectively.

## 2017 covered bond spreads developments major segments



## COMPAGNIE DE FINANCEMENT FONCIER BOND ISSUANCES IN 2017

In an environment marked by a continued tightening of spreads throughout 2017, Compagnie de Financement Foncier raised more than €6.1bn, including €760m of pre-funding. 78% of the *obligations foncières* were placed with institutional investors in the form of public issues and 22% were in the form of private placements.

On the public primary market, 2017 saw four euro benchmark issuances, representing a total volume of €4.75bn.

In the first and second quarter, two issues of €1.5bn each were carried out with maturities of 6.7 years and 5.3 years. In the third quarter, Compagnie de Financement Foncier issued €1.25bn at 7.3 years. Lastly, in November, a new 15-year bond was placed. These issues have demonstrated once again the strength of Compagnie de Financement Foncier's reputation on the markets and its reputation among investors.

Private placements (excluding repurchase transactions) amounted to €1.3bn, bearing out the position acquired in 2016 on this type of market.

(1) Natixis, *Spreads & Credits, Covered Bonds Outlook 2018, November 2017.*

(2) Climate Bonds Initiative, *Green Bonds Highlights 2017, January 2018.*

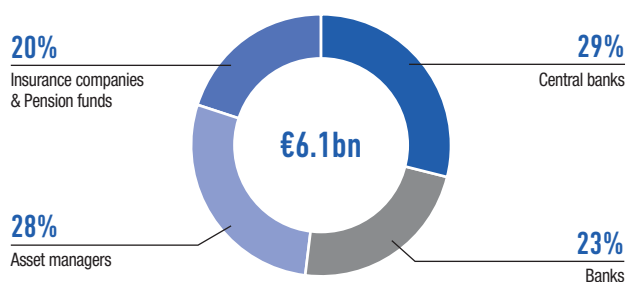
The high levels of oversubscription of public issues in 2017 reflect the diversity and the vitality of Compagnie de Financement Foncier's investor base. As in previous years, the Germans and the French make up the core of the investor base. They alone represent 53% of the allocations. Then come the Nordic countries and Benelux investors with respectively 12% and 9% of allocations. The presence of investors outside the euro zone, especially from Asia and Great Britain, is also noteworthy.

A feature of 2017 was a greater balance among the different categories of investors. The exposure to central banks was reduced to 29% from 35% the previous year, owing to Eurosystem's reduced share. The share of the other types of investors (banks, asset managers, insurers) was between 20% and 28%.

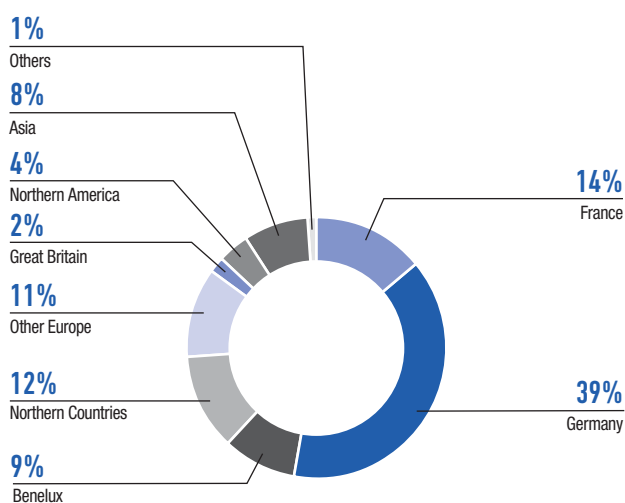
In 2017, Compagnie de Financement Foncier carried out its 300th RCB (Registered Covered Bond) transaction.

## ■ Breakdown of Compagnie de Financement Foncier's obligations foncières issued in 2017

### ■ By investor type



### ■ By region \*



\* Excluding Eurosystem.

### ■ CREDIT RATING AGENCIES: METHODOLOGIES

Several common factors analyzed by the credit rating agencies during the covered bond rating process can be pointed out:

- sponsor's creditworthiness, importance of sponsor-covered bond links;
- legal and regulatory risks: sovereign and financial system support capacity, regulatory framework, importance and maturity of the covered bond market;
- credit risk: analysis of the cover pool creditworthiness, assessment of the probability of default and expected loss in terms of amount and timing;
- ALM risk: analysis of the asset liability mismatch, the liquidity policy, the interest rates and foreign exchange risks, cash flow analysis under different stress scenarios (including different prepayment assumptions) in a run-off mode, assessment of the liquidity and credit enhancement needs;
- operational and administrative risks: analysis of the management of the covered bond programme, the quality and reliability of the information processes and systems;
- counterparty risk: analysis of the major exposures, sensitivity to a counterparty default depending on the type of the counterparty – bank (for the deposits and swaps), sponsor or servicer.

Each rating agency has developed its own indicators and has created its own methods to assess these risks and to determine the level of overcollateralization commensurate with the covered bond rating.

### ■ STANDARD & POOR'S

S&P rating process can be summarized in 4 steps.

The first step consists in determining the Reference Rating Level (RRL). The rating agency first analyzes the covered bond programme environment to determine whether the programme can be rated higher than its sponsor. It then looks if the assets of the pool are well isolated for the benefit of the covered bond holders, and that the payments on the outstanding privileged liabilities will follow the original schedule. A particularly important aspect here is the analysis of the resolution regime in place, which could provide for a rating uplift of one or two notches above the RRL, depending on the systemic importance of the programme in the country.

The second step assesses the Jurisdictional Rating Level (JRL), allowing an additional uplift of up to three notches – 0 for a low level of support, 1 for a medium level of support, 2 for a high level of support and 3 for a very high level of support. Three JRL parameters are distinguished here, namely the regulatory environment, the systemic importance and the sovereign support. Each is assessed separately to determine the final JRL assessment, which should be the lowest of the three. It must also be noted that the JRL assessment is capped by the sovereign rating.

The third step consists in the analysis of the quality of the cover pool assets, which can lead to an additional uplift of four notches. Risks related to credit, refinancing, liquidity and credit enhancement are studied and evaluated here. Overcollateralization must cover the entire credit risk and the proportion of the refinancing cost required to reach the target rating of the program. However, the lack of liquidity coverage commitment may adjust the rating down by one notch, as well as the lack of overcollateralization level commitment.

The fourth and final step takes into account counterparty risk and sovereign risk, which may in certain cases cap the final rating of the program.

Two methodologies applicable to covered bond issuers published in the second half of 2016 became effective in 2017. The first, which focuses on the analysis of mortgage asset portfolios, aligns the analysis of French and Belgian mortgage portfolios with that of other countries, which translates into more conservative assumptions for the mortgage market in France. The second concerns covered bonds rated above the sovereign and aligns the analysis of programs exposed to several jurisdictions with the one of programs exposed to a single jurisdiction. None of those new criteria had an impact on the credit rating of Compagnie de Financement Foncier.

### MOODY'S

Moody's uses the Expected Loss (EL) model to rate covered bonds. It is based on the sponsor's probability of default and the expected loss due to it and determines the maximum rating level that the programme can achieve.

The first step is to determine the rating floor. In 2015 Moody's introduced a new rating for banks, the Counterparty Risk Assessment (CR), which is a probability of default measure of the sponsor. It is also the starting point of the covered bond rating process. Specifically, the starting point is either the CR or the CR+1. This approach sets the rating floor above the sponsor rating, because the BRRD has made it less likely that the sponsor default on its covered bonds rather than on its senior unsecured debt. The additional notch is granted to all EU countries because they are subject to the BRRD.

The second step is to define the number of notches above the rating floor. The EL model takes into account the probability of default of the sponsor and the quality of the cover pool and its characteristics, and simulates a total loss, corresponding to a certain rating level. The uplift represents the difference between the rating floor and this latter rating.

The third step defines the Timely Payment Indicator (TPI), which caps the rating uplift from the previous step. The TPI represents the probability that the issuer will pay the interest and principal on the covered bonds on time. The possible levels of the TPI extend from "Very Improbable" to "Very High". A two-dimensional analysis is applied in order to determine the TPI: the jurisdiction analysis and the program-specific analysis. The main factors that affect the TPI are refinancing risk, strength of the law and contractual terms, government and market support, hedge quality and asset types.

The CR assessment and the TPI level together define the maximum rating that the covered bond programme can achieve.

The sovereign rating does not cap the covered bond rating, because sovereign risk is already factored into the CR assessment.

### SCOPE

The starting point of Scope's methodology is the sponsor credit rating. A particularly important aspect of the agency's analysis is the regulatory framework and the resolution regime. It can increase an issuer rating by up to four notches if the resolution regime supports the dual recourse of covered bonds and by up to two additional notches if the regulatory framework ensures easy and immediate access to the cover pool in case of sponsor default. The rating agency considers that after the implementation of the BRRD regime, it has become far less likely that a sponsor would have to use its recourse to the cover pool. Scope looks at whether the programme can be affected by a moratorium or an insolvency event by the sponsor, determines whether the regulatory framework ensures the continuity of the payments on the outstanding privileged liabilities thus reducing the probability of default on the covered bonds.

Then the quality of the assets in the cover pool is analyzed and up to three more notches may be granted. Scope examines the eligibility criteria specified in the regulatory framework or in the programme documentation, which ensures already a minimum credit quality of the pool. The credit agency also takes into account the issuer's expertise in loan origination. For Public sector cover pools Scope analyzes each portfolio asset separately and uses Monte Carlo simulations to model the default distribution. For mortgage asset cover pools, Scope applies the large homogeneous portfolio approximation approach, for which the input is limited to three parameters: an average probability of default, a recovery rate assumption and a variance or a correlation parameter.





# Report on corporate governance

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# Compliance with AFEP/MEDEF Code recommendations

Compagnie de Financement Foncier, whose share capital is not listed, is committed to running its business and its administrative bodies in accordance with the existing corporate governance practices in France, based on the AFEP/MEDEF Corporate Governance Code.

However, five provisions of the Code were not followed. The first concerns the proportion of independent directors which should represent at least 1/3 of the Board of Directors, and cannot be properly applied because it does not allow a balanced representation of its equal ownership by Crédit Foncier, BPCE which is the parent company of Crédit Foncier, and by the Caisses d'Épargne and Banques Populaires networks which are

shareholders of Groupe BPCE. The same is true of the provisions with respect to the Audit Committee, the Appointments Committee and the Remuneration Committee that concern the proportion of independent directors, which cannot be properly applied.

The fifth provision concerns the Directors' terms of office, which are recommended to run four years whereas the Bylaws of Compagnie de Financement Foncier stipulate a term of six years. This term allows Board members to acquire over time the necessary experience and broader view of the Company's business and its operations. However, the recommendation concerning the renewal of Compagnie de Financement Foncier Board of Directors' term by rotation is properly implemented.

## ■ Statement of compliance with AFEP/MEDEF Code recommendations

Board of Directors: governing body	Recommendations implemented
Variety of ways to organize corporate governance	Recommendations implemented
Board of Directors and strategy	Recommendations implemented
The Board and communicating with the market	Recommendations implemented
Separation of the terms of Chairman of the Board of Directors and Chief Executive Officer	Recommendations implemented
Board of Directors and Annual General Shareholders' Meeting	Recommendations implemented
Composition of the Board of Directors: guidelines	Recommendations implemented
Representation of shareholding employees and other employees	Not applicable
Minority shareholders	Not applicable
Independent directors	Recommendations not implemented
Evaluation of the Board of Directors	Recommendations implemented
Board and Committee meetings	Recommendations implemented
Access to Director information	Recommendations implemented
Training for Directors	Recommendations implemented
Directors' terms	Recommendations implemented except as regards the duration of Directors' terms of office
Board Committees: General principles	Recommendations implemented
Audit Committee	Recommendations implemented except for the fraction of independent directors
Committee responsible for appointments	Recommendations implemented except for the fraction of independent directors
Committee responsible for remuneration	Recommendations implemented except for the fraction of independent directors
Number of terms for executive company officers and directors	Recommendations implemented

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**REPORT ON CORPORATE GOVERNANCE**

Compliance with AFEP/MEDEF Code recommendations

Directors' Code of Ethics	Recommendations implemented
Directors' remuneration	Recommendations implemented
Termination of employment contracts for corporate officers	Recommendations implemented
Requirement for executive corporate officers to hold shares	Not applicable
Signature of a non-compete agreement with an executive corporate officer	Not applicable
Remuneration of executive corporate officers	Recommendations implemented
Disclosure of executive corporate officers' remuneration and the policies for awarding stock options and performance shares	Recommendations implemented
Consultation with the shareholders concerning the individual remuneration of executive corporate officers	Recommendations implemented
Implementation of recommendations	Recommendations implemented

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# Capital

## A. SHARE CAPITAL

At December 31, 2017, 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.

## B. SHARE CAPITAL AUTHORIZED BUT NOT SUBSCRIBED

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

## C. OWNERSHIP STRUCTURE AND VOTING RIGHTS

Major shareholders at 12/31/2017	Number of shares	As a %
Crédit Foncier	158,591,244	100.00
Directors	2	n.s.
<b>TOTAL</b>	<b>158,591,246</b>	<b>100.00</b>

## D. CHANGES IN CAPITAL OVER THE LAST FIVE YEARS

No change was made to the share capital in 2013.

No change was made to the share capital in 2014.

The Board of Directors, meeting on August 25, 2015, unanimously resolved to exercise the powers granted by the Extraordinary General Shareholders' Meeting of May 28, 2015 and to increase the share capital by €1,350,000,000, from €1,187,459,936 to €2,537,459,936, by issuing 84,375,000 new shares with a par value of €16 each, the shares being issued at par. These shares were fully subscribed to by Crédit Foncier on September 15, 2015.

No change was made to the share capital in 2016.

No change was made to the share capital in 2017.

## E. NATURAL OR LEGAL PERSONS THAT EXERCISE CONTROL OVER THE COMPANY

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

## F. 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 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.

Crédit Foncier is a major player in real estate financing services.

# Executive and management bodies

## Executive management at December 31, 2017

**Mr Olivier AVIS**, Chief Executive Officer

**Mr Paul DUDOUIT**, Deputy Chief Executive Officer.

### CHANGES IN EXECUTIVE MANAGEMENT IN 2017

On February 8, 2017 the Board of Directors was informed by letter of the decision of Mr Thierry DUFOUR to resign as Chief Executive Officer and as Director starting from the July 22, 2017.

Following a proposal by the Appointments Committee, the Board of Directors on June 28, 2017 appointed Mr Olivier AVIS to replace Mr Thierry DUFOUR as a Chief Executive Officer starting from

July 23, 2017 for a five-year period. Mr Olivier AVIS had been Deputy Chief Executive Officer since February 9, 2016.

Following a proposal of Mr Olivier AVIS and having heard the Appointments Committee report, the Board of Directors on June 28, 2017 appointed Mr Paul DUDOUIT to replace Mr Olivier AVIS as a Deputy Chief Executive Officer starting from July 23, 2017 for a five-year period.

### REMUNERATION OF THE EXECUTIVE MANAGEMENT

The Executive Management of Compagnie de Financement Foncier does not receive any remuneration

OFFICES OF THE EXECUTIVE MANAGEMENT

**M. Olivier AVIS**

■ **Biography**

**Date of birth:**

11/11/1978

**Nationality:**

Française

**Professional address:**

4, quai de Bercy  
94220 Charenton-le-Pont

Olivier Avis is a graduate of the École Supérieure de Commerce de Toulouse. He began his career in 2001 at HSBC Asset Management Europe as an assistant manager for the management of short-term interest rates. He joined Groupe BPCE in 2002 as a project leader and then became an inspector in the General Inspection department. In 2009, he was a project manager reporting to Executive Management. In 2011 he joined BRED as Senior Banker for Institutional Investors. In 2014, Crédit Foncier appointed him Director of Strategy and Quality. In 2016, he was appointed as Director of Financial Operations and Deputy Chief Executive Officer of Compagnie de Financement Foncier, then in 2017 as Chief Executive Officer of Compagnie de Financement Foncier, as well as Deputy Chief Executive Officer Financial Operations and Member of the Executive Management Committee of Crédit Foncier.

• **Chief Executive Officer**

■ **Companies and positions**

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Chief Executive Officer as of 07/23/2017  
(formerly Deputy Chief Executive Officer)

VAUBAN MOBILISATION GARANTIES (VMG)  
– SACS  
Chairman of the Management Board  
(until 03/13/2017)

FONCIER TITRISATION – SA  
Chairman of the Board of Directors

CRÉDIT FONCIER – SA  
Deputy Chief Executive Officer Financial  
Operations (since 07/23/2017)

**M. Paul DUDOUIT**

■ **Biography**

**Date of birth:**

09/26/1963

**Nationality:**

Française

**Professional address:**

4, quai de Bercy  
94220 Charenton-le-Pont

Paul Dudouit holds a degree in agro-industriale Engineering from ISA Beauvais (1990) and a Master's degree in Economics and Management from ESSEC (1991). He began his career at Crédit Foncier in 1991 as an appraiser for its real estate subsidiary and later for its branch network (1991-1993). From 1993 to 1996, he was chief of staff for the Executive Management of Crédit Foncier, and was in charge of the structuring and the administrative and financial organization of Foncier Vignobles SA from 1996 to 1998. In 1999, he participated in the creation of Compagnie de Financement Foncier and more particularly, regarding the financial aspects of liabilities. Between 1999 and 2010, he was Deputy Director for Primary Markets within the Financial Operations Division. In 2001, he set up the EMTN and RCB programs and in 2010, the USMTS program. Since 2010, he has been Director of Primary Markets. On June 28, 2017, the Board of Directors named him Deputy Chief Executive Officer of Compagnie de Financement Foncier, as of July 23, 2017.

• **Deputy Chief Executive Officer**

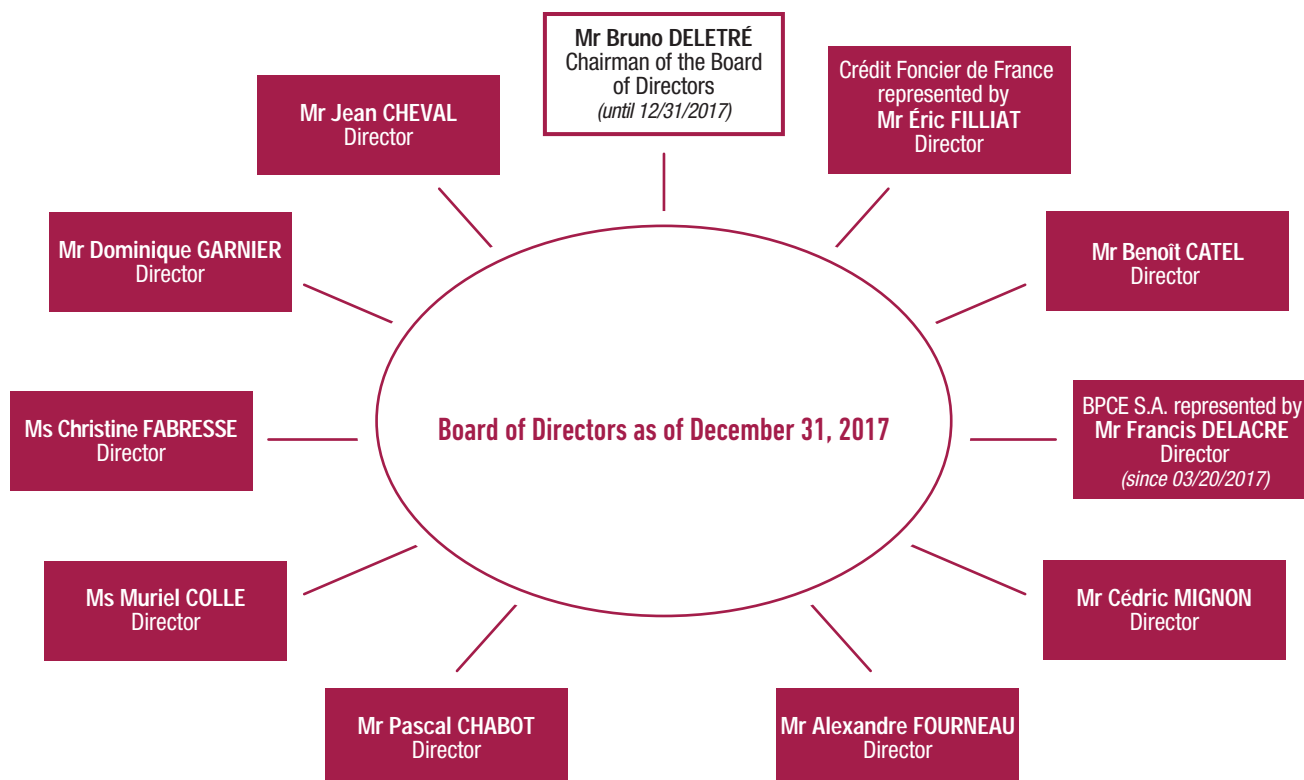
■ **Companies and positions**

CRÉDIT FONCIER – SA  
Director, Primary Markets

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Deputy Chief Executive Officer  
(since 07/23/2017)

VAUBAN MOBILISATION GARANTIES  
(VMG) – SACS  
Member of the Management Board  
(until 03/13/2017)

## Board of Directors as of December 31, 2017



### CHANGES WITHIN THE BOARD OF DIRECTORS IN 2017

On February 8, 2017 the President of the Board of Directors was informed by letter of the decision of Mr Thierry DUFOUR to resign as Chief Executive Officer and as Director starting from the July 22, 2017.

Mr Francis DELACRE resigned as Director on March 6, 2017, and was appointed by Mr François PÉROL as a permanent representative of BPCE from March 20, 2017 in place of Mr Olivier IRISSON.

The Board of Directors of March 30, 2017, on the proposal of the Appointments Committee, co-opted:

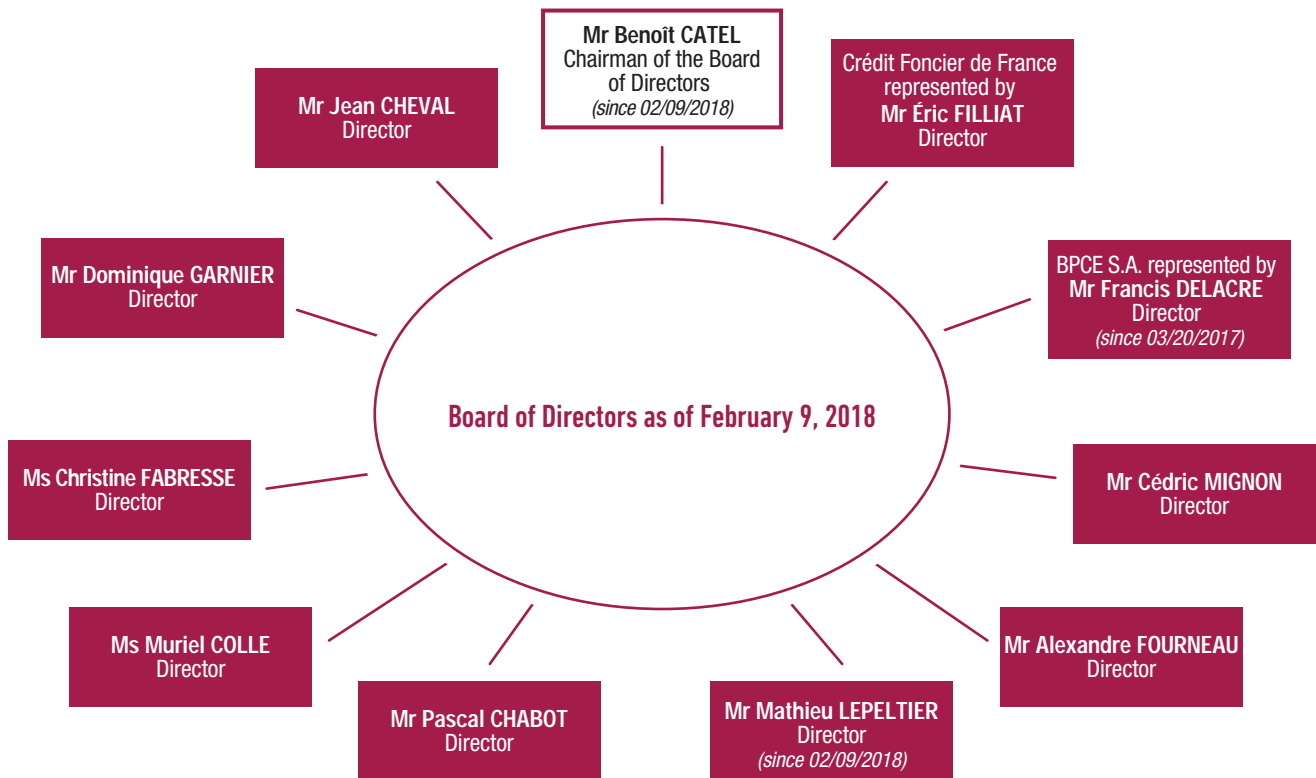
- Mr Alexandre FOURNEAU as a Director to replace Mr Francis DELACRE from March 30, 2017 and for the rest of his term, *i.e.* until the Annual General Shareholders' Meeting called to approve the financial statements for the 2021 fiscal year;
- Ms Muriel COLLE as a Director to replace Mr Thierry DUFOUR from July 23, 2017 and for the rest of his term, *i.e.* until the Annual General Shareholders' Meeting called to approve the financial statements for the 2018 fiscal year.

The General Meeting of May 15, 2017:

- renewed Crédit Foncier's corporate office as Director;
- renewed BPCE's corporate office as Director;
- ratified the appointment of Mr Alexandre FOURNEAU as Director.

## Board of Directors as of February 9, 2018

Mr. Bruno DELETRE resigned as Director and Chairman of the Board of Directors on December 31, 2017. The Board of Directors of February 9, 2018 appointed Mr. Benoît CATEL Chairman of the Board of Directors and co-opted Mr. Mathieu LEPELTIER as a Director.



## CORPORATE OFFICERS OR FUNCTIONS OF THE BOARD OF DIRECTORS

### DIRECTORS FROM CRÉDIT FONCIER, SINGLE SHAREHOLDER OF COMPAGNIE DE FINANCEMENT FONCIER

#### M. Bruno DELETRÉ

#### Biography

**Date of birth:**

04/30/1961

**Nationality:**

French

**Professional address:**

4, quai de Bercy  
94220 Charenton-le-Pont

Bruno Deletré, alumnus of the École Polytechnique and of the École Nationale d'Administration (ENA), started his career in the French Inspectorate General of Finances (IGF) in 1987.

After a stint at the Treasury Division and in the office of the French Minister for the Economy and Finance, in 2001, he joined the Management Board of Dexia Crédit Local, taking over international affairs, structured financing, accounting and management control. He left the Dexia group in July 2008 to take on a mission of financial supervision assigned to by Christine Lagarde. In June 2009, Bruno Deletré became Chief Executive Officer of BPCE International et Outre-mer and a member of the BPCE's Executive Committee. He took up his duties at Crédit Foncier in July 2011.

He was appointed as a Chief Executive Officer of Crédit Foncier on July 4, 2011 and resigned his position as Chief Executive Officer on December 31, 2017 to take on other responsibilities in Groupe BPCE.

- **Chairman of the Board of Directors**
- **Chairman of the Appointments Committee**
- **Chief Executive Officer of Crédit Foncier de France**

#### Companies and positions

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Chairman of the Board of Directors (until 12/31/2017), Chairman of the Appointments Committee (until 12/31/2017)

CRÉDIT FONCIER – SA  
Chief Executive Officer (until 12/31/2017)

CRÉDIT FONCIER IMMOBILIER – SA  
Chairman of the Board of Directors (until 12/31/2017), Chairman of the Remuneration and Selection Committee (until 12/31/2017)

CRÉDIT LOGEMENT – SA  
Permanent Representative of Crédit Foncier, Director

ENFI – SAS  
Chairman (until 01/26/2018)

FÉDÉRATION HYPOTHÉCAIRE EUROPÉENNE (BELGIUM)  
Chairman

IT-CE – GIE  
Permanent Representative of Crédit Foncier, Member of the Supervisory Board

SOCFIM – SACS  
Chairman of the Supervisory Board (until 12/31/2017), Chairman of the Remuneration Committee (until 12/31/2017)

## M. Benoît CATEL

**Date of birth:**

07/31/1962

**Nationality:**

French

**Professional address:**

4, quai de Bercy  
94220 Charenton-le-Pont

- **Member of the Board of Directors**
- **Deputy Chief Executive Officer, Commercial Development department, Crédit Foncier**

## ■ Biography

Benoît Catel is a graduate of the École Supérieure de Commerce de Lille, and IEP Paris, and holds a DESCF (Master's level diploma in Accounting and Finance).

Mr Catel joined Compagnie Bancaire in 1987, where he held various responsibilities in accounting and finance, prior to joining GMF Bank in 1992 as Director of Accounting.

He joined Groupe Caisse d'Épargne in 1994, at the Caisse d'Épargne Île-de-France Ouest, where he was successively Head of Accounting and then of Loan Production and, finally, a member of the Management Board, in charge of the Finance and Risk department. From 2001, he held this same position at Caisse d'Épargne Côte d'Azur, before taking over the Development department as a member of the Management Board.

In 2006, he was named Market Director for local authorities, Social housing and the social economy at Caisse Nationale des Caisses d'Épargne. In 2009, he became Chief Executive Officer of Banque de la Réunion (a subsidiary of BPCE IOM), before becoming Chief Executive Officer of Volksbank Romania (Groupe BPCE) from 2012 to April 2015.

He assumed his duties as Deputy Chief Executive Officer of Crédit Foncier in April 2015 and was named Chief Executive Officer as of January 1<sup>st</sup>, 2018.

## ■ Companies and positions

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director

LA MONDIALE PARTENAIRE – SA  
Permanent Representative of Crédit Foncier,  
Director

CRÉDIT FONCIER – SA  
Deputy Chief Executive Officer (until  
12/31/2017)

LOCINDUS\* – SA  
Director, Chairman of the Board of Directors,  
Chairman of the Appointments Committee  
(since 03/07/2017)

CRÉDIT FONCIER IMMOBILIER – SA  
Director, Member of the Remuneration  
and Nomination Committee

SOCFIM – SACS  
Member of the Supervisory Board

GCE FONCIER COINVEST – SAS  
Chief Executive Officer (until 12/19/2017)

## Ms Muriel COLLE

**Date of birth:**

07/16/1963

**Nationality:**

French

**Professional address:**

4, quai de Bercy  
94220 Charenton-le-Pont

- **Member of the Board of Directors**
- **Deputy Chief Executive Officer, Resources department, of Crédit Foncier**

## ■ Biography

Muriel Colle holds an AES Master's degree (1984).

Ms Colle started her career as an assistant in Human Resources at Total Compagnie Française des Pétroles in 1984 and remained there until 1990.

In 1990 she joined Euro Disney as Assistant Manager of Human Resources for four years.

From 2001 to 2008, she was Director of Resources at APRIA RSA.

In September 2008, she joined Crédit Foncier, initially as Director of Human Resources for three years. Since 2011, she has been Director of the Resources department of Crédit Foncier. And since February 2016, she has been Deputy Chief Executive Officer and Member of the Executive Management Committee of Crédit Foncier.

Ms Colle was appointed as Director of Compagnie de Financement Foncier as of July 23, 2017.

## ■ Companies and positions

BANCO PRIMUS – SA (PORTUGAL)  
Member of the Appointments, Remunerations  
and Benefits Committee

CRÉDIT FONCIER – SA  
Deputy Chief Executive Officer, Human  
Resources

BPCE ACHATS – GIE  
Director, representing Crédit Foncier

ENFI ÉCOLE NATIONALE DU FINANCEMENT  
DE L'IMMOBILIER – SAS  
Chief Executive Officer

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director (since 07/23/2017)

\* Publicly traded company.

## Crédit Foncier de France SA

### Professional address:

4, quai de Bercy  
94220 Charenton-le-Pont

### • Director

### ■ Companies and positions

BIEN'ICI – SAS  
Non-voting director

BTP CAPITAL INVESTISSEMENT – SA  
Director

CFCO – SAS  
Chairman

CFG – COMPTOIR FINANCIER  
DE GARANTIE – SA  
Director

COFIMAB – SAS  
Chairman

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director, Chairman of the Audit Committee,  
Chairman of the Risk Committee

CONSORTIUM DES PROFESSIONNELS  
DE L'IMMOBILIER – SAS  
Director

CRÉDIT FINANCIER LILLOIS – SA  
Director (until 07/12/2017)

CRÉDIT LOGEMENT – SA  
Director

ECOLOCALE – GIE  
Director

ECUFONCIER – SCA  
Managing Partner, Sponsor

EUROPEAN DATAWAREHOUSE – GMBH  
(GERMANY)  
Member of the Supervisory Board

FONCIER FOREIGN 2008 – SAS  
Chairman

FONCIER PARTICIPATIONS – SAS  
Chairman

FONCIER TITRISATION – SA  
Director

FONCIÈRE D'ÉVREUX – SAS  
Chairman

GRAMAT-BALARD – SAS  
Chairman

H&T CONSEIL – SA  
Director

IT-CE – GIE  
Member of the Supervisory Board

LA MONDIALE PARTENAIRE – SA  
Director

LOCINDUS \* – SA  
Director

SAF ENVIRONNEMENT – SA  
Director

SCAFR – TERRES D'EUROPE – SACS  
Member of the Supervisory Board

SEM YVELINES AMENAGEMENT – SEM  
Director

SGFGAS – SA  
Director

SIA HABITAT – SACS  
Member of the Supervisory Board

SIPARI – SAS  
Chairman

SOCFIM – SACS  
Member of the Supervisory Board

SOFIPAR LOGEMENT – SNC  
Managing Partner

SOFONEG – SNC  
Managing Partner

VAUBAN MOBILISATION GARANTIES (VMG)  
– SACS  
Member of the Supervisory Board  
(until 03/13/2017)

VENDÔME INVESTISSEMENTS – SAS  
Chairman

\* Publicly traded company.



## Mr **Éric FILLIAT**

**Date of birth:**

06/15/1966

**Nationality:**

French

**Professional address:**

4, quai de Bercy  
94220 Charenton-le-Pont

## ■ Biography

Éric Filliat, who holds a degree in accounting and finance from the École Supérieure de Commerce de Clermont-Ferrand, began his career at Mazars in 1992. In 1999, he joined the Caisse Nationale des Caisses d'Épargne, where he was Head of the Consolidation department of the Caisse d'Épargne Group, then Deputy Director, before becoming the Group's Head of Regulation and Accounting in November 2007. Between 2010 and 2012, he was Head of Accounting for Groupe BPCE.

Since May 2012, Éric Filliat has been Deputy Chief Executive Officer in charge of the Finance department at Crédit Foncier and, since 2016, a member of the Executive Management Committee. He has been appointed as an Executive Manager of Crédit Foncier since January 1<sup>st</sup> 2018.

- **Member of the Board of Directors**

- **Permanent Representative of Crédit Foncier**

- **Chairman of the Audit Committee**

- **Chairman of the Risk Committee**

- **Deputy Chief Executive Officer, Finance department, of Crédit Foncier**

## ■ Companies and positions

BANCO PRIMUS – SA (PORTUGAL)  
Director, Member of the Audit Committee

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Permanent Representative of Crédit Foncier,  
Director, Chairman of the Audit Committee,  
Chairman of the Risk Committee

CRÉDIT FONCIER DE FRANCE – SA  
Deputy Chief Executive Officer, Finance  
department, Member of the Executive  
Management Committee, Member  
of the Executive Committee

CRÉDIT FONCIER IMMOBILIER – SA  
Director

FONCIER PARTICIPATIONS – SAS  
Permanent Representative of Crédit Foncier,  
Chairman

FONCIER TITRISATION – SA  
Permanent Representative of Foncier  
Participations, Director

MFCG – SAS  
Permanent Representative of CFCO,  
Chairman

SOCFIM – SACS  
Member of the Supervisory Board

VAUBAN MOBILISATION GARANTIES  
(VMG) – SACS  
Vice-Chairman of the Supervisory Board  
(until 03/13/2017)

DIRECTORS FROM BPCE, SINGLE SHAREHOLDER OF CRÉDIT FONCIER

**BPCE SA**

**Professional address:**

50, avenue Pierre-Mendès-France  
75201 Paris Cedex 13

• **Director**

■ **Companies and positions**

ADONIS – SAS  
Chairman

ALBIANT-IT – SA  
Director

ALLIANCE ENTREPRENDRE – SAS  
Member of the Supervisory Board

AMATA  
Chairman

ANDROMEDE – SAS  
Chairman

ASSOCIATION DES BANQUES POPULAIRES  
POUR LA CRÉATION D'ENTREPRISE  
Director

ASSURANCES BP IARD – SA  
Director

ATALANTE  
Chairman

AXELTIS EX NGAMP4 – NGAM  
PARTICIPATIONS 4  
Director

BANQUE PALATINE – SA  
Director

BASAK 1 – SASU  
Chairman

BASAK 2 – SASU  
Chairman

BASAK 3 – SASU  
Chairman

BASAK 4 – SASU  
Chairman

BEHANZIN – SA  
Chairman

BERRA 1 – SAS  
Chairman

BERRA 2 – SAS  
Chairman

BERRA 3 – SAS  
Chairman

BERRA 4 – SAS  
Chairman

BERRA 5 – SAS  
Chairman

BP CREATION – SAS  
Chairman

BPCE ASSURANCES-SA  
Director

BP COVERED BONDS – SACS  
Member of the Supervisory Board

BPCE IARD – SACS  
Member of the Supervisory Board

BPCE IMMOBILIER EXPLOITATION – SA  
Chairman of the Supervisory Board

BPCE INTERNATIONAL – SA  
Director

BPCE SERVICES – SA  
Director

BPCE SFH – SA  
Director

BPCE TRADE – SA  
Director

BPCE VIE  
Director

CARTES BANCAIRES GIE  
Member of the Management Board

CB INVESTISSEMENT – SA  
Director

CE HOLDING PARTICIPATIONS  
Director

CE SYNDICATION RISQUE – SACS  
Chairman of the Supervisory Board

CHIMERE – SAS  
Chairman

CIRRA – SA  
Director

CLICK AND TRUST – SA  
Director

COFIMAGE 17 – SA  
Director

COFIMAGE 18 – SA  
Director

COFIMAGE 22 – SA  
Director

COFIMAGE 24 – SA  
Director

COFIMAGE 27 – SA  
Director

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director

CORONIS  
Chairman

**BPCE SA**

**■ Companies and positions**

CRÉDIT FONCIER – SA  
Director

CRÉDIT LOGEMENT – SA  
Director

CREON  
Chairman

CRH – CAISSE DE REFINANCEMENT  
DE L'HABITAT – SA  
Director

DORIS  
Chairman

DV HOLDING – SACS  
Member of the Supervisory Board

ECOLOCALE – GIE  
Director

ECUFONCIER – SCA  
Managing Partner, Sponsor

ÉCUREUIL CRÉDIT – GIE  
Director

ÉCUREUIL VIE DÉVELOPPEMENT – SA  
Director

ÉLECTRE  
Chairman

FAG – FRANCE ACTIVE GARANTIE – SA  
Director

FLORE  
Chairman

GCE ASAP  
Chairman

GCE MOBILIZ – SA  
Director

GCE PARTICIPATIONS – SA  
Chairman

HABITAT EN RÉGION SERVICES – SAS  
Director

INFORMATIQUE BANQUE POPULAIRE – SA  
Director

INGEPAR – SA  
Director

IPHIS  
Chairman

IDES INVESTISSEMENT – SA  
Director

IT-CE-GIE  
Member of the Supervisory Board

IXION  
Chairman

LAMIA  
Chairman

LE LIVRET BOURSE INVESTISSEMENT  
SICAV  
Director

LE LIVRET PORTEFEUILLE SICAV  
Director

LES ÉDITIONS DE L'ÉPARGNE – SA  
Director

LINOS – SAS  
Chairman

LOTUS 1 – SA  
Chairman

LOTUS 2  
Chairman

LOTUS 3  
Chairman

MAISON FRANCE CONFORT (MFC) – SA  
Director

MEDEE  
Chairman

MENELIK – SAS  
Chairman

MENES – SNC  
Manager

MIHOS – SASU  
Chairman

MUGE 1  
Chairman

MUGE 2 – SA  
Chairman

MUGE 3 – SA  
Chairman

MURACEF  
Director

NATIXIS\* – SA  
Director

NATIXIS ALTAIR IT SHARED SERVICES – SA  
Director

NATIXIS CONSUMER FINANCE – SA  
Director

NATIXIS EURO AGGRAGATE SICAV – SA  
Director

NATIXIS FACTOR – SA  
Director

NATIXIS FINANCEMENT – SA  
Director

\* Publicly traded company.

**BPCE SA**

**■ Companies and positions**

NATIXIS IMPACT NORD SUD  
DÉVELOPPEMENT SICAV  
Director

NATIXIS INTERÉPARGNE – SA  
Director

NATIXIS INVESTMENT MANAGER -SA  
Director

NATIXIS LEASE – SA  
Director

NATIXIS PAIEMENTS SOLUTION – SA  
Director

NATIXIS WEALTH MANAGEMENT  
(EX BANQUE PRIVÉE 1818) – SA  
Director

NOTOS  
Chairman

ORESTE  
Chairman

ORION  
Chairman

OTOS  
Chairman

PADRILLE  
Chairman

PALES – SAS  
Chairman

PANDA 1 – SASU  
Chairman

PANDA 10 - SASU  
Chairman

PANDA 2 – SASU  
Chairman

PANDA 3 – SASU  
Chairman

PANDA 4 – SASU  
Chairman

PANDA 5 – SASU  
Chairman

PANDA 6 – SASU  
Chairman

PANDA 7 –SASU  
Chairman

PANDA 8 – SASU  
Chairman

PANDA 9 – SASU  
Chairman

PELIAS  
Chairman

PERLE 1 – SAS  
Chairman

PERLE 2 – SAS  
Chairman

PERLE 3 – SAS  
Chairman

PERLE 4 – SAS  
Chairman

PETREL 1 – SNC  
Manager

PETREL 2 – SNC  
Manager

PRIAM  
Chairman

PROCILIA  
Director

RAMSES – SASU  
Chairman

REMUS – SAS  
Chairman

SALITIS – SASU  
Chairman

SATIS – SASU  
Chairman

SE MAB (EX-M.A BANQUE) – SACS  
Member of the Supervisory Board

SEDAR – SAS  
Chairman

SEPAMAIL.EU – SA  
Director

SER2S – SAS  
Member of the Supervisory Board

SETH – SASU  
Chairman

SGFGAS – SA  
Director

SIAMON – SASU  
Chairman

SIFA – SA  
Director

SILENE  
Chairman

SOCRAM BANQUE – SA  
Director

SURASSUR – SA  
Director

T2S PACIFIQUE – GIE  
Director

TAFARI – SAS  
Chairman

TARAH RAJ  
Chairman

TENES  
Chairman

TURBO SA – SA  
Director

TURGEON  
Chairman

VESTA  
Chairman

VIGEO – SA  
Director (2 positions)

VISA EUROPE LTD – PLC (UNITED KINGDOM)  
Director

**Mr Francis DELACRE**

**■ Biography**

**Date of birth:**

03/19/1961

**Nationality:**

French

**Professional address:**

50, avenue Pierre-Mendès-France-  
75201 Paris Cedex 13

Francis Delacre began his career at Caisse d'Épargne Rhône-Alpes Lyon in 1982. Between 2005 and 2009, he was Head of ALM Commercial Banking at Caisse Nationale des Caisses d'Épargne and later Head of Financial Coordination and Customer department Evaluation at BPCE from 2009 to 2010. In 2010, Francis Delacre joined Banque Populaire du Nord as Chief Finance Officer before becoming Head of Finance and Loans from September 2013 to February 2017. In February 2017, he joined BPCE as Director of Asset & Liability Management.

- **Member of the Board of Directors**
- **Permanent Representative of BPCE**
- **Member of the Audit Committee**
- **Member of the Risk Committee**
- **Director, Asset & Liability Management, BPCE**

**■ Companies and positions**

BANQUE POPULAIRE DEVELOPPEMENT – SA  
Director (until 01/31/2017)

FRG NORD – PAS DE CALAIS – SA  
Director, Chairman of the Audit Committee  
(until 01/31/2017)

BANQUE POPULAIRE DU NORD  
Chief Financial Officer (until 01/31/2017)

NATIXIS INSTITUTION JOUR – SICAV  
Director (until 01/31/2017)

BPCE – SACS  
Director of Asset & Liability Management  
(since 02/01/2017)

BPCE SERVICES FINANCIERS – GIE  
Director (until 01/31/2017)

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Permanent Representative of BPCE (since 03/20/2017),  
Director, Member of the Audit Committee and the Risk Committee (physical person Director until 03/06/2017)

**Mr Cédric MIGNON**

**■ Biography**

**Date of birth:**

01/05/1970

**Nationality:**

French

**Professional address:**

50, avenue Pierre-Mendès-France

75013 Paris

Cédric Mignon, a graduate of Institut Technique de Banque and of the ESSEC Management Program and a holder of a post-graduate degree in Banking and Finance from Université Paris-Dauphine, began his career at Banque Populaire de Champagne in 1995.

Between 1999 and 2008, Cédric Mignon held the positions of Head of Evaluation Management services (ALM), Head of Finance Control and Management Systems, and Head of Strategy and Corporate Development Planning, a position that was extended in 2005 to include the Marketing Division, at Caisse d'Épargne de Picardie. In 2008, he joined Caisse d'Épargne Rhône Alpes as Head of General and Institutional Affairs. In 2010, he joined BPCE's Commercial Banking and Institutional Investors department, holding the positions of Head of the BDR (Regional Development Bank) and Head of Communication, Image and Sponsorship at Caisse d'Épargne.

Since May 2013, Cédric Mignon has been Head of Development at Caisse d'Épargne and a Member of the BPCE Executive Committee.

• **Member of the Board of Directors**

• **Head of Development, Caisse d'Épargne of BPCE**

**■ Companies and positions**

ASSOCIATION CE ÉPARGNE

Director

AXENTIA – SA

Permanent Representative of BPCE, Director

BPCE ASSURANCES – SA

Permanent Representative of BPCE, Director (until 01/16/2017)

CAISSE D'ÉPARGNE CAPITAL

Member of the Supervisory Board

COMPAGNIE DE FINANCEMENT FONCIER – SA

Director

ERILIA – SA

Permanent Representative of HABITAT EN RÉGION, Director Cat.1 (previously representative of SAS ERIXEL)

GIE BPCE TRADE

Permanent Representative of BPCE, Director

GIE CE SYNDICATION RISQUE

Permanent Representative of BPCE, Chairman of the Supervisory Board

GIE IT – CE

Permanent Representative of BPCE, Member of the Supervisory Board

HABITAT EN RÉGION – ASSOCIATION

Permanent Representative of BPCE, Director

HABITAT EN RÉGION SERVICES – SAS

Chairman of the Board of Directors

LOGIREM – SACS

Permanent Representative of Habitat en Région Services, Member of the Supervisory Board

NATIXIS CONSUMER FINANCE – SA

Director (until 04/30/2017)

NATIXIS FINANCEMENT – SA

Director

NATIXIS GLOBAL ASSET MANAGEMENT – SA

Permanent Representative of BPCE, Director

NATIXIS LEASE – SA

Permanent Representative of BPCE, Director

NATIXIS WEALTH MANAGEMENT

(EX-BANQUE PRIVÉE 1818) – SA  
Director

SEVENTURE PARTNERS

Member of the Supervisory Board

SIA HABITAT – SACS

Permanent Representative of Habitat en Région Services, Member of the Supervisory Board

SOCFIM – SACS

Member of the Supervisory Board (until 05/10/2017)

SOFARI

Permanent Representative of BPCE, Director

BPCE – SA

Head of Development, Caisse d'Épargne, member of Executive Committee of BPCE

**DIRECTORS FROM CAISSE D'ÉPARGNE**

**Mr Pascal CHABOT**

**■ Biography**

**Date of birth:**

05/27/1959

**Nationality:**

French

**Professional address:**

26-28, rue Neuve Tolbiac  
75633 Paris Cedex 13

Pascal Chabot has a post-graduate degree in finance control from Université Paris Dauphine. In 2005, he became Member of the Management Board responsible for Specialized Markets at Caisse d'Épargne des Pays de la Loire before becoming Member of the Management Board responsible for the Regional Development Bank. In 2013, he joined Caisse d'Épargne Île-de-France as Member of the Management Board responsible for the Regional Development Bank, Organization and Information Systems.

- **Member of the Board of Directors**
- **Member of the Risk Committee**
- **Chairman of the Management Board of Caisse d'Épargne Île-de-France**

**■ Companies and positions**

ALLIANCE ENTREPRENDRE – SAS  
Permanent Representative of CEIDF, Member of the Supervisory Board

CAISSE D'ÉPARGNE ÎLE-DE-FRANCE ;  
(CEIDF) – SA  
Member of the Management Board

CE CAPITAL – SASU  
Permanent Representative of CEIDF, Member of the Supervisory Board

CE DEVELOPPEMENT  
Member of the Supervisory Board

COMITÉ FÉDÉRATION BANCAIRE  
FRANÇAISE ÎLE-DE-FRANCE – ASSOCIATION  
Vice-Chairman

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director

GIE CAISSE D'ÉPARGNE SYNDICATIONS  
RISQUES  
Permanent Representative of CEIDF, Member of the Supervisory Board

IMMOBILIÈRE 3F  
Permanent Representative of CEIDF, Member of the Board of Directors

LOGIREP – SA HLM  
Permanent Representative of CEIDF, Member of the Supervisory Board

REVITAL'EMPLOI – ASSOCIATION  
Permanent Representative of CEIDF, Member of the Supervisory Board

SCI DE LA FORÊT – SCI  
Manager

SOCFIM – SACS  
Permanent Representative of CEIDF, Member of the Supervisory Board

**Ms Christine FABRESSE**

**■ Biography**

**Date of birth:**

05/24/1964

**Nationality:**

French

**Professional address:**

254, rue Michel Teule  
ZAC d'Alco – BP 7 330  
34184 Montpellier Cedex 4

A graduate of École Supérieure de Commerce de Montpellier, Christine Fabresse began her career in the sales team of the Crédit Lyonnais Investment Bank before moving into Human Resources. She later held various positions at Groupe Crédit Agricole.

She joined Groupe Caisses d'Épargne in 2008 as Director of Sales Initiatives and then Director of Retail Banking for Caisses d'Épargne. Since 2009, she has been Head of Retail Banking for Caisse d'Épargne. In April 2011, she was appointed Head of Development for Caisse d'Épargne within the Commercial Banking and Insurance Division of BPCE.

In June 2013, she was appointed Chairwoman of the Management Board of Caisse d'Épargne Languedoc-Roussillon.

- **Member of the Board of Directors**
- **Member of the Audit Committee**
- **Member of the Risk Committee**
- **Chairwoman of the Management Board of Caisse d'Épargne Languedoc-Roussillon**

**■ Companies and positions**

BPCE VIE – SA  
Director (since 03/28/2017), Chairman of the Audit Committee (since 09/19/2017)

CAISSE D'ÉPARGNE LANGUEDOC-ROUSSILLON – SACS  
Chairwoman of the Management Board

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director, Member of the Audit Committee, Member of the Risk Committee

CRÉDIT FONCIER DE FRANCE – SA  
Director

ELLISPHERE – SA  
Director (until 04/13/2017)

ERILIA – SA  
Director

FÉDÉRATION NATIONALE DES CAISSES D'ÉPARGNE – ASSOCIATION  
Director

GIE BPCE – IT  
Permanent Representative of CEPLR, Director

GIE IT – CE  
Permanent Representative of CEP Languedoc-Roussillon, Member of the Supervisory Board

BASTIDE LE CONFORT MEDICAL\* – SA  
Director (since 11/03/2017)

\* Publicly traded company.



**DIRECTORS FROM BANQUES POPULAIRES**

**Mr Alexandre FOURNEAU**

**■ Biography**

**Date of birth:**

06/07/1969

**Nationality:**

French

**Professional address:**

9, Avenue Newton  
78180 Montigny-le-Bretonneux

Alexandre Fourneau is a graduate of HEC Paris (1993), specializing in auditing, consulting and appraisal.

Alexandre Fourneau was an officer in the Technical Inspectorate of the French air force for 14 months, from 1993 to 1994. In September 1994, he joined the Inspectorate of Chambre Syndicale des Banques Populaires.

In May 2001, he joined Banque Populaire Val-de-France (BPVF) as Head of Organization and Information Systems. In 2003, he became Head of the Organizational Merger Project and Human Resources. From 2004 to January 2007, he was a Group Director. In February 2007, he joined Banque Populaire's IT division and became the Director of Banking Organization and Information Systems.

In December 2009, he returned to Banque Populaire Val de France as a Chief Financial Manager.

- **Member of the Board of Directors**

- **Head of Finance, Banque Populaire Val-de-France**

**■ Companies and positions**

BANQUE POPULAIRE VAL DE FRANCE – SCBP  
Head of Finance Loans

SOCAMA VAL DE FRANCE – SCM  
Director

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director (since 03/30/2017)

SOCAMI VAL DE FRANCE – SCM  
Director

SBE – SACS  
Representative of Vecteur Company, Member of the Supervisory Board, Chairman of the Audit Committee

GIE I-BP INVESTISSEMENTS  
Financial Controlleur

**Mr Dominique GARNIER**

**■ Biography**

**Date of birth:**

06/20/1961

**Nationality:**

French

**Professional address:**

10, quai des Queyries-  
33072 Bordeaux Cedex

Upon leaving the ESSCA (Angers Management School), Dominique Garnier joined Banque Populaire Anjou Vendée as a loan writer. He held different management positions in quick succession within the loans department of that same Banque Populaire before joining the General Inspectorate of the Chambre Syndicale des Banques Populaires (Banque Populaire bank's trade association). In 1994, he returned to his original bank in Angers, where he joined the Management Committee. While there, he served in turn as Head of Sales and Marketing for Corporates and Professional customers, Head of the Network, and Head of Development. From 2002 to 2007, he was the Deputy Chief Executive Officer in charge of Operations at Banque Populaire Atlantique. In 2008, he became Deputy Director for Strategy at Banque Fédérale des Banques Populaires. He was appointed as Coordination Director of the commercial bank during the foundation of BPCE and joined the Executive Committee.

In September 2010, he was named Chief Executive Officer of Banque Populaire du Sud-Ouest.

On November 8, 2011, he was appointed Chief Executive Officer of Banque Populaire Aquitaine Centre Atlantique following the merger by acquisition of Banque Populaire du Sud-Ouest by Banque Populaire Centre Atlantique.

- **Member of the Board of Directors**
- **Member of the Audit Committee**
- **Member of the Risk Committee**
- **Chief Executive Officer of Banque Populaire Aquitaine Centre Atlantique**

**■ Companies and positions**

ASSOCIATION DES BP POUR LA CRÉATION D'ENTREPRISES  
Permanent Representative of BPACA, Director

BANQUE POPULAIRE AQUITAINE CENTRE ATLANTIQUE (BPACA) – SA  
Chief Executive Officer

BPCE – SA  
Non-voting director (since 05/09/2017)

CAISSE RÉGIONALE DE CRÉDIT MARITIME MUTUEL DU LITTORAL DU SUD-OUEST – SA  
Legal Member (as Chief Executive Officer of BPACA)

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director, Member of the Audit Committee, Member of the Risk Committee

CRÉDIT FONCIER DE FRANCE – SA  
Director, Member of the Audit Committee, Member of the Risk Committee

FONDATION D'ENTREPRISE BANQUE POPULAIRE  
Director

GIE BPCE – IT  
Permanent Representative of BPACA, Director

IAE DE BORDEAUX (PÔLE DE RECHERCHE ET D'ENSEIGNEMENT SUPÉRIEUR)  
Director

INFORMATIQUE BANQUE POPULAIRE – SA  
Permanent Representative of BPACA, Director

NATIXIS COFICINE – SA  
Director

NATIXIS FACTOR – SA  
Director

OUEST CROISSANCE GESTION – SA  
Permanent Representative of BPACA, Director, Chairman (since 04/22/2017)

OUEST CROISSANCE SCR – SA  
Permanent Representative of BPACA, Director

SOCAMA AQUITAINE CENTRE ATLANTIQUE – SCM  
Permanent Representative of BPACA, Director

**DIRECTORS FROM NATIXIS**

**Mr Jean CHEVAL**

**■ Biography**

**Date of birth:**

06/10/1949

**Nationality:**

French

**Professional address:**

30, avenue Pierre-Mendès-France  
75013 Paris

Jean Cheval is a graduate of École Centrale de Paris and of the University of California at Berkeley, Université Paris VI (in Statistics and Applied Mathematics), and Université Paris I (in Economics). Jean Cheval spent most of his career at Banque Indosuez, which became Crédit Agricole Indosuez, where he was, among other things, a Member of the Executive Committee with responsibility for complex asset financing, banking operations and the Middle East region before becoming a member of the Management Board and the Chief Executive Officer. Between 2002 and 2005, he managed Banque Audi in France and chaired it in Switzerland. Between 2005 and 2009 he served as Chief Executive Officer of Bank of Scotland, France. He joined Natixis in June 2009 as head of DEFI, BFI Natixis and the EMEA platform, and a Member of the Executive Committee of Natixis. In October 2012, Jean Cheval was named Chief Finance and Risk Officer, and is a Member of the Executive Management Committee of Natixis.

• **Member of the Board of Directors**

• **Member of the Appointments Committee**

• **Head of Finance and Risks at Natixis**

**■ Companies and positions**

COFACE \* – SA  
Permanent Representative of NATIXIS,  
Director (until 12/11/2017)

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Director, Member of the Appointments  
Committee

EFG HERMES HOLDING (EGYPT)  
Representative of DF (EFG3) Limited

FONDATION D'ENTREPRISE POUR  
LA RECHERCHE ET L'INNOVATION  
(EX-FONDATION D'ENTREPRISE POUR  
LA RECHERCHE QUANTITATIVE)  
Director

HOLDING D'INFRASTRUCTURES DES MÉTIERS  
DE L'ENVIRONNEMENT  
Member of the Supervisory Board,  
Member of the Appointments and  
Remuneration Committee

NATIXIS ASSET MANAGEMENT – SA  
Permanent Representative of NATIXIS,  
Director (until 05/11/2017)

NATIXIS BANK JSC MOSCOU (EX NATIXIS  
MOSCOU) (RUSSIA)  
Member of the Supervisory Board

NATIXIS GLOBAL ASSET MANAGEMENT – SA  
Permanent Representative of NATIXIS –  
Director

NATIXIS IMMO DEVELOPPEMENT  
Chairman of the Board of Directors

NATIXIS PFANDBRIEFBANK – AG (GERMANY)  
Member of the Supervisory Board  
(until 05/04/2017)

NATIXIS \* – SA  
Director, Finance and Risks

\* Publicly traded company.

# Remuneration

For the year ended December 31, 2017, pursuant to Article L. 225-102-1 of the French Commercial Code, the list below shows the total remuneration as well as all benefits in kind paid by the Company to each of the corporate officers during the year.

The information about remuneration received is provided in euros and limited to the following scope: Crédit Foncier, the subsidiaries of Crédit Foncier and BPCE as the controlling company.

The Board of Directors of February 9, 2016 decided that, from February 1, 2016, there would be no remuneration paid to the Chief Executive Officer and the Deputy Chief Executive Officer in respect of their corporate offices. The remuneration of the Chief Executive Officer and the Deputy Chief Executive Officer is thus paid entirely by Crédit Foncier.

## SUMMARY OF THE REMUNERATION AND OPTIONS AND SHARES ALLOCATED TO EACH EXECUTIVE CORPORATE OFFICER (in euros)

### ■ Thierry DUFOUR, Chief Executive Officer, Director

	Fiscal year 2016	Fiscal year 2017
Annual remuneration due during the year (broken down in the table below)	581,157	1,690,892
Value of options attributed over the course of the year	-	-
Value of performance shares attributed over the course of the year	-	-
<b>TOTAL</b>	<b>581,157</b>	<b>1,690,892</b>

On March 30, 2017 the Board of Directors was informed of the resignation of Mr Thierry DUFOUR from his positions as Chief Executive Officer and Director effective as of July 22, 2017.

### ■ Olivier AVIS, Chief Executive Officer

	Fiscal year 2016	Fiscal year 2017
Annual remuneration due during the year (broken down in the table below)	272,618	282,637
Value of options attributed over the course of the year	-	-
Value of performance shares attributed over the course of the year	-	-
<b>TOTAL</b>	<b>272,618</b>	<b>282,637</b>

On June 28, 2017 the Board appointed MR OLIVIER Avis as Chief Executive Officer as of July 23, 2017, for a five-year term.

### ■ Paul DUDOUIT, Deputy Chief Executive Officer

	Fiscal year 2016	Fiscal year 2017
Annual remuneration due during the year (broken down in the table below)	N/A	233,726
Value of options attributed over the course of the year	-	-
Value of performance shares attributed over the course of the year	-	-
<b>TOTAL</b>	<b>N/A</b>	<b>233,726</b>

n/a: not applicable.

On June 28, 2017 the Board of Directors appointed Paul DUDOUIT as Deputy Chief Executive Officer, in replacement of Olivier AVIS, as of July 23, 2017, for a five-year term. Partie différé de la rémunération variable

## SUMMARY OF THE REMUNERATION OF EACH EXECUTIVE CORPORATE OFFICER (in euros)

**Amounts due 2016:** total remuneration granted on a *pro rata temporis* basis in respect of duties performed in 2016, regardless of the date of payment.

**Amounts paid 2016:** all remuneration actually paid and received in 2016 in respect of duties performed during 2016 and, potentially, during the previous years in the case of installment payments.

**Amounts due 2017:** total remuneration granted on a *pro rata temporis* basis in respect of duties performed in 2017, regardless of the date of payment.

**Amounts paid 2017:** all remuneration actually paid and received in 2017 in respect of duties performed during 2017 and, potentially, during the previous years in the case of installment payments.

■ **Thierry DUFOUR, Chief Executive Officer, Director**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed pay	353,856	353,856	197,991	197,991
Variable pay*	180,000	165,153	94,208	185,936
Banco Primus remuneration	20,000	20,000	11,667	20,000
Exceptional remuneration	3,551	3,551	2,827	2,827
Indemnity to settle all accounts			1,320,983	1,320,983
Supplemental retirement plan	17,606	17,606	57,072	57,072
Attendance fees	-	-	-	-
Benefits in kind	6,144	6,144	6,144	6,144
<b>TOTAL</b>	<b>581,157</b>	<b>566,310</b>	<b>1,690,892</b>	<b>1,790,953</b>

\* The details on variable pay are presented in the table below

Variable pay for the year:	Paid in:					
	2016	2017	2018	2019	2020	2021
2012	22,173					
2013	26,786	29,887				
2014	30,694	34,249	27,600			
2015	85,500	31,800	28,500	28,500		
2016		90,000	30,000	30,000	30,000	
2017			94,208	-	-	-

50% paid
  50% deferred over 3 years - amounts paid
  50% deferred over 3 years - amounts due

■ **Olivier AVIS, Chief Executive Officer**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed pay	166,629	166,629	168,330	168,330
Variable pay	96,000	23,750	99,000	96,000
Exceptional remuneration	-	-	-	-
Incentives and profit sharing	2,239	2,239	3,033	3,033
Supplemental retirement plan	6,070	6,070	8,914	8,914
Attendance fees	-	-	-	-
Benefits in kind	1,680	1,680	3,360	3,360
<b>TOTAL</b>	<b>272,618</b>	<b>200,368</b>	<b>282,637</b>	<b>279,637</b>

■ **Paul DUDOUIT, Deputy Chief Executive Officer**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed pay	-	-	141,115	141,115
Variable pay	-	-	90,000	95,000
Exceptional remuneration	-	-	-	-
Incentives and profit sharing	-	-	2,611	2,611
Supplemental retirement plan	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind	-	-	-	-
<b>TOTAL</b>	<b>N/A</b>	<b>N/A</b>	<b>233,726</b>	<b>238,726</b>

**FIXED PAY**

Fixed pay consists of one part paid for work performed at Crédit Foncier and another for serving as a corporate officer of Compagnie de Financement Foncier.

The Board of Directors of February 9, 2016 decided that, from February 1, 2016, there would be no remuneration paid to the Chief Executive Officer and the Deputy Chief Executive Officer in respect of their corporate offices. Consequently, since February 1, 2016, fixed remuneration is fully paid by Crédit Foncier.

**HOW VARIABLE PAY IS DETERMINED**

There is no variable pay at the Compagnie de Financement Foncier level.

The variable pay of Mr Thierry Dufour, Chief Executive Officer, is set by the Crédit Foncier Board of Directors on the proposal of the Remuneration Committee and can represent as much as 50% of his fixed pay. The criteria for the 2016 variable portion are based on group Crédit Foncier qualitative and quantitative indicators (financial performance represents 25%, operational performance represents 25% and commercial performance represents 25%) as well as on a Groupe BPCE indicator (Group results represent 25%).

The variable pay of Mr Olivier Avis, Chief Executive Officer, is entirely paid by Crédit Foncier and may represent 75% of his fixed pay. For 2017, it is based on Crédit Foncier qualitative and quantitative indicators.

The variable pay of Mr Paul Dudouit, Deputy Chief Executive Officer, is entirely paid by Crédit Foncier and may represent 75% of his fixed pay. For 2017, it is based on Crédit Foncier qualitative and quantitative indicators.

The amounts paid during year N represent the amounts due for year N-1 and for the previous years in the case of installment payments.

**EXCEPTIONAL REMUNERATION**

The balance corresponds to profit sharing and incentive plans, of which amounts paid during year N represent the amounts due for year N-1.

**ATTENDANCE FEES**

In accordance with the standards set by Groupe BPCE, attendance fees paid by Group companies can be received directly by the members of these companies' Boards of Directors or Supervisory Boards.

According to the BPCE instruction dated on December 17, 2010, Directors' fees due to BPCE representatives are paid to BPCE and not to the person in question. Since January 1, 2012, the same rule applies to the representatives of Crédit Foncier and the attendance fees are paid to Crédit Foncier and not to the natural person. It is specified that no attendance fees are paid to Natixis employees serving as Director, in an individual capacity, on the Board of Directors of Groupe BPCE companies.

The amounts paid during year N represent the amounts due for year N-1.

<i>(in €)</i>	<b>For 2016</b>	<b>For 2017</b>
Mr Bruno DELETRÉ	7,500 <sup>(1)</sup>	7,500 <sup>(1)</sup>
Mr Thierry DUFOUR	3,750 <sup>(1)</sup>	0 <sup>(1)</sup>
Mr Benoît CATEL	3,000 <sup>(1)</sup>	3,750 <sup>(1)</sup>
Crédit Foncier (represented by Mr Éric FILLIAT)	6,000 <sup>(1)</sup>	6,750 <sup>(1)</sup>
BPCE (represented by Mr Olivier IRISSON and then Mr Francis DELACRE)	3,250 <sup>(3)</sup>	5,000 <sup>(3)</sup>
Ms Muriel COLLE	-	2,250 <sup>(1)</sup>
Mr Cédric MIGNON	1,500 <sup>(3)</sup>	1,500 <sup>(3)</sup>
Ms Christine FABRESSE	5,000	5,750
Mr Dominique GARNIER	5,500	5,750
Mr Pascal CHABOT	4,500	4,250
Mr Jean CHEVAL	0 <sup>(2)</sup>	0 <sup>(2)</sup>
Mr Alexandre FOURNEAU	-	2,250
Mr Francis DELACRE (Director until 03/19/2017)	3,750	750

(1) Attendance fees paid to Crédit Foncier.

(2) No attendance fees paid pursuant to Natixis rules.

(3) Attendance fees paid to BPCE.

## BENEFITS IN KIND

For their work on behalf of Crédit Foncier, the corporate officers benefit from the provision of a company car.

They receive no stock options or bonus shares.

## IMPLEMENTATION OF THE "TEPA" LAW

Law No. 2007-1223 of August 21, 2007 "to support work, employment and purchasing power", known by its French acronym, "TEPA", now governs remuneration, benefits and payments due at the end of the corporate offices of Directors (Chairman and members of the Management Board, Chief Executive Officer and Deputy Chief Executive Officer) of companies whose shares are traded on a regulated market. In particular, this law subjects the payment of such compensation to its recipients' performance.

The Crédit Foncier Board of Directors, at its meeting of July 31, 2012, upon a proposal by the Remuneration Committee, approved the compensation package of Thierry DUFOUR, Chief Executive Officer of Compagnie de Financement Foncier and Deputy Chief Executive Officer of Crédit Foncier. In the event of the non-renewal of his term of office upon its completion, of revocation or of withdrawal of approval non related to gross misconduct and leading

to a definitive departure from Groupe BPCE and, provided that the Company shows a positive net income for the last year preceding the termination of the corporate office, Mr Thierry DUFOUR will receive, if he has been granted an average of at least 50% of the variable portion of his pay during the term of office served, the entire amount of the compensation indicated below. If he has earned at least 40% of the variable portion, Mr Thierry DUFOUR will receive 75% of the compensation indicated below; in the event that he has earned at least 30% of the variable portion, he will receive 50% of this compensation.

The gross amount of compensation will equal the sum of the last two years' gross fixed and variable pay awarded to him by the Company.

The Board of Directors, at its meeting of July 28, 2015, added to these provisions the following clause: "in the event of the non-renewal of a term of office upon its completion, of revocation or of withdrawal of approval non related to gross misconduct which leads to a definitive departure from Groupe BPCE, compensation will not be paid unless the Company's net income from its core businesses, excluding issuer spread and non-recurring items, is positive."

**SUMMARY OF THE REMUNERATION OF EACH NON-EXECUTIVE CORPORATE OFFICER**

**NON-EXECUTIVE CORPORATE OFFICERS FROM CRÉDIT FONCIER DE FRANCE (in euros)**

■ **Bruno DELETRÉ, Chairman of the Board of Directors**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed pay	462,920	462,920	462,920	462,920
Variable pay*	332,910	344,64	319,600	366,854
Exceptional remuneration			-	-
Indemnity to settle all accounts			69,427	69,427
Supplemental retirement plan	27,078	27,078	23,506	23,506
Attendance fees	-	-	-	-
Benefits in kind	7,080	7,080	7,080	7,080
<b>TOTAL</b>	<b>829,988</b>	<b>841,719</b>	<b>882,533</b>	<b>929,787</b>

\* The details on variable pay are presented in the table below

Variable pay for the year:	Paid in:					
	2016	2017	2018	2019	2020	2021
2012	45,971					
2013	55,954	62,430				
2014	64,116	71,542	57,653			
2015	178,600	66,427	59,533	59,533		
2016		166,455	55,485	55,485	55,485	
2017			159,800	53,267	53,267	53,267

■ 50% paid    ■ 50% deferred over 3 years - amounts paid    ■ 50% deferred over 3 years - amounts due

■ **Éric FILLIAT, permanent representative of Crédit Foncier**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed pay	203,425	203,425	203,425	203,425
Variable pay	95,000	96,600	94,593	95,000
Banco Primus remuneration	20,000	20,000	20,000	20,000
Exceptional remuneration	4,097	4,097	3,476	3,476
Incentives and profit sharing	2,842	2,842	3,453	3,453
Supplemental retirement plan	10,267	10,267	10,193	10,193
Attendance fees	-	-	-	-
Benefits in kind	4,200	4,200	4,200	4,200
<b>TOTAL</b>	<b>339,830</b>	<b>341,431</b>	<b>339,340</b>	<b>339,747</b>



**■ Muriel COLLE**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed pay	n/a	n/a	219,767	219,767
Variable pay	n/a	n/a	99,000	99,000
Banco Primus remuneration	n/a	n/a	-	-
Exceptional remuneration	n/a	n/a	-	-
Incentives and profit sharing	n/a	n/a	3,477	3,477
Supplemental retirement plan	n/a	n/a	10,729	10,729
Attendance fees	n/a	n/a	-	-
Benefits in kind	n/a	n/a	3,424	3,424
<b>TOTAL</b>	<b>N/A</b>	<b>N/A</b>	<b>336,397</b>	<b>336,397</b>

**NON-EXECUTIVE CORPORATE OFFICERS FROM BPCE**
**■ Francis DELACRE, permanent representative of BPCE**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Attendance fees*	0	0	0	0
Other remunerations	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* Pursuant to BPCE rules, no attendance fees are paid.

n/a: not applicable to the person concerned.

**■ Cédric MIGNON**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Attendance fees*	0	0	0	0
Other remunerations	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* Pursuant to BPCE rules, no attendance fees are paid.

n/a: not applicable to the person concerned.

**NON-EXECUTIVE CORPORATE OFFICERS FROM CAISSES D'ÉPARGNE**

■ **Christine FABRESSE**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Attendance fees *	12,500	10,000	13,250	12,500
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>12,500</b>	<b>10,000</b>	<b>13,250</b>	<b>12,500</b>

\* Total group Crédit Foncier attendance fees.

n/a: not applicable to the person concerned.

■ **Pascal CHABOT**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Attendance fees	4,500	4,250	4,250	4,500
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>4,500</b>	<b>4,250</b>	<b>4,250</b>	<b>4,500</b>

n/a: not applicable to the person concerned.

**NON-EXECUTIVE CORPORATE OFFICERS FROM BANQUE POPULAIRE BANKS**

■ **Dominique GARNIER**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Attendance fees *	21,000	16,750	23,250	21,000
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>21,000</b>	<b>16,750</b>	<b>23,250</b>	<b>21,000</b>

\* Total group Crédit Foncier attendance fees.

n/a: not applicable to the person concerned.

■ **Francis DELACRE (Director until March 6, 2017)**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Attendance fees	3,750	3,750	750	3,750
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>3,750</b>	<b>3,750</b>	<b>750</b>	<b>3,750</b>

n/a: not applicable to the person concerned.

■ **Alexandre FOURNEAU**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Attendance fees	-	-	2,250	2,250
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>2,250</b>	<b>2,250</b>

n/a: not applicable to the person concerned.

**NON-EXECUTIVE CORPORATE OFFICERS FROM NATIXIS**
**■ Jean CHEVAL**

	Fiscal year 2016		Fiscal year 2017	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Attendance fees *	0	0	0	0
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* Pursuant to Natixis rules, no attendance fees are paid.

n/a: not applicable to the person concerned.

Executive corporate officers	Work contract		Supplementary pension plan		Indemnities or advantages due or likely to be due from a termination or change in position		Indemnity relating to a non-compete - clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Mr Thierry DUFOUR, Chief Executive Officer Effective date term expires: 07/22/2017 Director		X		X	X			X
Mr Olivier AVIS Chief Executive Officer Start of term: 07/23/2017		X		X		X		X
Mr Olivier AVIS Deputy Chief Executive Officer Start of term: 02/09/2016 Date term expires: 07/22/2017		X		X		X		X
Mr Paul DUDOIT Deputy Chief Executive Officer Start of term: 07/23/2017		X		X		X		X

**OTHER INFORMATION ON REMUNERATION AND STOCK OPTION PLANS**

At December 31, 2017, as Compagnie de Financement Foncier did not have its own employees, with the exception of its corporate officers, there was no incentive or profit-sharing plan in the Company. In addition, there were no stock option plans at December 31, 2017.

# Appendix

## APPENDIX 1. TABLE OF DELEGATIONS

### Delegation of authority

Date	Delegation	Type, amount, duration	Meeting of the Board of Directors
		n/a	

## APPENDIX 2. SUMMARY TABLE OF ATTENDANCE RATES AT THE BOARD OF DIRECTORS AND COMMITTEES OF THE COMPANY

### Members of the Board of Directors

Range of the number of members	3 to 18
Number of members	11
Number of Board meetings	6
Average attendance rate	76.92 %
Number of women Directors	2 (18.00%)
Number of men Directors	9 (82.00%)
Attendance fees	yes

Board of Directors	Position on the Board	Start of term	Length of term	Attendance fees	Risk Committee	Audit Committee	Appointments Committee
Mr Bruno Deletré	Chairman	12/18/2013	12/31/2017	100%			100%
Mr Thierry Dufour	Director, Chief Executive Officer *	12/18/1998	07/22/2017	0%			
Mr Benoît Catel	Director	02/09/2016	OGM 2019	83%			
Crédit Foncier de France, represented by Mr Éric Filliat	Director	12/28/1998	OGM 2017	83%	100%	100%	
BPCE SA, represented by Mr Olivier Irissou (until 3/20/2017)	Director	03/28/2011	OGM 2017	100%	100%	100%	
BPCE SA, represented by Mr Francis Delacre (beginning 3/20/2017)	Director	03/28/2011	OGM 2017	60%	100%	100%	
Mr Pascal Chabot	Director	03/25/2014	OGM 2022	100%	50%		
Mr Jean Cheval	Director	03/25/2014	OGM 2020	67%			100%
Mr Francis Delacre	Director	03/25/2014	03/06/2017	100%			
Ms Christine Fabresse	Director	03/25/2014	OGM 2018	100%	100%	100%	
Mr Dominique Garnier	Director	03/25/2014	OGM 2018	83%	100%	100%	
Mr Cédric Mignon	Director	03/25/2014	OGM 2020	33%			
Mr Alexandre Fourneau	Director	03/30/2017	OGM 2022	75%			
Ms Muriel Colle	Director	07/23/2017	OGM 2019	100%			

\* From 12/14/2007 to 07/22/2017.

## Report established pursuant to Article L. 225-37-2 of the French Commercial Code on the total remuneration and other benefits imputable to the Chairman, Chief Executive Officer and Deputy Chief Executive Officer for their corporate offices

Draft resolutions number 14 to 16 submitted to the Ordinary General Meeting of May 16, 2018 pursuant to the Article L. 225-37-2 of the French Commercial Code (legislation 2016-1691 as of December 9, 2016) concern the General Meeting approval of the principles and criteria on the determination, allocation and payment of the fixed, variable and exceptional remuneration as well as benefits in kind due to the Chairman, Chief Executive Officer and Deputy Chief Executive Officer for their corporate offices during the financial year ending on December 31, 2018.

The table below shows the remuneration and benefits that may be granted to the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officer for the financial year ending on December 31, 2018.

**Table of remuneration and other benefits imputable to the Chairman, Chief Executive Officer and Deputy Chief Executive Officer for the financial year ending on December 31, 2018 :**

Corporate office	B. CATEL	O. AVIS	P. DUDOIT
	Chairman of the Board of Directors	Chief Executive Officer	Deputy Chief Executive Officer
Fixed pay	NA		
Variable pay	NA		
Supplemental retirement pay	NA	No remuneration is paid to the Chief Executive Officer and the Deputy Chief Executive Officer due to their corporate offices with Compagnie de Financement Foncier	
Benefits in kind	NA		
Payments due when executives give up their corporate offices	NA		
Directors' fees*	€1,500 per session with a maximum of €7,500	NA	NA

\* According to the BPCE instruction dated on December 17, 2010, directors' fees due to BPCE representatives are paid to BPCE and not to the person in question. Since January 1<sup>st</sup>, 2012, the same rule applies to the representatives of Crédit Foncier and the directors' fees are paid to Crédit Foncier and not to the natural person concerned.

n/a : non applicable

## Statutory Auditors' special report on related-party agreements and commitments

Annual General Meeting for the approval of the financial statements for the year ended December 31, 2017

This is a free translation into English of the Statutory Auditors' special report on related party agreements 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.

Compagnie de Financement Foncier S.A.

Registered office: 19, rue des Capucines - 75001 Paris

Share capital: €2,537,459,936

To the Shareholders,

In our capacity as Statutory Auditors of Compagnie de Financement Foncier SA, we hereby report to you on related-party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R.225-31 of the French Commercial Code (*Code de commerce*), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by article R.225-31 of the French Commercial Code in relation to the performance during the year of agreements and commitments already approved by the Annual General Meeting.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

### ■ Agreements and commitments submitted for the approval of the Annual General Meeting

We were not informed of any agreements or commitments entered into during the year to be submitted for approval at the Annual General Meeting pursuant to the provisions of article L.22538 of the French Commercial Code.

### ■ Agreements and commitments previously approved by the Annual General Meeting

#### NO REVIEW OF PREVIOUS AGREEMENTS

In accordance with French law, we inform you that the Board of Directors did not review the agreements entered into and authorized in previous years concerning shareholders' accounts, which remained in force during the year as provided for under article L.225-1 of the French Commercial Code. In accordance with French law, all other agreements were reviewed in respect of 2017 by the Board of Directors.

### AGREEMENTS AND COMMITMENTS APPROVED IN PREVIOUS YEARS

#### a) that were implemented during the year

Pursuant to article R.225-30 of the French Commercial Code, we were informed that the following agreements and commitments, already approved in previous years by the Annual General Meeting, were implemented during the year.

#### 1) Agreements and commitments approved in previous year

##### • Management agreements

Pursuant to articles L.515-13 *et seq.* of the French Financial and Monetary Code (*Code monétaire et financier*), Crédit Foncier de France manages, on behalf of your Company, servicing and recovery services for loans and other assets, servicing of privileged and nonprivileged *obligations foncières* and other resources that your Company holds, and more generally, all services required in terms of operational, financial, administrative and accounting management, as well as the audit and control services required for its operations.

All of these services are governed by a framework agreement entered into between your Company and its parent company.

The directly related agreements are as follows:

- An agreement for loan servicing and recovery
- An agreement governing financial services
- An administrative and accounting management agreement
- A service agreement on internal control and compliance
- An asset/liability management (ALM) agreement
- An agreement for assignments of eligible loans
- An agreement relating to settlement bank services
- An agreement relating to the implementation of information technology services
- An agreement relating to seconded staff and human resources management

The payments paid by your Company for these services are included in the payments for financial services defined in a specific agreement described below.

Under the servicing and recovery agreement and the amendment thereto, Crédit Foncier de France provides cash advances to your Company corresponding to overdue payments on regulated loans for the unsubsidized sector with respect to the share financed by your Company. These amounted to €102.3 million for 2017. In return for these advances, Crédit Foncier de France retains the late payment interest charged to the customer, which amounted to €6.7 million for 2017.

- **Paying agent agreement**

Your Company entered into a paying agent agreement with Crédit Foncier de France whereby Crédit Foncier de France undertakes to centralize the financial operations relating to the first and second issues of *obligations foncières*.

The compensation for services rendered by Crédit Foncier de France relating to this financial service is included in remuneration for financial services.

- **Agreement on the management and recovery of State-subsidized loans**

The compensation owed to Crédit Foncier de France under the agreement with the French State relating to the management and recovery of Statesubsidized loans by Crédit Foncier de France is included in remuneration for services.

- **Agreement on remuneration for services**

On December 15, 2009, your Company signed an agreement for the remuneration of services provided by Crédit Foncier de France on your Company's behalf under management agreements. This agreement replaces the agreement of October 21, 1999 with the same subject matter.

For 2017, payments made to Crédit Foncier de France under the agreement on remuneration for services amounted to €91,5 million

- **Guarantee agreement for adjustable-rate loans**

In December 2007, exceptional measures were proposed to certain customers with adjustable rate loans, whether regulated or not, to secure their monthly payments. Some of these receivables have been assigned to your Company.

In these exceptional circumstances, Crédit Foncier de France indemnifies your Company for the costs incurred under the scheme through a guarantee agreement concluded in favor of your Company.

Under the guarantee, your Company recorded income of €0.6 million for the year ended December 31, 2017.

- **Agreement on the assignment of mortgage ranking/priority**

Under this agreement, Crédit Foncier de France undertakes to recognize the priority ranking of mortgages granted by your Company and to subordinate its own mortgages to those of your Company. In the event of competing mortgage rights, payments to your Company will therefore take precedence.

In the event of allotment or allocation of funds from the debtor or in the event of implementation of the mortgage guarantee through the transfer of the property used as security, your Company will receive these funds for the total amount it is owed in capital, interest and ancillary costs.

This agreement had no direct financial impact in accounting terms since it concerned legal items related to the guarantees in respect of the loans assigned to your Company by Crédit Foncier de France.

- **Shareholder's account advance agreement**

At the date of the signature of the agreement (September 15, 2015), the funds generated by the repayment of the redeemable subordinated notes (€2.1 billion) were deposited in the newly opened shareholder's account. In accordance with the agreement, this account earns interest at the 3month Euribor rate + 2.5% and is repayable at any time by your Company (with 15 days advance notice).

Your Company incurred interest expenses of €46.2 million on this account for the year ended December 31, 2017.

- b) that were not implemented during the year**

In addition, we were informed of the continued application of the following agreements and commitments already approved by Annual General Meetings in previous years, which were not implemented over the year.

- **Guarantee and compensation agreement with Crédit Foncier de France, holder of 99.9% of Compagnie de Financement Foncier's shares**

In connection with the agreement to assign certain assets and liabilities from Crédit Foncier de France to your Company, Crédit Foncier de France:

- has undertaken to offset the effects of any changes in interest rates on your Company's net income should it not be possible to obtain fixed rate financing in the unsubsidized market;
- has guaranteed your Company a minimum return on the outstanding loans transferred;
- has undertaken to indemnify your Company in the event of changes in the treatment of borrowing costs relating to subsidized loans.

The Statutory Auditors

Paris La Défense, March 28, 2018

**KPMG S.A.**

Xavier de Coninck  
Partner

Neuilly-sur-Seine, March 28, 2018

**PricewaterhouseCoopers Audit**

Anik Chaumartin  
Partner



# 2017 Management report

## 2017 MANAGEMENT REPORT

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# 2017 Management report

In a still strained economic environment (generally long-term low interest rates, heightened geopolitical tensions, increased regulatory constraints), in 2017, Compagnie de Financement Foncier has fully carried out its refinancing activity of real estate loans originated by its parent, while pursuing the strategic guidelines of the group Crédit Foncier in terms of optimizing the balance sheet and reducing international outstandings.

In 2017, Compagnie de Financement Foncier issued €6.1bn in *obligations foncières* (French legal covered bonds) that, like all its

privileged debt, are rated AAA/Aaa/AAA<sup>(1)</sup>. The rating agencies thereby acknowledge the security provided by the *société de crédit foncier* status and the additional commitments made by the Company in terms of financial management and risk management.

At December 31, 2017, the balance sheet of Compagnie de Financement Foncier totaled €78.4bn and its net income for the fiscal year €58.2m.

## 1. Main operations of the fiscal year

### ACQUISITIONS AND DISPOSALS

All mortgage notes acquired by Compagnie de Financement Foncier from Crédit Foncier, accounting for €7.3bn at end of 2016, were repaid in 2017.

In 2017, refinancing loans distributed by Crédit Foncier was implemented by direct acquisitions or by setting up collateralized loans, under the terms provided in Article L. 211-38 of the French Monetary and Financial Code.

Under this Article, 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, for a number of years, arranged several credit lines with its parent company, Crédit Foncier, amounting to €18.4bn at December 31, 2017, and with certain Caisses d'Épargne or Banque Populaire, amounting to €186.4m. Loans of an identical nature, for €8.9m at end-2017 excluding related receivables, were also granted to BPCE SA. All these loans are collateralized for €27.9bn.

Replacement values of Compagnie de Financement Foncier amounted to €6.7bn. In addition to cash and cash equivalents, replacement values essentially comprise loans granted under Article L. 211-38 of the French Monetary and Financial Code and hence secured by an assets portfolio.

In terms of refinancing, Compagnie de Financement Foncier issued €6.1bn in *obligations foncières* in 2017. It also has the option to access refinancing at Banque de France, under the comprehensive guarantee management mechanism or *Gestion globale des garanties* (3G pool), a mechanism it did not use in 2017.

In 2017, Compagnie de Financement Foncier continued to reduce its International public sector exposure. As a result, five holdings of securities were disposed of for €295.6m, the value of securities in foreign currency translated at source value. These sales, together with the cancellation of the associated hedging swaps, generated a gain of €7.5m, before tax, in 2017, recorded in profit or loss under "Gains or losses on long-term investments".

### EARLY REPAYMENTS

Given the context of low interest rates, the average rate of early repayment for loans to individuals reaches 16.5% of outstanding loans for 2017 compared with 13.1% the previous year. In addition, the level of loan renegotiations became more significant in 2017 (6.2% vs. 2.4% at end-2016).

The impact of these early repayments and renegotiations on net banking income mainly resulted in:

- accelerated amortization of acquisition premiums / discounts, for a total of -€249m over the fiscal year;
- the collection of early repayment penalties for a gain of €93.7m, a third of which is paid over to Crédit Foncier in consideration for the services provided by the latter (expense recognized under general operating expenses).

### BUYBACK OF OBLIGATIONS FONCIÈRES

During the fiscal year, Compagnie de Financement Foncier bought back a share of its own *obligations foncières* issued on the market for a nominal value of €40.7m, primarily buybacks of long maturity lines (2055).

In accordance with regulations, the premiums and discounts on these buybacks were directly recognized in profit or loss under "Interest and similar income" or "Interest and similar expenses".

(1) Standard & Poor's/Moody's/Scope Ratings, updated as of the 2017 Registration Document's filing date.

The gains or losses on the cancellation of the hedges associated with the canceled issues were directly recognized in profit or loss under the same items "Interest and similar income" or "Interest and similar expenses".

The net impact of these buybacks on profit and loss, before tax, in 2017 was a gain of €9.6m, reflecting in particular the long maturity of certain lines (2055).

## FUNDING AND CASH MANAGEMENT

In parallel, Compagnie de Financement Foncier issued €6.1bn in *obligations foncières*, €1.3bn of which in private placements.

All issuances in 2017 were denominated in euros. The high levels of oversubscription of public issues reflect the diversity and the vitality of Compagnie de Financement Foncier's investor base. Their placement shows strong interest from Germans followed by French, Northern investors, Benelux and Asian investors.

A feature of 2017 was also a greater balance among the different categories of investors: the exposure to central banks was reduced to 29% from 35% the previous year, owing to Eurosystem's reduced share.

The year was mainly marked by four euro benchmark public issuances amounting to €4.75bn:

- €1.5bn at 6.7 years in January;
- €1.5bn at 5.3 years in March;
- €1.25bn at 7.3 years in September;
- €0.5bn at 15 years in November.

## 2. Changes in assets

Assets (in €k)	12/31/2017	12/31/2016
<b>Cash and amounts due from central banks</b>	<b>670,000</b>	<b>2,400,000</b>
<b>Treasury bills and equivalent</b>	<b>3,364,394</b>	<b>3,455,424</b>
<b>Loans and receivables due from credit institutions</b>	<b>28,761,396</b>	<b>20,827,904</b>
• <i>Sight deposits</i>	151,078	244,151
• <i>Term deposits</i>	28,610,318	20,583,753
<b>Customer transactions</b>	<b>38,639,497</b>	<b>42,237,163</b>
<b>Bonds and other fixed-income securities</b>	<b>4,511,584</b>	<b>12,724,987</b>
<b>Equity interests and other long-term investments</b>	<b>0</b>	<b>0</b>
<b>Intangible assets and property, plant and equipment</b>	<b>0</b>	<b>0</b>
<b>Other assets</b>	<b>214,855</b>	<b>8,175</b>
<b>Accrual accounts</b>	<b>2,204,862</b>	<b>2,694,997</b>
<b>TOTAL ASSETS</b>	<b>78,366,588</b>	<b>84,348,650</b>

The balance sheet of Compagnie de Financement Foncier totaled €78.4bn at end-2017, 7% down on end-2016.

In 2017, the change in assets of Compagnie de Financement Foncier has, for the third-year running, seen a high level of early redemptions, as a result of sustained low interest rate environment.

## RECEIVABLES DUE FROM CUSTOMERS AND IMPACT OF EARLY REPAYMENTS

Following changes to the French Monetary and Financial Code at end-2016, Crédit Foncier repaid Compagnie de Financement Foncier the full amount of its mortgage notes in 2017. The outstanding amount of the mortgage notes acquired by Compagnie

de Financement Foncier from Crédit Foncier was thus repaid early for a nominal amount of €7.3bn.

Overall, loans to private individuals, classified under “Loans and receivables” but also “Fixed income securities” in the form of Mortgage Notes/L. 211-38, were down by €1.1bn.

<i>(in €m)</i>	12/31/2017	12/31/2016	Change
Non-commercial mortgage-backed securities (see note 2)	31,444	34,064	-2,620
Mortgage notes/L. 211-38 (see note 3 / note 24)	8,857	7,321	+1,536
<b>TOTAL</b>	<b>40,301</b>	<b>41,385</b>	<b>-1,084</b>

## SECURITIES PORTFOLIO AND IMPACT OF INTERNATIONAL ASSET DISPOSALS

The Compagnie de Financement Foncier securities portfolio was down €0.1bn compared with December 31, 2016. This change was due to the disposals made pursuant to the policy to reduce international exposures, contractual repayments and exchange rate fluctuations on the portion of the portfolio denominated in foreign currencies (primarily US dollar and yen), exposures that are moreover hedged against exchange rate risk.

## GROUP FUNDING AND ASSIGNMENT OF RECEIVABLES

As part of its business activities, Compagnie de Financement Foncier also allows Crédit Foncier and other Groupe BPCE entities to fund themselves through loans backed by assigning assets.

These loans are classified as term loans and receivables from credit institutions. In 2017, the outstanding loans totaled €27.6bn. This amount broke down into:

- €18.4bn in loans to Crédit Foncier, most of which are guaranteed by exposures to the French regional public sector;
- €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 €27.9bn at December 31, 2017.

## OTHER ASSETS AND ACCRUAL ACCOUNTS

Other assets were €214.8m at end-2017 compared to €8.2m at December 31, 2016. This variation was mainly due to the recognition under Other debtors of a tax consolidation credit at December 31, 2017 of €194.1m. This reflected a €135m reallocation of BCPE's 2013-2016 tax expense due to changes in the tax treatment of balances paid on cancelled swaps which had not been fully deducted at the time, and €46m in respect of the indemnity owed by Crédit Foncier for potential tax savings at subsidiaries resulting from the 2017 tax loss (under article 2 of the tax consolidation agreement between Compagnie de Financement Foncier, Crédit Foncier and BPCE).

Accrual accounts stood at €2.2bn at December 31, 2017 compared with €2.7bn at December 31, 2016, mainly due to the lower amount of swap balances to be amortized (-€0.2bn) and the reduction in deferred tax assets (-€0.2bn).

### 3. Changes in liabilities

■ Liabilities (in €k)	12/31/2017	12/31/2016
<b>Central banks</b>	<b>0</b>	<b>0</b>
<b>Due to credit institutions</b>	<b>7,945,176</b>	<b>8,778,050</b>
• Sight deposits	0	355
• Term deposits	7,945,176	8,777,695
<b>Customer transactions</b>	<b>0</b>	<b>0</b>
• Sight deposits	0	0
<b>Debt securities</b>	<b>63,524,759</b>	<b>67,573,795</b>
• Interbank market instruments and negotiable debt securities	151,533	151,243
• Bonds (obligations foncières)	63,373,226	67,422,552
<b>Other liabilities</b>	<b>1,623,947</b>	<b>2,261,259</b>
<b>Accrual accounts</b>	<b>2,088,657</b>	<b>2,514,616</b>
<b>Provisions</b>	<b>18,917</b>	<b>20,435</b>
<b>Subordinated debts</b>	<b>0</b>	<b>0</b>
<b>Fund for general banking risks</b>	<b>20,000</b>	<b>20,000</b>
<b>Equity excluding fund for general banking risks</b>	<b>3,145,132</b>	<b>3,180,495</b>
• Share capital	2,537,460	2,537,460
• Additional paid-in capital	343,002	343,002
• Reserves	119,152	114,468
• Regulated provisions and investment grants	0	0
• Retained earnings	87,313	91,889
• Income to be allocated	0	0
• Net income for the period	58,205	93,676
<b>TOTAL LIABILITIES</b>	<b>78,366,588</b>	<b>84,348,650</b>

Amounts due to credit institutions decreased by €0.8bn. This change was particularly due to a €1.1bn increase in term deposits and loans to Group entities combined with a €1.9bn reduction in repurchase agreements with Crédit Foncier.

Debt securities fell €4bn in 2017, due to the decline in the outstanding amount of *obligations foncières*. This change was due to:

- the €6.1bn increase in market issuances in 2017;
- reduction for the remainder linked to contractual repayments and amortization.

Other liabilities fell €0.6bn, primarily due to the decrease in deposits received in the context of collateralization transactions.

Accrual accounts also fell by €0.4bn over the year, mainly due to the offsetting of the currency adjustment account with the reduction in the swap balances received to be amortized (-€0.3bn).

Provisions totaled €19m at December 31, 2017, €1.5m down on last year, primarily due to the €3.5m reduction in collective provisions on performing loans, offset by the funding of a provision for litigation of €2m.

Shareholders' equity stood at €3.1bn, almost unchanged on 2016.

## 4. Analysis of the income statement

Income statement (in €k)	12/31/2017	12/31/2016
<b>Net banking income</b>	<b>199,611</b>	<b>359,457</b>
Total operating expenses	-117,901	-127,689
<b>Gross operating income</b>	<b>81,710</b>	<b>231,768</b>
Cost of risk	-4,910	-27,078
<b>Operating income</b>	<b>76,800</b>	<b>204,690</b>
Gains or losses on long-term investments	7,458	-48
<b>Income before tax</b>	<b>84,257</b>	<b>204,642</b>
Income tax	-26,052	-110,965
<b>NET INCOME</b>	<b>58,205</b>	<b>93,676</b>

### NET BANKING INCOME

Net banking income totaled €199.6m for 2017 compared with €359.5m the previous year and continues to be impacted by the high level of early repayments since 2015 and more substantial loan renegotiations in 2017.

The net interest margin (NIM) was in particular affected by the accelerated amortization of premiums and discounts on acquired receivables, the impact of which was -€249m in 2017 compared with -€140m in 2016. The NIM thus rose to €107m in 2017, compared with €279m the previous fiscal year.

Net commissions nevertheless rose to €95m from €81m including €96m in early repayment penalties (compared with €83m the previous year; the early repayment rate on loans to private individuals was 16.5% in 2017 compared with 13.1% in 2016).

Finally, gains or losses on trading book transactions (-€0.1m) reflect the lack of a major transaction in 2017.

### GROSS OPERATING INCOME

Operating expenses were down €9.8m from €127.7m in 2016 to €117.9m in 2017 due to:

- a €6.1m fall in consideration from Crédit Foncier Private sector services compared with 2016;
- an increase in early repayment penalties, one-third of which is paid over to Crédit Foncier, totaling €30.2m compared with €25.9m in 2016, correlated with the significant amount of early repayments;
- the classification in cost of risk of the legal fees refunded in 2017 by Compagnie de Financement Foncier (€4.8m in 2016);
- the €2.7m increase in contributions to the Single Resolution Fund (SRF) compared with 2016;
- the reduction in taxes other than on income (excluding the SRF) of €4.1m primarily due to the reduction in the CET (*contribution économique territoriale*, local economic contribution), the CVAE (*cotisation sur la valeur ajoutée des entreprises*, tax on corporate added value) as well as the CSS (*contribution sociale de solidarité*, social solidarity contribution).

Gross operating income was €81.7m at December 31, 2017 compared with €231.8m the previous year.

### COST OF RISK

The cost of risk improved significantly in 2017 to €4.9m compared with €27.1m in 2016.

This change was primarily attributable to the positive effect of the annual revaluation of guarantees, and the effect of interest rate adjustments and the assignment of doubtful loans and receivables.

### GAINS ON FIXED ASSETS

In addition to operating income, gains or losses from sales of assets, primarily comprising international exposures, should be taken into account.

Since 2011, Compagnie de Financement Foncier has progressively sold off its international exposures, in response to regulatory constraints and market conditions. The disposals involved a very reduced outstanding amount in 2016 (€0.1bn) and had no impact on profit or loss.

However, in 2017, five holdings of securities were disposed of for €295.6m, the value of securities in foreign currency translated at source value. These sales, together with the cancellation of the associated hedging swaps generated a capital gain of €7.5m.

### INCOME TAX

Deferred income tax expense is €215.8m, against €94.1m in 2016, mitigated by €189.8m in tax income, against -€16.9m in 2016.

At the time the definitive income tax bill for Crédit Foncier for 2016 was issued in May 2017, the tax treatment of cancellation balances booked as macro-hedging paid in 2016 was brought into line with that of balances received, which were immediately taxable. This same treatment has now been extended to cancellation balances recognised as macro-hedging paid since 2013 and all new such balances going forward. As most of these balances were spread over multiple years for accounting purposes, their immediate tax deductibility had the effect of boosting deferred tax liabilities, thus reducing net deferred tax assets on the balance sheet. Against this, tax consolidation income of €135m is booked under income tax for the reallocation by BPCE of its income tax expense for 2013-2016. The same item also includes €46m in tax income for its 2017 tax loss, under the tax consolidation agreement between Compagnie de Financement Foncier, Crédit Foncier and BPCE.

Total income tax in 2017 was finally €26m, compared to €111m at December 31, 2016.

## 5. Risk factors

### 1. MAIN RISKS OF COMPAGNIE DE FINANCEMENT FONCIER

Compagnie de Financement Foncier's business model is, by its very nature, highly secured. The legislative framework prevents it from holding a trading book, which protects it against market risks associated with proprietary trading, and from holding interests in affiliates, which, as a result, protects it from difficulties originated outside its own assets. The banking and financial environment in which Compagnie de Financement Foncier operates exposes it to many types of risk and forces it to implement a demanding and rigorous policy to monitor and control these risks.

Some of the risks to which the Compagnie de Financement Foncier is exposed are described below. However, this is not an exhaustive list of all of the risks which it confronts as part of its business activities or in consideration of the environment in which it operates. Thus, unknown risks or risks currently considered negligible by Compagnie de Financement Foncier could have a major adverse effect on its business, financial position and/or results.

The risks currently considered significant by the Compagnie de Financement Foncier can be divided into four broad categories:

- risks related to the economic environment and to the strengthening of regulatory requirements;
- risks inherent to banking activities, including credit, counterparty, interest rate, liquidity and operational risks;
- risks specific to Compagnie de Financement Foncier's business activities;
- environmental risks.

#### 1.1. RISKS RELATING TO MACRO-ECONOMIC CONDITIONS AND TO REGULATORY REQUIREMENTS STRENGTHENING

##### 1.1.1. Potential impact arising from the persistence of a difficult economic and financial environment, particularly in Europe

If economic or market conditions in France or elsewhere in Europe were to deteriorate, the markets in which Compagnie de Financement Foncier operates could experience significant disruptions, and its activity, its results and its financial position could be affected.

##### 1.1.2. Potential impact of the maintenance of interest rates at a very low level for an extended period on Compagnie de Financement Foncier's activities and financial results

As with the entire financial sector, Compagnie de Financement Foncier has been operating since early 2015 in a context of very low, or even negative, interest rates; all indications currently show that this trend is likely to continue.

According to its risk policy, Compagnie de Financement Foncier ensures the matching of its assets and its liabilities. Any new operation is thus subject to a hedging operation the moment it is

recognized on the balance sheet via the implementation of interest rate swaps.

After the implementation of these hedging operations, Compagnie de Financement Foncier's assets and liabilities have a floating rate with a net fixed interest margin.

Compagnie de Financement Foncier is therefore not subject, in theory, to interest rate risks, including when the rate drops, because the dropping interest income falls in the same proportions as interest expenses, thanks to the hedges in place.

However, in case of early repayment of loans, the associated hedge must also be canceled. In this case, an early repayment penalty, intended to compensate for losses from unrealized future interest, is foreseen. This penalty should in theory correspond to the termination balances of the hedging swap, in particular for micro-hedging transactions.

This balance can be upset by the legal cap on early repayment penalties for real estate loans to private individuals in France, limiting them to six months of interest or 3% of the outstanding capital.

The continued decline in mortgage rates in France has led to significant numbers of early repayments, forcing the Compagnie de Financement Foncier to adjust the macro-hedging associated with this type of asset by canceling the swaps resulting in additional costs.

As such, the prolonged period of low interest rates and the high level of early repayments may lead to additional costs for Compagnie de Financement Foncier and degrade its profitability.

##### 1.1.3. Potential impact of increased regulatory and banking supervisory measures which may affect Compagnie de Financement Foncier

Laws and regulations have been enacted or proposed in response to the financial crisis to introduce a series of changes to the global financial framework. Although such measures are intended to prevent the reoccurrence of such events, they are likely to continue altering the environment in which Compagnie de Financement Foncier and other financial institutions operate.

A non-exhaustive list of the measures enacted or under consideration: revision of the regulations on covered bonds, tougher capital and liquidity requirements for financial institutions; more stringent procedures for legal receivership and resolution; new weighting methodologies for credit risk, establishment of regulatory bodies and the strengthening of existing bodies, taxes on financial transactions, etc. Among these measures, some are still at the proposal stage and their content will probably be revised and reinterpreted, especially to comply with the national prudential framework in each country.

Some of these measures could also increase the issuer's financing costs and fixed costs.

Groups directly overseen by the ECB, like BPCE and its affiliated institutions, are required to implement these various measures within a reasonable period. Compagnie de Financement Foncier may be subject to additional constraints.

#### 1.1.4. Potential impact of Great Britain's withdrawal from the European Union

The process of Great Britain's withdrawal was made official on March 30, 2017 by triggering Article 50 of the Treaty on European Union.

Since this process is unprecedented in the history of the European Union, it is impossible to predict the length of the negotiations for Great Britain's exit from the European Union. The potential impact of this exit will depend on the agreements that Great Britain will be able to negotiate to maintain access to European markets during the transitional period or on a more permanent basis. Brexit could adversely affect the European and European and even world economic environment and could also lead to increased market volatility, in particular in exchange rates.

However, the direct impact on Compagnie de Financement Foncier is expected to be moderate. The Company does not act as a clearing house.

#### 1.1.5. Potential impact of future events that differ from the assumptions made in Compagnie de Financement Foncier's financial statements

Pursuant to current accounting standards and interpretations, Compagnie de Financement Foncier is required to prepare its financial statements on the basis of certain estimates supported by assumptions. They may in particular involve accounting estimates relating to the determination of provisions for doubtful loans and receivables, provisions for potential claims and litigation, and the fair value of certain assets and liabilities.

If the values used for these estimates prove to be materially inaccurate, in particular in the event of sharp or unexpected moves in the markets, or if the methods used to calculate these values are modified due to future changes in accounting standards or interpretations, Compagnie de Financement Foncier may be exposed to unexpected losses.

### 1.2. RISKS INHERENT TO BANKING ACTIVITIES

#### 1.2.1. Compagnie de Financement Foncier is exposed to several types of risks inherent to banking activities

Compagnie de Financement Foncier is exposed to five major risk categories, which are presented below. The risk factors that follow indicate or provide specific examples of these different risk types and describe certain additional risks to which Compagnie de Financement Foncier is exposed.

- **Credit risk** is the risk of financial loss that may result from the inability of a counterparty to honor its contractual obligations. The counterparty may be a natural person, a state or one of its various related bodies, a bank, a financial institution or a commercial enterprise. Credit risk results from loans and the holding of securities, as well as from business activities that are exposed to a risk of default by a counterparty (for example, the sale or purchase of derivatives).

As a *société de crédit foncier*, Compagnie de Financement Foncier must respect strict rules regarding the choice of the assets it holds,

by verifying in particular the credit quality of its counterparties and ensuring that guarantees are in place.

In addition to these risk management procedures, Compagnie de Financement Foncier could be forced, under certain extreme circumstances, to face losses:

- on its portfolio of real estate loans in the event of a sharp rise in defaults combined with a sudden and significant drop in the value of the properties used to guarantee these loans;
- in case of the default of a public body to which Compagnie de Financement Foncier has significant exposure, in particular Italy, the United States, Switzerland, Poland and some Canadian and Japanese public bodies.

However, the results of the stress tests carried out in the manner recommended by the ECB reaffirm the resilience of the model.

It should be noted that the counterparty risk associated with Compagnie de Financement Foncier's hedging transactions is very limited, due to the fact that these transactions are subject to systematic collateralization.

- **Interest rate risk** is the risk incurred in the event of interest rate fluctuations stemming from all balance sheet and off-balance sheet transactions. Compagnie de Financement Foncier hedges all of its assets and its liabilities as soon as they are recorded on the balance sheet through the use of micro-hedging and/or macro-hedging derivatives. Compagnie de Financement Foncier remains exposed, however, to a residual risk of the ineffectiveness of these hedges, particularly in case of early repayments.
- **Liquidity risk** is the risk of not being able to honor one's commitments or not being able to unwind or offset a position, within a given period and at a reasonable cost, subject to market condition.
- **Exchange rate risk** is the risk of seeing returns from its assets affected by exchange rate fluctuations, or not being able to make or receive payments due to the currency of the transaction. Compagnie de Financement Foncier may carry out some of its activities in currencies other than the euro, and changes in exchange rates may affect its results. As part of its risk management policy, Compagnie de Financement Foncier operates micro-hedging transactions to individually hedge its exposure to exchange rate risk until termination date.
- **The operational risk** is borne primarily by Crédit Foncier, which provides, as part of regulated agreements, most of the financial resources required by Compagnie de Financement Foncier's activities.

Operating risk is the risk of losses due to mismatches or weaknesses in internal procedures, or external incidents, whether deliberate, inadvertent or of a natural cause.

Internal processes include, but are not limited to, human resources and information systems, risk management and internal control mechanisms (including fraud prevention). External incidents include in particular floods, fire, storms, earthquakes and terrorist acts.

### 1.2.2. Potential impact of credit spread widening of Compagnie de Financement Foncier's

Credit ratings have an important impact on liquidity for Compagnie de Financement Foncier and its activities in the financial markets. A lowering of Compagnie de Financement Foncier's ratings could affect its liquidity and market position, increase its refinancing costs, limit its access to capital markets. Compagnie de Financement Foncier's cost of refinancing is directly dependent on its credit spread (the rate differential above the sovereign bond rate of the same maturity that is paid to bondholders), which itself depends in part on its rating. An increase in credit spreads can significantly raise Compagnie de Financement Foncier's cost of refinancing. Credit spreads changes are unpredictable and sometimes, with a large scale. Credit spreads are also the result of the markets' perception of the issuer's solvency. Moreover, credit spreads may be influenced by factors outside the control of Compagnie de Financement Foncier.

### 1.2.3. Potential impact associated with a very significant increase in impairment of new assets or an insufficient level of asset impairment previously recognized in Compagnie de Financement Foncier's portfolio of loans and receivables

As part of its activities, Compagnie de Financement Foncier conducts regular asset impairments in order to reflect, if necessary, actual or potential losses in its portfolio of loans and receivables, which are recognized in its income statement under "Cost of risk". The overall level of asset impairment is based on the valuation of the guarantees associated with the loans, Compagnie de Financement Foncier's assessment of the history of loan losses, the volumes and the types of loans made, industry standards, arrears on loans, economic conditions and other factors related to the degree of recovery of various types of loans. Although the Compagnie de Financement Foncier strives to establish a sufficient level of provisions, its lending activities could lead it to increase its provisions in the future for losses due to an increase in non-performing assets or for other reasons, such as a sharp deterioration in the value of real estate properties used as guarantees, or deteriorating economic conditions, resulting in increased counterparty defaults.

### 1.2.4. Potential impact related to counterparty credit risk for derivative contracts as part of its hedging transactions

In order to limit its exposure to fluctuations in interest and foreign exchange rates, Compagnie de Financement Foncier conducts rate and foreign exchange hedging transactions with a set of counterparties through the use of derivatives. Compagnie de Financement Foncier has therefore signed asymmetrical collateralization agreements with a number of credit institutions. These agreements provide security deposits to the benefit of Compagnie de Financement Foncier without it making any payment.

This situation provides protection in the event of the counterparty's default.

### 1.2.5. Potential impact of any interruption or failure of the information systems belonging to Compagnie de Financement Foncier or a third party

Compagnie de Financement Foncier is highly dependent on the communication and information systems provided by ITCE and BPCE-IT (Groupe BPCE service providers). They operate across the group Crédit Foncier and provide third-party application maintenance.

## 1.3. RISKS SPECIFIC TO COMPAGNIE DE FINANCEMENT FONCIER'S ACTIVITIES

### 1.3.1. Potential impact of a sudden and significant fall in the real estate market on Compagnie de Financement Foncier's business and results

As a *société de crédit foncier*, Compagnie de Financement Foncier carries on its balance sheet a significant number of home loans to finance real estate assets.

In case of financial difficulties, some borrowers may find themselves unable to repay the loans they have taken out. In this case, the real estate property becomes the main guarantee associated with the loan that has become doubtful.

Compagnie de Financement Foncier eligible receivables are required by regulation to satisfy a loan-to-value ratio (ratio of the loan amount/the value of the guarantee) that protects the Company in part against these risks. A significant share of the real estate loans to individuals held by Compagnie de Financement Foncier are also guaranteed by the French State *via* FGAS in addition to the mortgage guarantee.

### 1.3.2. Potential impact of concentration risk in the hedging portfolio

Compagnie de Financement Foncier's balance sheet management policy requires the diversification of assets in order to minimize concentration risk. Real estate loans recognized in Compagnie de Financement Foncier's balance sheet consist mainly of mortgage home loans (assets with high granularity). In light of the significant reduction in international exposures, these assets are predominantly located in France. In the event that the French real estate market suffers a significant downturn, this could have adverse consequences on the quality of Compagnie de Financement Foncier's portfolio of real estate assets. In addition, exposures to the Public sector are also highly concentrated on the French public sector, whereas internationally Compagnie de Financement Foncier's exposure to the Public sector is concentrated on a number of significant individual areas, in particular Italy for sovereigns and the Jehdra agency in Japan.

### 1.3.3. Potential impact linked to Compagnie de Financement Foncier's operational dependence on its parent company

Given its status as a *société de crédit foncier*, Compagnie de Financement Foncier depends on resources supplied by its parent company to pursue its current activities and in particular, for management of mortgage loans. In accordance with agreements concluded between Crédit Foncier and Compagnie de Financement Foncier (including an agreement on debt management and recovery, an administrative and accounting management agreement, a service agreement on internal control and compliance, an agreement related to the implementation of information technology services, an agreement concerning human resources, an agreement related to settlement of bank services), Crédit Foncier is responsible for monitoring Compagnie de Financement Foncier's credit risks, counterparty risks, interest rate and foreign exchange risks, market risk, operational risk and liquidity and settlement risk. Even if this appears very unlikely, Compagnie de Financement Foncier could be at risk of Crédit Foncier's non-compliance with agreements binding it to Compagnie de Financement Foncier.



#### 1.3.4. Potential impact of the implementation of the European Bank Recovery and Resolution Directive

On May 6, 2014, the European Union Council adopted a directive establishing a European framework known as the Bank Recovery and Resolution Directive ("BRRD"), supplemented by Regulation 806/2014/EU (called the Single Resolution Mechanism or "SRM") and transposed in France by the Act No. 2015-1024 of August 20, 2015.

The measures available to banking institutions aim to ensure the continuity of the critical financial and economic functions of the latter, while minimizing the overall impact of their possible failure so as to:

- protect customer funds and assets, and in particular those of depositors;
- safeguard the resources of the Member State on which the institution depends; by minimizing the need for extraordinary public financial support;
- avoid serious adverse effects on financial stability.

Four resolution tools are provided for this purpose: the transfer of some activities, the use of a bridge bank, the separation of assets and a bail-in.

This last option provides resolution authorities with the ability to depreciate (even down to zero) some rights of subordinated creditors of a failing institution and to convert certain subordinated debt into equity.

The *obligations foncières* issued by Compagnie de Financement Foncier are explicitly excluded from this bail-in mechanism, except, where appropriate, for the fraction of the issuer's outstanding *obligations foncières* that would exceed the value of the hedging portfolio guaranteeing them. This amount should be zero in the vast majority of possible scenarios, due to the existing collateralization between the hedging portfolio and the *obligations foncières* outstanding, and to this portfolio's margin. However, the occurrence of the risk cannot be excluded at a given time, the hedging portfolio being no longer sufficient to ensure all the

*obligations foncières* outstanding. This risk, if it were to materialize, could nevertheless only concern an insignificant fraction of the outstanding *obligations foncières* involved.

Moreover, the mechanism of the non-extension of the bankruptcy of the parent company to Compagnie de Financement Foncier continues to protect the latter.

#### 1.3.5. Potential impact associated with the group Crédit Foncier's strategy

Crédit Foncier sets financial targets based on assumptions, including annual loan and margin production, which may impact Compagnie de Financement Foncier's level of activity.

#### 1.4. ENVIRONMENTAL RISKS

Real estate is one of the sectors in which energy and climate concerns have been a major issue for a number of years. As a real estate specialist, Crédit Foncier has thus out of necessity incorporated climate change risk, particularly in its credit policy, into the identification and management of its risks.

Climate risk mainly involves real estate assets financed by Crédit Foncier. Its commitment policy thus aims to promote real estate assets or buildings that target energy savings and protection against climate risks.

For the private individuals market, official building permits protect the customer and the Institution from risky geographical areas: this is the preventive arm.

In the case of confirmed climate risks, such as flooding, for example, Crédit Foncier has put in place a redress mechanism to help clients that allows them to temporarily suspend their installment payments.

Moreover, in the event of the financing of a new real estate asset, Crédit Foncier requires that the construction comply with the RT 2012 environmental standards in particular. Similarly, in the commercial sector, current town planning rules incorporate climate change aspects and the projects financed by Crédit Foncier qualify for the various current standards.

## 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;

- the existence of guarantees in compliance with the legal framework applicable to *sociétés de crédit foncier*;
- specific internal monitoring environment within the 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 2017. Out of the €28.8bn in loans and receivables due from credit institutions, €27.5bn are 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.

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

### LOANS AND RECEIVABLES DUE FROM CUSTOMERS

Gross loans and receivables due from customers totaled €38.6bn at December 31, 2017, compared with €42.2bn at December 31, 2016.

Doubtful receivables were unchanged at €1.4bn over the year, and remaining almost exclusively concentrated (over 99%) on home loans. In parallel, the amount of impairment recognized for doubtful loans went from €106m to €90m year-on-year. The level of impairment remains very low given the loan book.

In addition, of the €31.4bn in outstanding home loans, €16.9bn are covered by SGFGAS guarantee in addition to a mortgage guarantee, while €10bn are only covered by a mortgage guarantee.

### HELD-TO-MATURITY SECURITIES

Held-to-maturity securities totaled €7.9bn at December 31, 2017.

None of these securities was reclassified as doubtful or impaired in 2017.

The outstandings amount (excluding accrued interest and after premiums or discounts) was split across Italy (38%), the United States (18%), Japan (16%), France (11%), Spain (5%), Canada (5%), Poland (4%), 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 non-euro currencies are swapped 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 transactions are arranged 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 December 31, 2017, the amount of deposits received was €1.4bn.

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

In 2017, Compagnie de Financement Foncier continued to enter into new hedging agreements along with its acquisition, issuance and ALM activities.

In total, at December 31, 2017, outstandings in micro- and macro-hedging instruments consisted of €79.2bn, of which €62.7bn in interest rate swaps and €16.5bn in currency swaps; this compared with €83bn in 2016, of which €61bn in interest rate swaps and €21.5bn 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 loans, mostly fixed-rate, granted to private individuals in the competitive sector.

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

The historically low level of interest rates on real estate loans that persisted in 2017 once again led many borrowers to renegotiate their loan or repay it early.

In 2017, 16.5% of loans to private individuals were repaid compared with 13.1% in 2016.

Compagnie de Financement Foncier's interest rate risk is monitored by calculating interest rate gaps subject to very tight limits per observation period. Should any of these limits be exceeded, the situation is corrected by means of a macro-hedging adjustment. In 2017, no limits were exceeded.

## LIQUIDITY RISK

Compagnie de Financement Foncier has committed to always maintain sufficient available cash to meet the contractual maturities on all of its privileged debt, for one year, without recourse to new resources. It continued its very prudent liquidity management policy in 2017.

At December 31, 2017, Compagnie de Financement Foncier had available cash of €712m, including €670m 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.

Furthermore, Compagnie de Financement Foncier has a significant volume of assets that are eligible for the ECB's refinancing operations.

Compagnie de Financement Foncier's liquidity ratio, required 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 moreover 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 disclosures

### 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 trade payables at December 31, 2017 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 26 to the Company's financial statements according to Article L.441-6-1 of the French Commerce Code.

### INFORMATION ON SUBSIDIARIES AND EQUITY INVESTMENTS

Not applicable. As a *société de crédit foncier*, Compagnie de Financement Foncier cannot legally hold equity investments.

### EMPLOYEE PARTICIPATION IN THE SHARE CAPITAL

Not applicable. Compagnie de Financement Foncier does not have any employees of its own.

## 10. Outlook

Compagnie de Financement Foncier intends to continue its development in 2018, in line with the strategic guidelines of Crédit Foncier and of Groupe BPCE:

- rigorous selection of acquisitions and active management of its assets in order to maintain their high quality;

- pursuance of its funding activities for Crédit Foncier and other Groupe BPCE entities, through purchases and assignments of loans, in terms of eligible assets;
- optimization of financial risk hedging.

## 11. Social and environmental information

Compagnie de Financement Foncier is subject to the Grenelle II Act, which requires the disclosure and auditing of social and environmental information on 43 points. The management of Compagnie de Financement Foncier was wholly entrusted to Crédit Foncier services, under a series of outsourcing and secondment agreements.

Compagnie de Financement Foncier does not therefore have any resources of its own (employees, premises, etc.) and relies solely on

Crédit Foncier's resources. This means that social and environmental matters are wholly under the control of its parent company and hence presented in the latter's Management report. There are no CSR specific disclosures in Compagnie de Financement Foncier's Management report.

All the social and environmental information for the group Crédit Foncier can be found in the Corporate Social Responsibility (CSR)<sup>(1)</sup> section of its 2017 Registration document.

## 12. Information on internal control

### INTERNAL CONTROL PROCEDURES ESTABLISHED BY THE COMPANY

#### REGULATORY ENVIRONMENT AND ITS APPLICABILITY TO THE ENTITIES OF THE GROUP CRÉDIT FONCIER

In its dual capacity as credit institution and *société de crédit foncier*, Compagnie de Financement Foncier operates within a very comprehensive legal and regulatory framework governing its activities and their control.

As a credit institution, this framework is primarily governed by the French Monetary and Financial Code (*Code Monétaire et Financier* – CMF) and the regulations set forth by the French Banking and Finance Regulatory Committee (*Comité de la Réglementation Bancaire et Financière* – CRBF), and, with regards to internal controls, by the Order of November 3, 2014 concerning the internal control of credit institutions, companies providing payment and investment services that are subject to the supervision of the French Prudential Supervisory and Resolution Authority.

As a *société de crédit foncier*, Compagnie de Financement Foncier is subject to specific provisions set forth in Articles L. 513-2 to L. 513-27 of the French Monetary and Financial Code (CMF) and in various implementing decrees (Articles R. 513-1 to 513-21 of the CMF, CRBF Regulation No. 99-10 as amended, etc.). This legal and regulatory framework applicable to *sociétés de crédit foncier* was revised and modernized in 2010, and the changes came into force in 2011. Changes in the legal and regulatory framework equally took place in 2014 and 2016 with Sapin II legislation.

This framework requires Compagnie de Financement Foncier to appoint a Specific Controller approved by the French Prudential Supervisory and Resolution Authority (ACPR). This person is in charge of monitoring compliance with legal requirements: asset eligibility, over-collateralization, congruence of rates and maturity and valuation of assets or underlying securities.

The Controller drafts an annual report, which is then submitted to the French Prudential Supervisory and Resolution Authority and executive officers.

Compagnie de Financement Foncier is also provider of investment services and therefore subject to the General Regulation of the French Financial Markets Authority (AMF). A Head of Investment

Services Compliance (HISC), Head of Compliance of Crédit Foncier and permanent holder of the card issued by the AMF for Compagnie de Financement Foncier, ensures compliance with the financial regulations. To define its scope, he/she has provided a corpus of procedures on, notably, the possibility to alert, the framework applicable to people exposed to the risks of insider trading conflicts, the delivery and withdrawal of professional cards issued by the AMF, the recording process of telephone communications, the limited access to the trading floor, the certification of products and services.

In accordance with the regulations, Compagnie de Financement Foncier's Executive Management is responsible for establishing internal controls and implementing them. The internal controls encompass all procedures, systems and controls required to comply with laws, regulations and market rules, as well as the group Crédit Foncier's rules, and ensure that all risks are properly managed.

In accordance with the legal framework that provides a privilege for holders of covered bonds, the law stipulates that *sociétés de crédit foncier* may not have their own resources.

Compagnie de Financement Foncier relies on the resources of its parent company to carry out its activities. Crédit Foncier provides a number of services on behalf of Compagnie de Financement Foncier, under a series of agreements. Accordingly, an agreement on internal control and compliance services was signed on December 28, 2006 and was amended on February 13, 2014.

This agreement signed in 2006 repealed the special supervision and control agreement concluded in 1999 at the time of the Compagnie de Financement Foncier's establishment.

Pursuant to the Order of November 3, 2014 concerning the internal control of credit institutions and companies providing payment and investment services that are subject to the supervision of the French Prudential Supervisory and Resolution Authority, these services must be subject to a specific control system, which requires that the service provider's internal control system be suitable. This suitability remains the responsibility of the Executive Management of Compagnie de Financement Foncier, as per Article 237 of said Order: "outsourcing shall not result in the delegation by senior management of its responsibility".

<sup>(1)</sup> The full version of the 2017 Registration document of Crédit Foncier, including the CSR section, can be found at [www.creditfoncier.com](http://www.creditfoncier.com) under Finance/2017 Registration document.

The outsourced activities are performed in accordance with the permanent and periodic control procedures implemented by Crédit Foncier. These procedures comply with the rules and standards set by BPCE, which as the central institution determines the obligations of Group entities in the area of internal control (resources, organization and guidelines).

BPCE's Internal Audit department also performs periodic audits of Crédit Foncier's internal control system as part of its overall assessment of internal control.

## ORGANIZATION OF INTERNAL CONTROL AND ROLES OF THE VARIOUS PARTIES INVOLVED

The effectiveness of internal controls depends on a clear division of the roles and responsibilities of different governance structures and of permanent operational control entities as well as on the arrangements made for periodic controls.

### CORPORATE GOVERNANCE

Compagnie de Financement Foncier's Executive Management is responsible for managing the Company. It is in charge of the management of risks and internal controls, including the system of permanent controls.

The Board of Directors exercises control over the management of the Company and directs strategy. It is involved in the most important decisions and is kept regularly informed of the level of indicators. Its work is prepared by the Audit Committee and the Risk Committee, which carry out the essential tasks of first ensuring that relevant and consistent accounting methods are used to prepare the Company's financial statements and second, of assessing the quality of internal controls, including the consistency of measurement, monitoring and risk management systems, and finally, if necessary, proposing an appropriate course of action.

### INTERNAL CONTROL PROCEDURES

#### Context of Compagnie de Financement Foncier's control system

Compagnie de Financement Foncier entrusts all of its management and internal control functions to Crédit Foncier.

The General Secretariat of Compagnie de Financement Foncier, which ensures the control of Crédit Foncier's outsourced activities, is an integral part of Crédit Foncier.

Compagnie de Financement Foncier entrusts its internal control to Crédit Foncier, the organization of which also follows Groupe BPCE principles.

#### Context and principles of Groupe BPCE's control system

As a credit institution, Crédit Foncier de France is subject to extensive legal and regulatory obligations that govern its operations and control its activities. This framework was established by the French Monetary and Financial Code (CMF) and the regulations issued by the French Banking and Financial Services Regulatory Committee (CRBF) and, with regard to internal control, by the Order of November 3, 2014. The group Crédit Foncier is supervised by the European Central Bank within the framework of the single supervisory mechanism, which acts in conjunction with the French Prudential Supervisory and Resolution Authority (ACPR).

In accordance with the regulations, Crédit Foncier's Executive Management team is responsible for designing and implementing internal controls. Internal controls encompass all procedures, systems and verifications required to:

- guarantee the achievement of the Company's objectives and compliance with laws and regulations as well as market or Group rules;
- ensure that all risks to which the Company is exposed are properly managed.

The structure of these control systems is based on two levels of permanent controls, applied by the operational units (CP1) or entities that are independent of the operations they are auditing (CP2), and on periodic controls carried out by the General Inspection department;

- more specifically, the permanent control system incorporates the standards set by BPCE in accordance with regulations;

As the Group's central body, BPCE's main purpose is to apply all administrative, financial and technical measures regarding the organization and management of Banques Populaires and Caisses d'Épargne, their subsidiaries and joint entities. The organizational and auditing rules determined by BPCE are applicable to all affiliated institutions and govern all commercial and financial activities as well as the assessment, control and monitoring of credit, market, accounting, information technology and operational risks. Within this framework, particular attention, involving the definition of specific standards and controls, is applied to the prevention of money laundering and the financing of terrorism;

- at the same time, the quality and operational effectiveness of permanent controls is audited by the General Inspection Division of Crédit Foncier, which is subject to specific requirements. Periodic audits are governed by Groupe BPCE's audit charter and are carried out by a special office staffed by members of BPCE's General Inspection department. The aim of this structure is to promote cooperation between the Audit departments and to provide coverage of the Group's entire scope as effectively as possible.

#### Organization of internal controls at Crédit Foncier

##### CORPORATE GOVERNANCE

The Executive Management team is responsible for managing the group Crédit Foncier. It is in charge of the management of risks and internal controls, including the system of permanent controls. The Board of Directors exercises control over the management of the Company and directs strategy. It is involved in the most important decisions and is kept regularly informed of changes in indicators. Its work is prepared by the Audit Committee and the Risk Committee, which carry out the essential tasks of ensuring that relevant and consistent accounting methods are used to prepare the Company's individual and consolidated financial statements, of supervising internal controls, particularly the consistency of measurement, monitoring and risk management systems, and when necessary, of proposing appropriate additional courses of action.

##### INTERNAL CONTROL

The internal control system is based on two levels of permanent control and a periodic control system, and is deployed through various organizational measures (involvement of supervisors, system of delegation, reporting structures, and the segregation of duties), which are detailed below.

### Levels of permanent control

Independent control units are positioned within the business lines.

The Risk and Compliance Divisions have been combined into a single division under the authority of an executive director of Crédit Foncier. Within this division, a Permanent Control Coordination department monitors the overall consistency of the general system (preparation and validation of annual audit plans, follow-up to updates of the entities' various control bases, driving the general framework and business meetings, etc.).

#### OPERATIONAL PERMANENT CONTROL

First-level permanent operational controls (CP1) are performed within the operational units by employees and their management. The controls are specified in procedures and operating methods, which units are responsible for producing and updating.

Rapidly changing structures and regulatory environments, together with transformation of IT systems, constantly modify the processing procedures, calling for regular updating of directives and guidelines.

#### PERMANENT CONTROL PERFORMED BY UNITS THAT ARE INDEPENDENT FROM THE OPERATING STRUCTURES AND DEDICATED TO CONTROLS

These units provide second-level control (CP2) and ensure that procedures are properly executed and that risks are managed efficiently.

They may report directly to Executive Committee of Crédit Foncier:

- the head of permanent control for loan sales activities to individual customers reports directly to the Deputy Chief Executive Officer of Crédit Foncier in charge of commercial development. He also reports functionally to the executive director of Crédit Foncier at the head of the Risk and Compliance Division;
- the Heads of permanent control for the Corporate activity and the Middle and Back Office activities for loans to individual customers report to the executive directors in charge of these sectors;
- the same is true for the Compagnie de Financement Foncier's Oversight and Forecasting Division, which supervises permanent control of all processes impacting Compagnie de Financement Foncier (particularly the quality of procedures and services) and reports to the Deputy Chief Executive Officer of Crédit Foncier in charge of Financial Operations.

The permanent control units can also put together dedicated central structures:

- **the Risk department** measures, controls and oversees credit and counterparty risks, as well as financial and operational risks;
- **the Compliance department** is primarily tasked with controlling non-compliance risks and those stemming from investment services; it also covers ethics, anti-money laundering and fraud;
- **the Permanent Control Coordination department** is responsible for ensuring cross-business control functions within the group Crédit Foncier. It provides a strong functional reporting

line between permanent control teams, ensuring the existence and effectiveness of the permanent control structure;

- **the Head of Information Systems Security** of the group Crédit Foncier reports to the Executive Director for Risk and Compliance. He has a three-fold mission: definition of the information systems security policy, guiding of a network of officers within the Company's entities and assisting and advising the IT staff on security issues. In addition, he is also responsible for the Contingency and Business Continuity Plan (CBCP) for the group Crédit Foncier, with the duty to keep the plan up to date and in working order to ensure that Crédit Foncier will be able to continue operating following the materialization of a major risk.
- **the "Accounting Audit" unit**, which reports to the Accounting Division, is responsible for auditing the accounting and regulatory data generated by Crédit Foncier and its subsidiaries.

The group Crédit Foncier's permanent control system is structured around standardized and regularly updated risk management control procedures for each business unit.

The main duties of **the Internal Control Committee** of Crédit Foncier are to:

- ensure that permanent control of business activities is well organized and comprehensive, and that risk management and supervision are efficient (including the steering of the risk management system);
- supervise actions aimed at ensuring good risk management, compliance of operations and internal procedures, quality and availability of the data processed by information systems, and the security of said systems;
- ensure that deficiencies identified by the permanent control units are resolved;
- convene the representatives of the control functions six times a year;
- assume the role of Volcker Committee.

It should be noted that the Corporate Secretary of Compagnie de Financement Foncier is a standing member of the Internal Control Committee of Crédit Foncier.

The conclusions of the Committee's work are regularly reported to the Audit Committee and to the Risk Committee.

#### Periodic control

By agreement of Crédit Foncier and Compagnie de Financement Foncier, periodic control is the responsibility of Crédit Foncier's General Inspection department.

BPCE's control unit may also contribute to periodic control by auditing the group Crédit Foncier and forwarding recommendations to Crédit Foncier's General Inspection department, which oversees their implementation.

### Delegation system

Crédit Foncier's delegation system is based on two series of measures:

- firstly, an internal system ensuring that decisions are taken at the appropriate level (by the competent decision-making committees or *via* internal delegation systems) according to the degree of risk that they represent;
- secondly, a system of mandates enabling Crédit Foncier representatives to prove to third parties that they have the necessary powers to commit the Company.

Moreover, all members of the Executive Committee have full power and authority to perform their duties, within the scope assigned to them.

Decisions that are outside the framework of the responsibility of the Executive Management of Crédit Foncier and which exceed the powers delegated to operational managers are taken by specialized committees. The Risk Committee, the management, the resolution, the ALM Committees and the Liquidity Committee are within the scope of Compagnie de Financement Foncier. The other committees are organized at Crédit Foncier consolidated level. The main specialized committees are:

- **the National Commitments Committee:** authorizes commitments exceeding the powers delegated to the operational units;
- Compagnie de Financement Foncier's **Risk Executive Committee:** monitors overall trends in counterparty, financial and operational risk and takes the relevant decisions (scoring rules, delegations and limits);
- **Watch List Committee and National Committee on Sensitive Issues of Individuals:** manages strategy and decisions regarding substantial debts that are either distressed or exposed to risk;
- **Accreditation Committee for Products & Activities & Services:** approves the market launch of new types of loans and other products and services;
- **ALM and Liquidity Oversight Committee of Compagnie de Financement Foncier:** analyzes ALM indicators and provides ensuing decisions and guidelines; a stand-alone committee implements ALM Committee decisions and liquidity management;
- **Cash flow Committee:** responsible for operational management of liquidity positions;
- **Financial Management Committee:** analyses, takes decisions and manages operations that have an impact on the financial equilibrium of the group Crédit Foncier, especially disposal, acquisition and assignment of the group Crédit Foncier's assets;
- **Financial Operations Committee:** sets, among other things, financial terms of Compagnie de Financement Foncier's private issues;
- **Interest Rate Committee:** manages the hedging transactions, including those of Compagnie de Financement Foncier;
- **Pricing Policy Committee:** determines loan terms offered to customers;
- **Accounting Provisions Committee:** validates the methodologies and the level of provisions of Crédit Foncier;
- Compagnie de Financement Foncier **Management Committee:** undertakes operational monitoring of the management of

Compagnie de Financement Foncier and, where necessary, proposes solutions to resolve issues relating to compliance with the agreements entered into with its servicer, Crédit Foncier. It is chaired by a corporate officer of Compagnie de Financement Foncier and brings together all the Crédit Foncier units involved in the execution of the services agreed upon according to the agreements set between two companies. The work of this committee is presented annually to the Agreements Monitoring Committee.

### Monitoring and measurement of risks

Crédit Foncier has set up risk measurement, oversight and management systems (mainly for counterparty, interest rate, foreign exchange, liquidity and operational risks) adapted to its activities, resources and structure. These systems form an integral part of the internal control system.

The main risk factors to which Compagnie de Financement Foncier is exposed are closely monitored. The Company has drawn up precise limits and procedures for managing, selecting, measuring, overseeing and controlling its risks. These limits are updated regularly.

The Risk department performs exhaustive and precise assessments of Compagnie de Financement Foncier's risks covering all categories of commitments and differentiating between the levels of risk.

Risk measurement methods are documented and supported. They are reviewed regularly to ensure that they are relevant and appropriate for the risks incurred.

Oversight of risks incurred entails constant monitoring of breaches of limits and their resolution and a periodic review of the main risks and portfolios. The classification of loans is verified periodically to ensure that loans are correctly classified according to the applicable regulations (in particular for doubtful loans). Checks are also performed regularly to ensure that provisioning is consistent with risk levels.

Risk assessments are submitted to the executive officers of Crédit Foncier and of Compagnie de Financement Foncier at committee meetings or in periodic activity reports and are regularly reported to the **Risk Committees** and to the Boards of Directors of Crédit Foncier and of Compagnie de Financement Foncier.

### Reporting lines

The information needed by Executive Management to oversee the activity is provided in operating reports produced by the Finance department. The various business lines draw up reports specific to their respective activities.

### Principle of the segregation of duties

Independence is on the whole ensured between the units in charge of carrying out transactions and those in charge of their accounting and settlement and the oversight and management of the related risks.

The independence of control units from operational units is ensured as follows:

- the Risk Division of Crédit Foncier oversees counterparty, financial and operational risk;
- accounting controls are performed by the Accounting Division;

- compliance and ethics are the responsibility of the Compliance Division of Crédit Foncier;
- permanent control is carried out by control units that are separate from the operational units;
- periodic controls are performed by the General Inspection Division of Crédit Foncier.

### Accounting system and procedures

Crédit Foncier's accounting system, services provider for Compagnie de Financement Foncier, relies mainly on the input of accounting data by the management chains.

The methods used for internal accounting control are described in the section on accounting and financial reporting control procedures.

### Internal control principles of Compagnie de Financement Foncier

As stated above, Compagnie de Financement Foncier delegates all management functions to Crédit Foncier by setting forth general principles and 10 specific agreements including an agreement on internal control and compliance, and thereby delegates the bulk of its internal control to Crédit Foncier. The complete list of these agreements is as follows:

- an agreement for loan assignments;
- an agreement for loan servicing and recovery;
- an agreement governing financial services;
- an asset/liability management (ALM) agreement;
- an administrative and accounting management agreement;
- a service agreement on internal control and compliance;
- an agreement related to the implementation of information technology services;
- an agreement concerning human resources;
- an agreement concerning remuneration for services;
- an agreement related to settlement bank services.

The internal control principles of Compagnie de Financement Foncier are thus in line with those of Crédit Foncier.

The General Secretariat of Compagnie de Financement Foncier, assured by the Compagnie de Financement Foncier's Oversight and Forecasting Division, is responsible for organizing and coordinating three committees exclusively focused on the management of Compagnie de Financement Foncier and its control:

- **Arrangements Monitoring Committee:** This is a joint committee between Crédit Foncier and Compagnie de Financement Foncier, tasked with defining or modifying the agreements governing the services provided by Crédit Foncier to Compagnie de Financement Foncier. This committee makes sure that the framework agreement and all the special agreements between the two companies are correctly applied, interpreted and well-balanced between both companies. The day-to-day management of the agreements is also delegated by the Arrangements Monitoring Committee to the Compagnie de Financement Foncier Management Committee;
- **Compagnie de Financement Foncier Management Committee:** undertakes operational monitoring of the management of Compagnie de Financement Foncier and, where necessary, proposes solutions to resolve issues relating to compliance with the agreements entered into with its servicer, Crédit Foncier. It is chaired by a corporate officer of Compagnie de Financement Foncier and brings together all the Crédit Foncier units involved in the performance of said agreements;

- **Resolution Committee:** A body empowered to cancel the transfer of receivables from Crédit Foncier to Compagnie de Financement Foncier in accordance with the rules set out in the assignment agreement.

## THE BODIES

### MEMBERS OF THE BOARD OF DIRECTORS

As of December 31, 2017, the Board of Directors of Compagnie de Financement Foncier was composed of 11 members. The members of the Board are listed in the appendix. Compagnie de Financement Foncier's two Statutory Auditors and its Specific Controller also attend the Board meetings.

### BOARD MEETINGS

The legal secretary to the Board of Directors is provided by the General Secretariat of Crédit Foncier and it establishes, in consultation with the Chairman and executive officers, the agenda for the meetings, along with the materials covering the various items on the agenda. This department also drafts the minutes and keeps the legal registers. On June 30, 2010, the Board of Directors adopted internal regulations, most recently updated on April 10, 2015, defining operational procedures for the Board.

Compagnie de Financement Foncier's Board of Directors meets at least once every three months to examine a prescheduled agenda. Specific items may be added depending on the period. Items discussed include:

- approval of the accounts for the previous year;
- review of management forecasts;
- quarterly report of bond issuances and analysis of the performance of *obligations foncières* (covered bonds) issued by Compagnie de Financement Foncier on the primary and secondary markets;
- determining, at the end of each quarter, for the following quarter, the program for issuing *obligations foncières* and other privileged resources which require certification by the Specific Controller;
- delegation of the powers necessary to carry out these operations;
- review of the half-year accounts;
- annual self-assessment of the Board;
- review of coverage plan for privileged resources;
- more generally, authorization of any major transaction involving the Company or any significant event being able to affect it (governance, changes to Bylaws, agreements with the parent company, update of EMTN programs, debt issuances that exceed limits of delegated powers, etc.);
- review of internal control reports and risk monitoring measures pursuant to Articles 258 *et seq.* of the Order of November 3, 2014 concerning the internal control of credit institutions, companies providing payment and investment services that are subject to the supervision of the French Prudential Supervisory and Resolution Authority (Autorité de Contrôle Prudentiel et de Résolution – ACPR) (previously Articles 42 and 43 of Regulation No. 97-02 as amended of the French Banking and Financial Regulation Committee (CRBF)) and of the annual report of the Specific Controller;
- presentation of the results of the permanent, periodic and compliance controls, along with the risk appetite profile;
- review of the Specific Controller's annual report.

The records and documents submitted to the Board provide it with clear, true and fair information about Compagnie de Financement Foncier and its evolution.



The Board of Directors did not limit the powers of the Chief Executive Officer in any way. The Chief Executive Officer is vested with the broadest powers to act in all circumstances on behalf of the Company, within the limits of the corporate purpose, and subject to the powers expressly attributed by law to Annual General Shareholders' Meetings and the special powers of the Board of Directors. He represents Compagnie de Financement Foncier in its relationships with third parties. The Deputy Chief Executive Officer is vested with the same powers as the Chief Executive Officer. Compagnie de Financement Foncier's Board of Directors met six times in fiscal year 2017.

Board members are entitled to attendance fees in accordance with the allocation rules recommended by BPCE, Compagnie de Financement Foncier's Central Institution. Under a BPCE Directive dated December 17, 2010, attendance fees payable to BPCE representatives are paid to BPCE and not to the individual in question. Since January 1, 2012, the same treatment applies to the representatives of Crédit Foncier. The attendance fees are paid to Crédit Foncier and not to the individual in question. It is specified that no attendance fees are paid to Natixis employees serving as director, in an individual capacity, on the Board of Directors of Groupe BPCE companies.

The amount of the attendance fees allocated to the Board members is set in advance for each meeting. It is paid only if the members actually attend the meetings (according to Article 13 of the Bylaws, directors taking part in the meetings of the Board through videoconferences or telecommunication means allowing their identification and actual participation, are considered as attending for the calculations of the quorum and the majority). The amount is also subject to an annual cap.

## COMMITTEES AND CONTROLS

### Appointments Committee

The Appointments Committee is responsible for nominating candidates for Board membership, assessing knowledge diversity and setting a target for male/female representation.

As of December 31, 2017, this committee had two members, both directors:

- Mr Bruno DELETRÉ, Chairman;
- Mr Jean CHEVAL.

### Audit Committee

The Audit Committee operates in accordance with a charter approved by the Board of Directors at its meeting of June 29, 2004 and most recently updated by the Board on August 25, 2015.

The Audit Committee is responsible for advising the Board of Directors on the clarity of the information provided and the relevance of the accounting methods used to prepare the parent company financial statements.

Its usual scope includes:

- budget procedures;
- financial statement approval;
- agreements monitoring;
- coverage plan for privileged liabilities;
- choice of Statutory Auditors and Specific Controller;
- examination of the annual report of the Specific Controller.

At December 31, 2017, the Audit Committee had the following members:

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

### Risk Committee

The Risk Committee operates in accordance with a charter approved by the Board of Directors in its meeting of August 25, 2015.

The Risk Committee is responsible for advising the Board of Directors on the quality of internal control, in particular the consistency of risk measurement, supervision and management, and is responsible for proposing, when appropriate, additional measures in this respect.

Its usual scope includes:

- assessing the overall risk exposure of Compagnie de Financement Foncier based on available reports;
- advising the Board of Directors on the overall strategy of Compagnie de Financement Foncier and risk appetite, both current and future;
- reviewing reports on internal control, compliance and permanent control;
- monitoring the independence of the General Inspection Division of Crédit Foncier and reviewing its work and annual plan;
- following up on the findings of missions of the French Prudential Supervisory and Resolution Authority (Autorité de Contrôle Prudentiel et de Résolution – ACPR) and/or the European Central Bank (ECB) and the General Inspection Division of Crédit Foncier and of BPCE;
- reviewing product and service pricing (mentioned in Books II and III of the French Monetary and Financial Code (CMF): financial instruments, savings products, banking operations, investment services, etc.).

As of December 31, 2017, the Risk Committee had the following members:

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

Mr Olivier AVIS, Chief Executive Officer, is in charge of permanent and periodic control and compliance for Compagnie de Financement Foncier.

This appointment meets the requirements of Articles 14 *et seq.* of the Order of November 3, 2014 concerning the internal control of credit institutions, companies providing payment and investment services that are subject to the supervision of the French Prudential Supervisory and Resolution Authority, previously Article 7.1 of Regulation No. 97-02 as amended of the Committee on Banking and Financial Regulation (CRBF), and to the principle applied by the Management of Crédit Foncier de France under which the executive bodies of credit institutions' subsidiaries may draw on the parent company's structure to fulfill their obligations in terms of permanent and periodic control and compliance.

### ATTENDANCE BY SHAREHOLDERS AT THE ANNUAL GENERAL SHAREHOLDERS' MEETINGS

Annual General Shareholders' Meetings are called in accordance with French legal and regulatory requirements.

An invitation to attend the meeting is sent by mail to each shareholder individually. The shareholders are exclusively registered shareholders.

Any shareholder may attend the General Meeting per the conditions set out by law.

There is no provision assigning multiple voting rights.

### PRINCIPLES AND RULES APPROVED BY THE BOARD OF DIRECTORS FOR DETERMINING REMUNERATION GRANTED TO CORPORATE OFFICERS

The Board of Directors of February 9, 2016 decided that, from February 1, 2016, no remuneration would be paid to the Chief Executive Officer and the Deputy Chief Executive Officer in respect of their corporate offices.

Since February 1, 2016, the remuneration of the Chief Executive Officer and the Deputy Chief Executive Officer is entirely paid by Crédit Foncier. The remuneration of the Chief Executive Officer and the Deputy Chief Executive Officer paid by Crédit Foncier consisted of fixed and variable portions, the latter computed as a percentage of the fixed. For the Chief Executive Officer, the amount of the variable pay actually allocated depended, up to July 23, 2017, on the results of the group Crédit Foncier for 80% and Groupe BPCE for the remaining part and, for the Chief Executive Officer, from July 23, 2017, as well as the Deputy Chief Executive Officer, on the degree of completion of the objectives that are assigned to him each year by Crédit Foncier. This variable pay is fully paid by Crédit Foncier. Since February 1, 2016 the remuneration of the Chief Executive Officer and the Deputy Chief Executive Officer has been paid entirely by Crédit Foncier.

### Compliance

An integral part of the internal control system required by regulations governing credit institutions, the compliance control system refers to all the resources employed to ensure respect with provisions pertaining to banking and financial activities, professional and ethical standards, Group rules and instructions from executive directors made on the basis of guidance from the supervisory body.

Reporting to the executive director in charge of the Risk and Compliance Division, the Compliance Division has recourse to Groupe BPCE's charter on risks, compliance and permanent control dated March 29, 2017. In this context, it is responsible for identifying, evaluating and monitoring non-compliance risks (including misconduct) notably through a system of operational and procedural control that reflects their scale and their complexity, contributing to developing risk policies and, lastly, notifying executive directors and the Board of Directors. It monitors the first and second level permanent control of non-compliance risks (including the risk of misconduct) and general business risks. Its activities include financial and general ethics, combating money laundering and terrorist financing, preventing and dealing with fraud risks as well as specific control of the compliance of investment

services, compliance with the law on the separation and regulation of banking activities and the Volcker rule.

The Compliance Division, together with the Permanent Control Coordination department, helps with the functional coordination of the compliance and permanent control controllers assigned to the various operational scopes and support functions.

It regularly reports on its work to Executive Management, the Internal Control Committee, the Risk Committee, the Board of Directors as well as the central institution.

### Work performed by the General Inspection Division

#### ORGANIZATION AND RESOURCES OF THE GENERAL INSPECTION DIVISION

By agreement, the General Inspection Division of Crédit Foncier is responsible for assessing the risks of Compagnie de Financement Foncier and reviewing the permanent control system.

It reports on its audits to the Chief Executive Officer and to the Risk Committee of Compagnie de Financement Foncier.

At the end of 2017, the division had a staff of 19 employees. All were university graduates drawn from a number of different fields (accounting, finance, legal, commercial sales).

An annual audit plan is prepared by the General Inspection Division of Crédit Foncier, working in conjunction with the Executive Management of Crédit Foncier and in consultation with BPCE's General Inspection department. The plan is approved by Crédit Foncier's Executive Management and submitted to its Risk Committee. It covers the scope of intervention of the General Inspection Division, on the basis of a multi-year plan within an audit cycle of at most four years; intrinsically risky activities are audited more frequently. During the year, specific audits or reviews may be conducted at the behest of Executive Management or the Risk Committee.

Reports on the audits conducted are sent to the Executive Management of Crédit Foncier, the Risk Committee, the Board of Directors and, where necessary, the executive body of the relevant subsidiaries. Information is also provided to the Executive Committee, allowing a final review of recommendations prior to implementation. A summary of the follow-up on recommendations is sent to the aforementioned bodies in addition to the Executive Committee, which reviews any recommendations that are particularly difficult to implement.

#### INSPECTION ASSIGNMENTS CONDUCTED IN 2017

Overall, the General Inspection Division of Crédit Foncier conducted its audit plan in 2017.

The audits conducted were included in the annual audit plan approved by the Audit Committee on December 6, 2016, covering the various segments of the group Crédit Foncier: loans to individuals, Corporates, support activities, subsidiaries and outsourced services.

#### FOLLOW-UP ON RECOMMENDATIONS FROM PREVIOUS ASSIGNMENTS

Monitoring of the implementation of audit recommendations is based on the reports submitted by the audited entity's management, indicating the percentage of completion and including, if necessary, an action plan and a new deadline.

The audited units now enter the reports into the Group intranet database made available to them. These reports must be accompanied by supporting documentation provided by the audited entity and containing all the necessary proof of completion. The General Inspection Division systematically verifies whether the audit recommendations have actually been implemented by checking documents when the completion rate reaches 100%.

A statistical report is prepared quarterly to provide a clear summary report to Executive Management, the Executive Committee, the Risk Committee and the Board of Directors: it includes requests to extend or abandon recommendations. Recommendations not implemented according to the initial timetable are specifically reviewed by the Executive Committee.

When an entity is re-audited, the status of previous recommendations is systematically examined.

#### **PROCEDURES FOR AUDITING ACCOUNTING AND FINANCIAL INFORMATION**

Two years after the IT migration to the Caisses d'Épargne common IT system, the Accounting department is still facing difficulties in monitoring the accounts of bodies, resulting in the implementation of a joint action plan by IT-CE (IT services) and Executive Management.

A system to identify the bodies should be in place in 2018 in order to allow the accounts to be more efficiently monitored and controlled.

#### **BPCE's role**

BPCE's Accounting department is responsible for standardization, supervision, appraisal, oversight, forecasting, regulatory monitoring and Group's representation for prudential and accounting matters.

In this capacity, it defines and updates the Group's accounting standards, comprised of a Group Accounting Plan together with accounting rules and methods applicable to all Group entities. These rules and methods include general accounting tables and are summarized in a manual used by all the Group's institutions. This manual is regularly updated based on changes in accounting regulations. Furthermore, the rules for preparing the half-year and annual financial statements are the subject of a specific report aimed at harmonizing accounting procedures and statements across the different companies in the Group.

#### **Audit Committee of Compagnie de Financement Foncier**

Accounting and financial statements (annual and half-year consolidated financial statements) are presented to the Audit Committee. This committee analyzes the statements, receives the conclusions of the Statutory Auditors and submits its conclusions to the Board of Directors.

#### **Structure of the group Crédit Foncier's accounting function**

Accounting at the group Crédit Foncier is performed by the Accounting department. The Accounting department is directly responsible for preparing the financial statements and regulatory filings for all Group entities, apart from those which have their own Accounting departments. Crédit Foncier also has decentralized accounting units authorized by the Accounting department to conduct account-keeping and record-keeping, primarily for financial transactions.

General Accounting department of Crédit Foncier is organized as follows:

## ■ Accounting department of Crédit Foncier

Functions	Main responsibilities in accounting system operations	Main responsibilities in compiling and summarizing data
Reporting and consolidation	<b>Individual financial statements:</b> <ul style="list-style-type: none"> <li>account-keeping for Crédit Foncier, Compagnie de Financement Foncier, Vauban Mobilisations Garanties and Locindus, and preparation of the individual financial statements;</li> <li>tax declarations.</li> </ul>	<ul style="list-style-type: none"> <li>balance sheets, income statements and notes for these entities;</li> <li>monthly summary results statements of the Group's two main credit institutions (Crédit Foncier, Compagnie de Financement Foncier).</li> </ul>
	<b>Consolidated financial statements:</b> <ul style="list-style-type: none"> <li>centralization of consolidation packages;</li> <li>preparation of the consolidated financial statements;</li> <li>implementation of consolidation procedures (use of Groupe BPCE BFC software package).</li> </ul>	<ul style="list-style-type: none"> <li>balance sheets, income statements and notes for the group Crédit Foncier;</li> <li>consolidated quarterly results for the Group;</li> <li>consolidated monthly results under French GAAP.</li> </ul>
Regulatory and prudential disclosures	<ul style="list-style-type: none"> <li>regulatory disclosures at Company level (SURFI, etc.);</li> <li>calculation of Compagnie de Financement Foncier specific ratios, and of the Locindus liquidity ratio;</li> <li>consolidated prudential disclosures to the French Prudential Supervisory and Resolution Authority and/or the European Central Bank (ECB) (via BPCE, Central institution), in cooperation with the Risk department.</li> </ul>	<ul style="list-style-type: none"> <li>reporting to the French Prudential Supervisory and Resolution Authority and the European Central Bank (ECB) (via BPCE, Central Institution).</li> </ul>
Operational accounting	<ul style="list-style-type: none"> <li>supervision and control of interface operations between the loan management system, accounting software packages and reporting databases in cooperation with the IT firm ITCE;</li> <li>account-keeping for loan management chains and peripheral chains.</li> </ul>	<ul style="list-style-type: none"> <li>reports on outstanding loans and loan flows.</li> </ul>
Subsidiaries' accounting	<ul style="list-style-type: none"> <li>account-keeping for non-banking subsidiaries and preparation of individual financial statements;</li> <li>tax declarations.</li> </ul>	<ul style="list-style-type: none"> <li>balance sheets, income statements and notes for these entities.</li> </ul>

### Accounting and regulatory audit

The organizational principles governing accounting control, as part of the process of task decentralization, are set out in the "Framework for controlling the quality of accounting and financial information" approved by the Group Internal Control Coordination Committee meeting of June 9, 2016.

The Accounting and Regulatory Audit area has reported hierarchically to the Deputy Head of Financial Management, Finance Division since January 1, 2017. Otherwise it is functionally attached to the Head of the Permanent Control Coordination department. Operational accounting controls are the responsibility of the departments directly involved in producing accounting data.

The audits performed are set out in an annual audit plan proposed by the accounting and regulatory audit unit, presented to the Permanent Control Coordination department and approved by the Internal Control Committee.

These audits include:

- in-depth controls at the quarterly reporting dates, in particular of the evidence supporting the accounts (balance sheet and off-balance sheet accounts);
- regular controls on the main regulatory and tax declarations as well as issues related to summary reports.

They result in the establishment of briefing notes, sent to the Accounting department, the Permanent Control Coordination department of Compagnie de Financement Foncier and the Statutory Auditors.

The consolidation packages, prepared by the subsidiaries and certified by their Statutory Auditors, are reviewed in detail and checked for consistency by the Consolidation Unit.

All the regulatory and prudential reports are consolidated by BPCE, which runs automated consistency checks before sending them to the French Prudential Supervisory and Resolution Authority (ACPR).

Beginning in 2018, accounting audit will be a primary contact for the Statutory Auditors in the course of the performance of their audit activities. It will, moreover, be tasked with implementing recommendations made by the Statutory Auditors.

**Audit of financial data**

The financial data disclosures (regulatory restitutions intended specifically for the French Prudential Supervisory and Resolution

Authority (ACPR), Registration documents, Registration documents submitted to the French Financial Markets Authority) are carefully checked by the competent departments (Management Control, ALM, General Accounting).

More specifically, the Compagnie de Financement Foncier's Oversight and Forecasting Division is responsible for verifying the documents for the Specific Controller and the rating agencies.

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## Report by the Statutory Auditor, appointed as independent third party, on the consolidated human resources, environmental and social information included in the management report

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*This is a free English translation of the Statutory Auditors' 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 standards applicable in France.*

For the year ended December 31<sup>st</sup>, 2017

To the Shareholders,

In our capacity as Statutory Auditor of Compagnie de Financement Foncier, (the "Company"), appointed as independent third party and certified by COFRAC under number(s) 3-1048 <sup>(1)</sup>, we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31<sup>st</sup>, 2017 included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (*Code de commerce*).

### Company's responsibility

The Supervisory Board is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the indicator guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report.

### Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L.822-11 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

### Statutory Auditors' responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved two persons and was conducted in March 2018 during a one day period. We were assisted in our work by our sustainability experts.

### Nature and scope of our work

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement. As mentioned on page 90 of the management report, the Company does not publish any CSR information since it has neither employees nor physical hold.

### Conclusion

Based on the work performed:

- we attest that explanations relative to the absence of the required CSR information have been disclosed in the management report;
- we have no observations to make regarding the provided explanations that justify the absence of the required CSR information.

Neuilly-sur-Seine, March 27<sup>th</sup>, 2018

The Statutory Auditor

**Deloitte & Associés**

Julien Rivals

Partner, Sustainability Services

<sup>(1)</sup> Whose scope is available at [www.cofrac.fr](http://www.cofrac.fr)





# Risk control and monitoring report

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# Foreword

With a view to transparent financial disclosure, and above and beyond its regulatory obligations, Compagnie de Financement Foncier includes in its Registration document a detailed Risk Management report based on IFRS rules (which do not apply to Compagnie de Financement Foncier) and prudential standards. This report is based on the data input into the risk management system; the consistency of this information with accounting data is ensured by the Risk department of Crédit Foncier.

## 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 Director of Compliance is the head of investment services compliance, as declared to the French Financial Market Authority (AMF).

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

Crédit Foncier's Risk department, functionally reporting 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 Executive Management of Compagnie de Financement Foncier.

The Corporate Secretariat of Compagnie de Financement Foncier, which is in charge of monitoring outsourced services of Compagnie de Financement Foncier and, therefore, the proper implementation of the agreements signed with Crédit Foncier, is an integral part of group Crédit Foncier's permanent control.

#### MAIN RESPONSIBILITIES OF THE RISK COMMITTEES

Compagnie de Financement Foncier is an integral part of Crédit Foncier's overall organization: Compagnie de Financement Foncier's Risk Executive Committee and Crédit Foncier's 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 scoring systems, risk measurement and assessment systems (stress scenarios, etc.) and its main exposures;
- measuring the quality of its exposure and debt collection efforts on the basis of summary reports;
- risk management: monitoring risk, reviewing regulatory and specific ratios, monitoring the risk charge, drawing up 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 includes the representatives of control functions. This committee has the following duties:

- ensure the good organization and completeness of the permanent controls of the activities, 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 its security;
- ensure the resolution of the malfunctions identified by the General Inspectorate and the implementation of the recommendations;
- 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 group Crédit 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 fraud risks. It relies on the Permanent Control department run by the Permanent Control Coordination Division,

and provides regular reports to the Corporate Secretariat of Compagnie de Financement Foncier on its business and the controls conducted.

#### 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, which are hierarchically independent from the units controlled, and with the Corporate Secretariat of Compagnie de Financement Foncier.

#### 1.1.4. ORGANIZATION OF THE INFORMATION SYSTEMS SECURITY 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:

- 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 (ISSIC) chaired by an executive director;
- outreach plan to raise awareness about cyber attacks and security risks among all employees;
- 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 Chief Risk and Compliance Officer of Crédit Foncier.

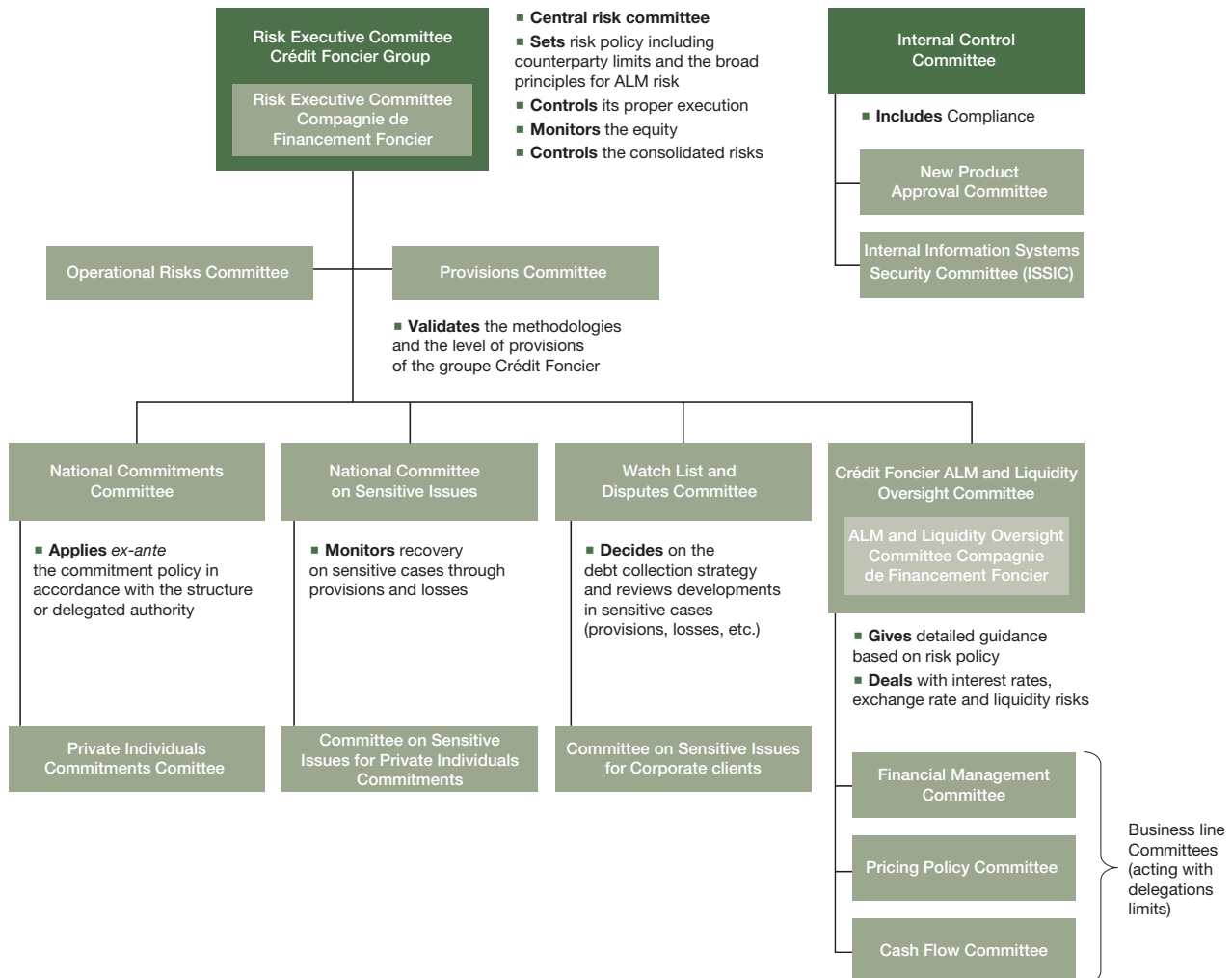
Compagnie de Financement Foncier has its own CBCP manager, fully integrated in the group Crédit Foncier plan.

#### 1.1.6. INFORMATION SYSTEM 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 – COMMITTEE STRUCTURE**



## 1.2 Loans selection process

Compagnie de Financement Foncier's loans selection process takes place in two steps:

- selection by Crédit Foncier during its loan origination process;
- acquisition process during which Compagnie de Financement Foncier uses filters to screen loans acquired from Crédit Foncier.

The analysis is similar for purchasing loans and receivables to another entity of Groupe BPCE.

Compagnie de Financement Foncier's risk appetite is the level of risk it is willing to accept. It is consistent with the institution's operating environment, its strategy and its business model.

Compagnie de Financement Foncier's procedure, approved by the Board of Directors on July 28, 2016, falls within the general framework of group Crédit Foncier's risk appetite, approved by the Board of Directors on December 15, 2015, and confirmed on December 16, 2016, which itself is part of the general framework of Groupe BPCE's risk appetite, approved by BPCE's Supervisory Board and presented to the European supervisor in July 2015.

This framework is based on an overarching document which presents, qualitatively and quantitatively, the risks that Compagnie de Financement Foncier agrees to take. It describes the principles of governance and operation in effect, and is intended to be updated annually, especially to reflect regulatory changes.

The operational mechanism for risk appetite is based, in turn, on indicators broken down according to significant type of risk and is based on successive thresholds associated with distinct delegation levels, namely:

- operational limits or tolerances for which the executive directors may decide, directly or through the committees which they chair, either on a return below the limit, or the establishment of an exception;
- the resilience threshold that, when exceeded, may pose a risk to the continuity and stability of the business. Any breach of these limits requires that a report and an action plan be sent to the Supervisory Body.

Compagnie de Financement Foncier takes part in the procedure implemented at the Group level that is dedicated to the Recovery and Reorganization Plan that concerns all BPCE institutions.

### 1.2.1. COMMITMENT SELECTION AND MONITORING SYSTEM AT CRÉDIT FONCIER

Commitment selection and monitoring relies on:

- implementation of risk policies across activities (loans to individual customers, public and private Corporates), consistent with Group credit policies;
- definition of delegations, primarily with regard to public Corporates and the consumer business;

- a system of fixed limits governing main corporate exposures, in order to manage concentration risks;
- system for assessing borrowers' creditworthiness and the quality of transactions using internal rating engines and counteranalysis;
- risk monitoring primarily achieved through the following mechanisms: quarterly review of portfolios, committees dealing with sensitive issues and internal, external and regulatory reporting;
- risk management leading to the measurement and the prospective management of risks.

### 1.2.2. CREDIT RISK ANALYSIS

Loan assessment tools are organized around two mechanisms:

- counteranalysis mechanism;
- ratings-based creditworthiness assessment during loan origination and regular monitoring based on the type of loan.

#### COUNTERANALYSIS MECHANISM

The counteranalysis system is related to a delegation chain that provides for two levels of review:

- the distribution channel level with an integrated scoring up to a certain level for the portfolio, with the Risk department attending committees, which have a right of evocation;
- the level of the National Committee on Commitments where a representative of the Risk department expresses an independent opinion supported by his counteranalysis. He has no say in the decision. For amounts above a specified limit, the Group Risk Management Division is asked to approve the execution of the transaction.

Loans are subject to a first analysis by the business lines (commercial and underwriting units), followed by a counteranalysis performed by a special independent unit.

This counteranalysis falls within the exclusive competence of the Risk department and is performed for all requests for financing submitted to the National Commitments Committee, and, in certain cases, to the Business Line Committee (following the Delegation Chain).

#### RATING APPROACH

##### Private Individuals

The system for rating the creditworthiness of Individuals is specific to Crédit Foncier especially because it has no deposit accounts.

During the origination process, this system relies on a score based on both an expert system and a statistical rating.

Loan portfolio risk monitoring is carried out *via* a monthly rating using the features of the property transaction and of the borrower at the time of origination, as well as information on any potential past due payments.

The rating scales are specific to the type of transaction (home ownership or loans for rental housing).

**Public, private and international operators**

For legal entities (private or public) and not assimilated to private individuals, each counterparty is rated based on a unique set of internal rating approaches employed Group-wide in Groupe BPCE.

The rating of this portfolio relies on internal rating applications developed by Groupe BPCE. For private and public Corporates, the rating approach is based on quantitative and qualitative creditworthiness assessments and on an expert system.

Ratings are reviewed annually.

The International Public sector (IPS) portfolio is rated internally. As every year, an effort to re-rate IPS outstandings was led in the fourth quarter according to a new method which is based on both, expert opinion and external ratings approach.

**1.2.3. ELIGIBILITY CRITERIA FOR CRÉDIT FONCIER AND PURCHASING OR MOBILIZATION FILTER**

The asset acquisition process implemented by Compagnie de Financement Foncier is very prudent and supplements a loan granting system that already ensures quality assets.

**Individuals**

Compagnie de Financement Foncier acquires loans:

- that finance home ownership and rental housing;
- that are secured by a first-ranking mortgage guarantee or equivalent.

**For all Crédit Foncier entities except the Belgian branch**

Loan origination is carried out almost exclusively by Crédit Foncier. Compagnie de Financement Foncier can, however, acquire loans from other credit institutions. The operating method for selecting loans is then adjusted accordingly.

After loan origination by Crédit Foncier in accordance with existing policies and eligibility criteria, Compagnie de Financement Foncier acquires loans presenting a risk of default below a certain threshold, based on a selection process.

Eligible collateral are:

- first-ranking mortgages or equivalent;
- state guarantee provided by the guarantee fund for home ownership for low-income households (FGAS);
- on a more marginal scale, a guarantee from Crédit Logement, a financial company rated Aa3 by Moody's at December 31, 2017.

The LTVs applied to the mortgage value allow the determination of the outstanding amount of the loan that can be financed by privileged resources:

- 100% for FGAS guarantees;
- 80% for home loans granted to private individuals and secured by a first-ranking mortgage or equivalent;
- 60% for the others (relating mainly to Social housing).

In addition, Compagnie de Financement Foncier uses a rating filter taking into account initial credit scores at origination and outstandings as described in the following table.

Loans and receivables that were under observation and thus kept on the Crédit Foncier's balance sheet due to their lower ratings now can be purchased by Compagnie de Financement Foncier given a special termination clause automatically activated if the loan becomes doubtful (for a period of 4 years identical to that of their previous observation).

Filter conditions							Disposal before 2016	Disposal since 2016	Existence of a resolution clause
Doubtful (CX, DX, RX) <b>or</b> Performing and having been doubtful during the last 2 years							X	X	
Segment or sub-segment not eligible							X	X	
Performing and not doubtful during the last 2 years	Segment and sub-segment eligible	Age of the loan ≤ 4 years	Outstanding rating	1 to 7	Rating at origination	0 to 5	✓	✓	
				8,9,10, Not rated		6 to 9, Not rated	X	✓	✓
	Age of the loan > 4 years	Outstanding rating	1 to 7	Rating at origination		✓	✓		
			8,9,10, Not rated			X	✓	✓	

This purchasing filter does not concern loans from the Belgian branch, whose purchases are only carried out through assignment.

**French Public sector**

Compagnie de Financement Foncier's acquisition criteria on loans to French local authorities (FLA) were based on BPCE's internal rating system.

This rating covers the borrower's inherent characteristics (budget, degree of indebtedness, creditworthiness, etc.).

The lowest ratings are systematically excluded from selection.

**International Public sector**

Compagnie de Financement Foncier holds exposures to international counterparties that meet the eligibility requirements of the French Monetary and Financial Code. Before the phase-out, the loans selected at origination were concentrated on counterparties with the highest ratings, most of them step 1 ( $\geq$  AA-).

**Corporate loans**

Since 2016, Compagnie de Financement Foncier may be assigned some long-term private corporate loans financed by Crédit Foncier, which receives a full and complete, formalized and first-rank mortgage guarantee, in favor of Crédit Foncier, on one or more assets for offices, commercial or residential properties located in metropolitan France.

The asset assignment is limited to 60% of the mortgage value, dated within one year of the assets used as a guarantee. Only performing loans are eligible.

**1.2.4. CREDIT LIMITS****Assigning credit limits**

Compagnie de Financement Foncier's credit limits system incorporates the same limits as those used by group Crédit Foncier, notably with regard to country limits and individual limits.

Groupe BPCE entities must, at their respective levels, adhere to the limitations placed on their operations determining the rules for risk diversification among the portfolios and to the regulatory limits applicable to managing major risks.

Validated by the Risk Executive Committee, these individual limits, prepared and proposed by the Risk department, are subject to update, control, monitoring and a range of reporting requirements at the initiative of the Risk department. These limits are also followed at the group Crédit Foncier's level.

**Managing limit breaches and alert procedure****GENERAL PRINCIPLES**

Compliance with limits is checked during regular counteranalysis prior to the review of loans by the Commitment Committees.

**BANK COUNTERPARTIES**

In accordance with the arrangements set out in the management agreements between the two institutions, compliance with limits on the counterparties to the financial transactions of Compagnie de Financement Foncier is monitored by the Financial Risk Department.

These limits are established for Compagnie de Financement Foncier's banking counterparties (primarily for hedging and treasury management requirements) and are regularly reviewed in *ad hoc* committees.

Monitoring of compliance with the limits is carried out on a daily basis by next-day observation. Related usage is updated in real time by the Front Office. It should be noted that the framework contracts with bank counterparties include a systematic margin call for the value of the transactions, based on the counterparty's rating, to be paid only by the counterparties, not by Compagnie de Financement Foncier.

All breaches are reported in real time to the executive management of Compagnie de Financement Foncier and Crédit Foncier.

**1.2.5. RISK MONITORING**

Risk monitoring relies on three main components:

- the quarterly review of portfolios with an aim to ensure the overall quality of exposures and controlling the recognition of provisions for credit losses;
- at a *minimum*, monthly monitoring of sensitive operations involving corporate clients and quarterly monitoring of individual clients;
- production of internal, external and regulatory reporting.

Special rules apply to the structured products of the French Public sector.

**PORTFOLIO REVIEWS**

Regular reviews are conducted to evaluate the quality of the exposures. This implies stringent analysis of the quality of each exposure performed by the business lines and the Risk department. This analysis extends to all of Crédit Foncier's large exposures as well as of Compagnie de Financement Foncier.

**MONITORING OF SENSITIVE ISSUES**

This kind of monitoring concerns loans considered by the institution to be troubled or likely to encounter trouble in the future. Such monitoring involves ruling on the classification of the concerned loans or their servicing status (performing/doubtful/in litigation).

**Private Individuals**

This type of monitoring is carried out by the National Committee on Sensitive Issues (CNAS), which meets at least quarterly to review troubled loans and to recommend the potential recognition of a provision for credit loss.

**Public sector and Social housing**

This type of monitoring is carried out *via* group Crédit Foncier's Watch List which includes Compagnie de Financement Foncier's outstanding assets. The Watch List is reviewed quarterly. It lists all the counterparties requiring special attention due to the potentially high risk they represent. The Watch List concerns performing or doubtful loans but not loans already in the process of litigation by the Litigation department. The fact of being placed on the Watch List does not trigger the automatic suspension of credit lines or a downgrade of the counterparty to doubtful.

Additionally, troubled loans are reviewed more frequently in the sensitive cases committees.

In the framework of monitoring the structured products of Public sector operators, and in coordination with Groupe BPCE, a signatory to the Gissler Charter, group Crédit Foncier closely monitors these transactions, enabling it to alert customers in advance about the market development impacts.

**Private Corporates**

Loans and receivables assigned to Compagnie de Financement Foncier are of good quality with a low mortgage LTV ratio (which is more strict than the market value LTV), and an asset selection process put in place (housing, offices and commercial properties) and within a global limit for each type of asset in the portfolio.

If, in spite of all the measures, the said event occurs (default, forbearance, watch list), the loan will no longer be mobilized by Compagnie de Financement Foncier. The monthly control is carried out in order to renew the assignments.

## 2. Changes in assets

In accordance with its building society (French *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, L. 513-5 and L. 513-6 of the French Monetary and Financial Code, backed by

a first-rank mortgage (or equivalent real estate collateral or, to a lesser extent, a surety);

- exposure to public entities, as defined under Articles L. 513-4 and L. 513-5;
- 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

	12/31/2017		12/31/2016	
	in €m	% balance sheet	in €m	% balance sheet
<b>Secured loans</b> (articles L. 513-3, L. 513-5 and L. 513-6)	<b>39,421</b>	<b>50.3%</b>	<b>39,377</b>	<b>46.7%</b>
mortgage loans secured by the FGAS	16,811	21.5%	16,941	20.1%
other mortgage loans	19,141	24.4%	12,381	14.7%
mortgage notes	0	0.0%	7,325	8.7%
guaranteed loans	3,469	4.4%	2,729	3.2%
<b>Exposure to public entities</b> (articles L. 513-4 and L. 513-5)	<b>29,764</b>	<b>38.0%</b>	<b>34,719</b>	<b>41.2%</b>
Public sector loans	9,380	12.0%	10,623	12.6%
public loans assigned under L. 211-38	11,838	15.1%	12,840	15.2%
public entity securities	7,876	10.0%	8,856	10.5%
deposits at Banque de France	670	0.9%	2,400	2.8%
<b>Other assets (interests on IFAT, adjustment accounts, etc.)</b>	<b>2,431</b>	<b>3.1%</b>	<b>3,409</b>	<b>4.0%</b>
<b>Replacement values</b> (article L. 513-7)	<b>6,751</b>	<b>8.6%</b>	<b>6,844</b>	<b>8.1%</b>
<b>TOTAL ASSETS</b>	<b>78,367</b>	<b>100.0%</b>	<b>84,349</b>	<b>100.0%</b>

The €6.0bn reduction in the Compagnie de Financement Foncier's balance sheet in 2017 masked various movements in different asset categories:

- secured real estate loans remained stable thanks to major acquisitions of mortgage loans from Crédit Foncier which more than offset loan book shrinkage due to still high levels of early repayments on loans to individuals in 2017. It should be noted that since the promulgation of the Sapin II law, the mortgage notes that existed at end 2016 have been fully redeemed and replaced with transactions falling under the scope of the L. 211-38 regime;
- Public sector loans, not including deposits with the Banque de France, fell by €3.2bn mainly due to repayments of existing loans;

- cash, comprising replacement values and the balance of the Banque de France account fell by €1.8bn following the drop of the deposits with the Banque de France by €1.7bn .

However, the breakdown of assets by region changed little during the year. 87.8% of underlying assets are in France.

At December 31, 2017, international assets, mainly from the Public sector, amounted to €9.6bn, broken down into three categories:

- four countries with the highest exposures, namely Italy (€3.5bn), the United States (€1.5bn), Japan (€1.3bn) and Switzerland (€1.1bn);
- four countries with moderate exposure, namely Belgium (€0.9bn), Spain (€0.4bn), Canada (€0.4bn) and Poland (€0.3bn);
- and two other countries with loan volumes of less than €0.1bn; Portugal and the Netherlands.

## 3. Changes in liabilities

Under the regulations governing French building societies, 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 rank below privileged liabilities, comprise:
  - unsecured debts with the Crédit Foncier and, particularly for swaps, with various other bank counterparties,
  - subordinated debt and equity, resources contributed by Crédit Foncier.

### ■ Breakdown of liabilities by guarantee rank

	12/31/2017		12/31/2016	
	in €m	% balance sheet	in €m	% balance sheet
<b>Privileged liabilities</b>	<b>63,296</b>	<b>80.8%</b>	<b>66,803</b>	<b>79.2%</b>
<i>Obligations foncières</i> at the reporting date	63,375	81.1%	67,423	79.9%
Foreign exchange difference on <i>obligations foncières</i>	-267	-0.3%	-827	-1.0%
Other privileged liabilities	188	0.0%	208	0.2%
<b>Translation difference associated with hedging balance sheet items*</b>	<b>925</b>	<b>1.2%</b>	<b>1,587</b>	<b>1.9%</b>
<b>Non-privileged resources</b>	<b>14,146</b>	<b>18.0%</b>	<b>15,959</b>	<b>18.9%</b>
Unsecured debt	8,676	11.1%	10,521	12.5%
Subordinated debt and similar debt	2,286	2.9%	2,217	2.6%
<i>of which subordinated securities</i>	0	0.0%	0	0.0%
<i>of which associate current account</i>	2,100	2.7%	2,100	2.5%
Shareholders' equity, provisions and FRBG	3,184	4.0%	3,221	3.8%
<b>TOTAL LIABILITIES</b>	<b>78,367</b>	<b>100.0%</b>	<b>84,349</b>	<b>100.0%</b>
<i>Regulatory capital according to CRR/CRD IV:</i>	3,107	4.0%	3,045	3.6%
<i>of which Common Equity Tier 1 capital</i>	3,107	4.0%	3,045	3.6%
<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".

During the year, privileged resources fell €3.5bn, contractual debt repayments exceeding issuances this year.

Unsecured debts were also down by €1.8bn. This mainly reflected optimized management of overcollateralization and the drop in securities sold to Crédit Foncier under repurchase agreements.

The item comprising subordinated debts and equity remained unchanged over the year at €5.5bn, or close to 7% of balance sheet assets at December 31, 2017.



## 4. Prudential ratios

### 4.1. Specific ratios

Compagnie de Financement Foncier is not obliged by the regulator to follow prudential solvency ratios but nonetheless reports them to investors for information purpose; these ratios are monitored at Crédit Foncier's level, its parent company. However, as a *société de crédit foncier*, Compagnie de Financement Foncier is subject to several specific regulatory ratios that must be respected at any time and are generally 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 3 types of asset:

- LTV overruns on mortgage loans either held directly or assigned by mortgage notes;
- 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 2017, overruns of the LTV threshold amounted to €353m, still significantly lower than overruns for non-privileged liabilities, standing at over €14bn at that date. These overruns were simulated under a number of stress scenarios involving instantaneous value losses of 10%, 15% and 20%. They came out at, respectively, €2.2bn, €3.4bn and €4.7bn, *i.e.* amply covered by non-privileged resources.

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 €1.5bn at December 31, 2017, was not included for the purposes of calculating the ratio.

Finally, application of the new limit on intragroup exposure introduced by the order of May 26, 2014 resulted in a €1.8bn drop in BPCE loans, mainly because the loan portfolio posted as collateral failed to meet all eligibility criteria for financing by *obligations foncières*.

As a result, the coverage ratio was 117.2% at end 2017 (vs. 117.6% at end 2016), including any associated currency hedging for assets and liabilities.

Regardless of the minimum ratio required by law, Compagnie de Financement Foncier already committed to maintain at any time a level of non-privileged liabilities in excess of 5% of privileged liabilities (both considered after currency swaps). At December 31, 2017, this ratio was 19.6%, slightly up on the 18.5% reported at end-2016.

#### 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 mobilization by mortgage notes. 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 Management report in chapter 5.3.2.

In 2017, revaluation resulted in, on average, a rise in home values of 1.94%.

Taking into account all outstanding mortgage loans, both directly held and used to guarantee mortgage notes, the average LTV at the end of 2017 came to 73.1% for a total outstanding amount of €39.9bn, breaking down as follows:

- 80.9% on loans guaranteed by FGAS amounting to €20.3bn;
- 65.5% on other mortgage loans to individuals, with €18.8bn outstanding;
- 40.2% on mortgage loans to Corporates amounting to €0.8bn.

At end 2016, all mortgage loans, with a combined value of €40bn, had an average LTV of 74.1%. This equated to an average LTV of 74.9% on €39.2bn of individual loans and 33.9% on €0.8bn of corporate loans.

#### OTHER LIMITS

Compliance with the various holding limits applicable to certain assets is also verified. At December 31, 2017:

- guaranteed loans amounted to 6.4% of total assets, still well below the legal limit of 35%; this calculation includes directly held guaranteed loans (4.4%) as well as loans used to guarantee mortgage notes (1.9%);

- replacement values have an outstanding amount equal to 8.6% 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.

### SOLVENCY AND LIQUIDITY RATIOS

Moreover, as a credit institution, Compagnie de Financement Foncier monitors its liquidity ratios, which remain well above the minimum requirements set by banking regulations, largely as a result of its commitment to maintain enough liquid assets to cover 1 year's equivalent of debt liabilities. In addition, Compagnie de Financement Foncier dispose of €10bn in assets that can be mobilized by the Eurosystem (excluding repurchase agreements) that would provide it with an estimated additional €7.2bn in cash resources after haircut and on the basis of the ECB's current rules, while keeping its coverage rate 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).

Consequently, at the end of December 2017, according to the standard Basel III method, its Common Equity Tier One (CET1) ratio was 21.3%, equal to its Tier One ratio and its solvency ratio. Total risk exposures (RWA) amounted to €13.7bn.

## 4.2 Management of capital

The management of Compagnie de Financement Foncier's capital is supervised directly by its Executive Management. Its oversight ensures constant compliance with regulatory ratios and is aimed at optimizing the allocation of capital and safeguarding the overcollateralization ratio. It therefore contributes directly to its 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 December 31, 2017. This amount also represents the Core Equity Tier-1 capital.

### CAPITAL REQUIREMENTS

Capital requirements were calculated using the standard Basel III method. Mortgage notes and French local authorities (FLA) L. 211-38 outstanding loans were 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)	12/31/2017		12/31/2016	
	Capital requirements	RWA	Capital requirements	RWA
Central governments	58	727	75	936
Institutions	21	259	25	309
Regional governments	348	4 346	408	5,104
Corporations	52	648	13	159
Retail customers	52	645	131	1,643
Mortgage-backed exposure	532	6 656	541	6,761
Exposure at default	35	441	39	488
Other assets	2	19	1	13
<b>Requirements for credit risk (A)</b>	<b>1,099</b>	<b>13,741</b>	<b>1,233</b>	<b>15,413</b>
<b>Requirements for market risk (B)</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>Requirements for operational risk (C)</b>	<b>39</b>	<b>491</b>	<b>46</b>	<b>571</b>
<b>Credit value adjustment (D)</b>	<b>28</b>	<b>344</b>	<b>37</b>	<b>466</b>
<b>CAPITAL REQUIREMENTS (A)+(B)+(C)+(D)</b>	<b>1,166</b>	<b>14,575</b>	<b>1,316</b>	<b>16,450</b>

## CAPITAL ADEQUACY RATIOS

Compagnie de Financement Foncier's capital adequacy ratio at December 31, 2017 was determined using the standard approach.

	12/31/2017	12/31/2016
<b>CET1 Ratio</b>	<b>21.32%</b>	<b>18.50%</b>
Tier-1 ratio	21.32%	18.50%
<b>Solvency ratio</b>	<b>21.32%</b>	<b>18.50%</b>

Source: COREP (Common solvency ratio reporting) at December 31, 2017.

# 5. Analysis of credit and counterparty risk

The balance sheet consists of two main categories of assets: assets financed by privileged debts in the form of loans or securities and replacement values corresponding to a portion of the cash. 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 mobilized 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 mainly comprise Compagnie de Financement Foncier's international exposure;
- replacement values composed 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 assets are analyzed by transparency: the analysis covers the collateral guaranteeing the assigned assets in application of Article L. 211-38.

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:

- CDOs (Collateralized Debt Obligation) or direct exposures to mono-line insurers;
- exposures to CMBS (Commercial Mortgage-Backed Securities);
- sub-prime, Alt-A or, more broadly, any exposure to US mortgage securities;
- special purpose vehicles;
- leveraged buyouts operations (LBOs).

(1) Short-term loans to BPCE, guaranteed by collateralized assets.

## RISK CONTROL AND MONITORING REPORT

### 5. Analysis of credit and counterparty risk

(in €m)	Exposures as of 12/31/2017			Exposures as of 12/31/2016		
	Sold	Assigned	Balance sheet	Sold	Assigned	Balance sheet
<b>Risk exposures</b>						
<b>A – Private Individuals' mortgage loans</b> <sup>(1) (2)</sup>	<b>29,880</b>	<b>8,685</b>	<b>38,565</b>	<b>32,336</b>	<b>7,017</b>	<b>39,353</b>
<b>B – Public sector loans</b>	<b>17,615</b>	<b>11,885</b>	<b>29,500</b>	<b>21,479</b>	<b>12,772</b>	<b>34,251</b>
French public sector	9,617	11,885	21,502	12,467	12,772	25,239
<i>Social housing</i>	1,182	1,888	3,070	1,501	1,991	3,492
<i>French local authorities (FLA)</i> <sup>(3)</sup>	6,108	9,262	15,370	6,876	9,498	16,374
<i>Infrastructure project financing (IPF)</i>	631	590	1,221	640	596	1,236
<i>Sovereign France</i>	1,696	145	1,841	3,450	687	4,137
International public sector	7,998	0	7,998	9,012	0	9,012
<i>International public sector (IPS)</i>	4,956	0	4,956	5,844	0	5,844
<i>International Sovereign</i>	2,640	0	2,640	2,710	0	2,710
<i>Public sector large corporations</i>	402	0	402	458	0	458
<b>C – Commercial mortgage exposures</b>	<b>148</b>	<b>361</b>	<b>509</b>	<b>157</b>	<b>376</b>	<b>532</b>
<b>D – Banking sector exposures</b>	<b>736</b>	<b>6 600</b>	<b>7 336</b>	<b>836</b>	<b>6,600</b>	<b>7,436</b>
Banks with sovereign guarantees or similar	632	0	632	706	0	706
Other banks	104	0	104	131	0	131
L. 211-38-RV <sup>(4)</sup>	0	6 600	6 600		6,600	6,600
<b>Total risk exposure (A + B + C + D)</b>	<b>48,379</b>	<b>27,531</b>	<b>75,909</b>	<b>54,809</b>	<b>26,764</b>	<b>81,573</b>
Miscellaneous adjustments and other items <sup>(5)</sup>	2,513	34	2,547	2,775	1	2,776
<b>TOTAL</b>	<b>50,892</b>	<b>27,565</b>	<b>78,457</b>	<b>57,584</b>	<b>26,765</b>	<b>84,349</b>

(1) The "Private Individuals' mortgage loans" line item includes a limited amount of outstanding Dutch loans (€47m at December 31, 2017 and €57m at December 31, 2016).

(2) Of which Belgian L.211-38 amount to €907m as of December 31, 2017 (carrying amount).

(3) Of which €78m L. 211-38 with Caisses d'Épargne and €110m with Banques Populaires as of December 31, 2017.

(4) Short-term loans to BPCE, guaranteed by collateralized assets.

(5) The line "Miscellaneous adjustments and other assets" is essentially composed of accrued interest on forward financial instruments and accruals.

At December 31, 2017, the total risk exposure was down by €5.6bn to €75.9 bn. This change was due to:

- the drop in individual mortgage loans of €0.8bn to €38.5bn with an increase in assignments (€1.67bn) and a consistently high level of early repayments recorded in the period;
- the drop of €2.5bn in French public sector loans to €21.5bn, with a decrease in the Sovereign France exposure (-€2.3bn) due to a reduction in the Banque de France account and a reduction due to repayments by French local authorities (-€1bn);
- the drop of €0.9bn in international public sector exposures.

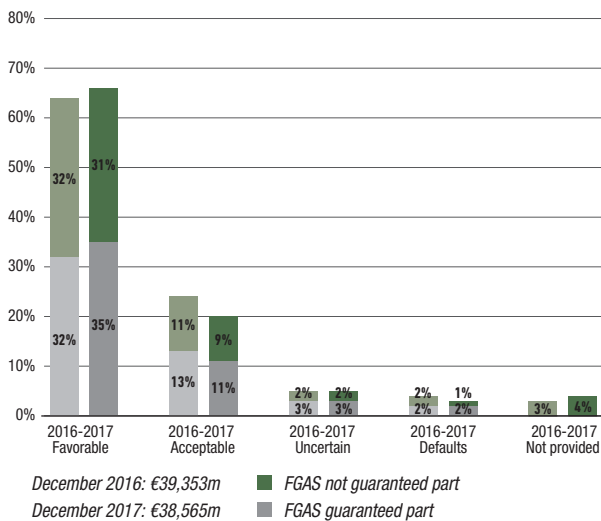
■ Geographical breakdown of exposures

Geographical breakdown of exposures	12/31/2017		12/31/2016
	Balance sheet (in €m)	%	%
France	68,869	88	88
Other countries in the European Economic Area	5,243	7	6
• of which Italy	3,454	4	4
• of which Belgium	911	n.s.	n.s.
• of which Spain	403	n.s.	n.s.
• of which Poland	342	n.s.	n.s.
• of which Portugal	87	n.s.	n.s.
• of which Netherlands	47	n.s.	n.s.
Switzerland	1,132	1	1
North America (USA & Canada)	1,909	2	3
Japan	1,304	2	2
<b>TOTAL</b>	<b>78 457</b>	<b>100</b>	<b>100</b>
Reminder of total exposures at 12/31/2016 (in €m)			84,349

■ 5.1.2. QUALITY OF THE PORTFOLIO EXPOSED TO CREDIT RISK

PORTFOLIO OF LOANS TO PRIVATE INDIVIDUALS

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



The ratings attest to the ongoing good quality of outstanding loans

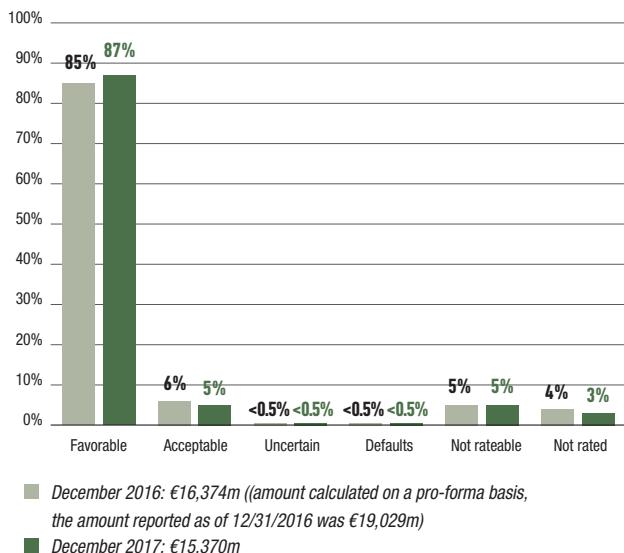
FRENCH PUBLIC SECTOR PORTFOLIO

The French Public sector portfolio stood at €21.5bn, breaking down as follows:

- French local authorities and Social housing: €18.4bn;
- public-private partnerships: €1.2bn;
- Sovereign France: €1.8bn;

**French local authorities**

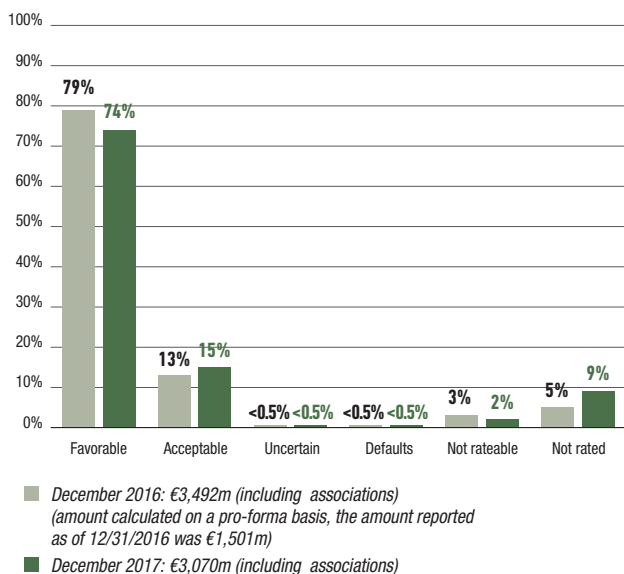
**Portfolio of French public operators – Breakdown by Basel II rating**



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

**Social housing**

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



N.B. The change in "not rated" exposures is related to the reduction of the eligibility period of the rating (from 21 to 18 months).

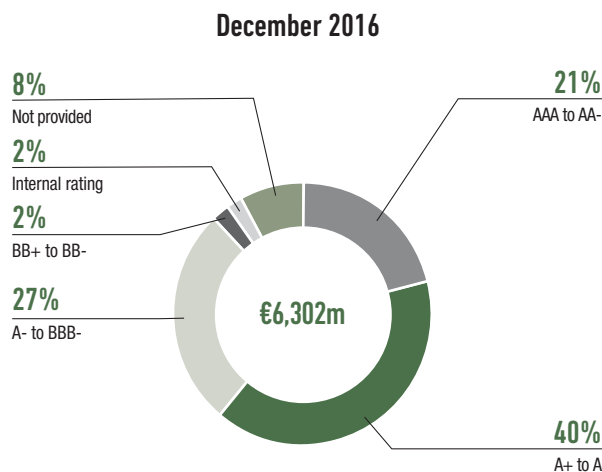
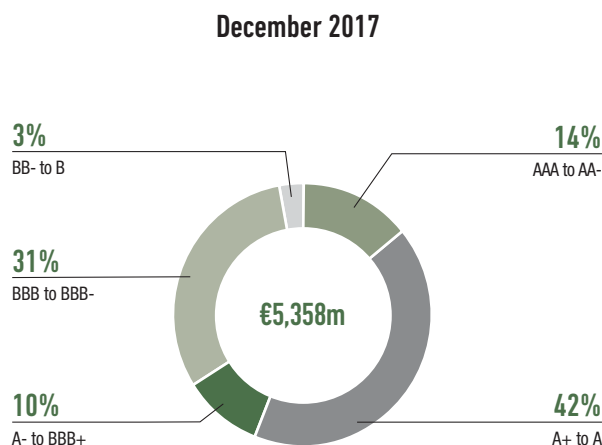
The quality of Social housing portfolio held by Compagnie de Financement Foncier stays at a very high level.

**INTERNATIONAL PUBLIC SECTOR PORTFOLIO**

**International Public Financing (excluding Sovereigns) and Large Public sector corporations**

At December 31, 2017, outstandings in the IPS portfolio (excluding Sovereigns) and large IPS public financing Corporates were €5.4bn, down by 15%. Compagnie de Financement Foncier has stopped making new acquisitions in recent years.

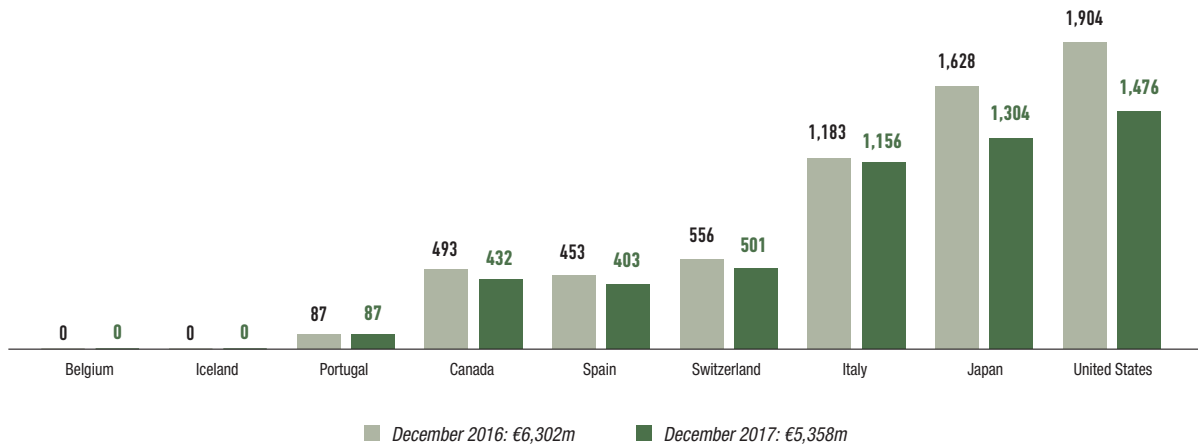
**Breakdown of exposures by internal rating on international public financing and Large Corporations**



NB: The change in the breakdown as of December 31, 2016 compared with the one published in the 2016 Registration Document is due to the change in rating procedure. The current method crosses an expert approach with an approach based on external ratings.

The quality of the rating continues to be high.

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



The drop in exposures to Japan and the United States is due to the sale of securities and currency differences.

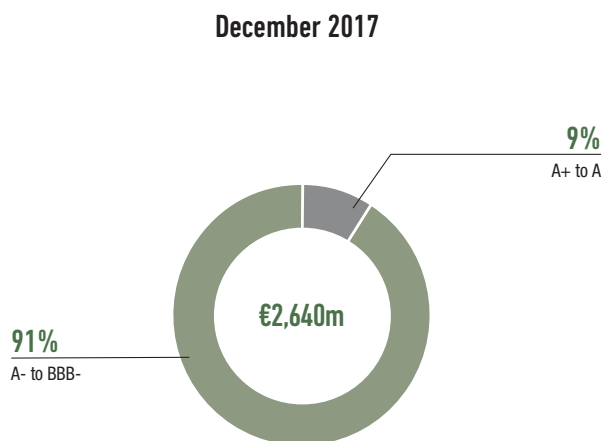
It should be noted that currency exchange fluctuations affect the outstandings of assets denominated in foreign currencies (USD, JPY, CAD, etc.), shown before swap effects.

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.

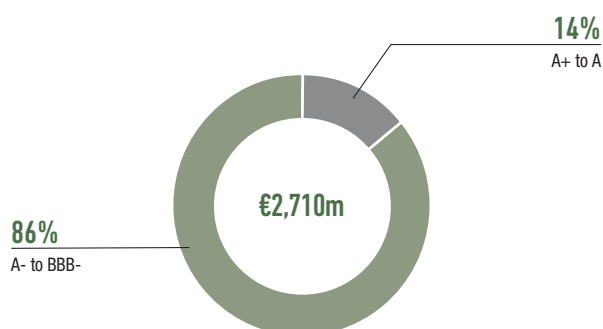
**International Sovereign**

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 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

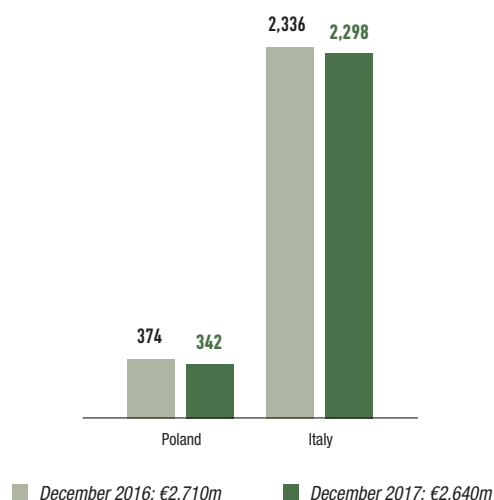


December 2016



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.

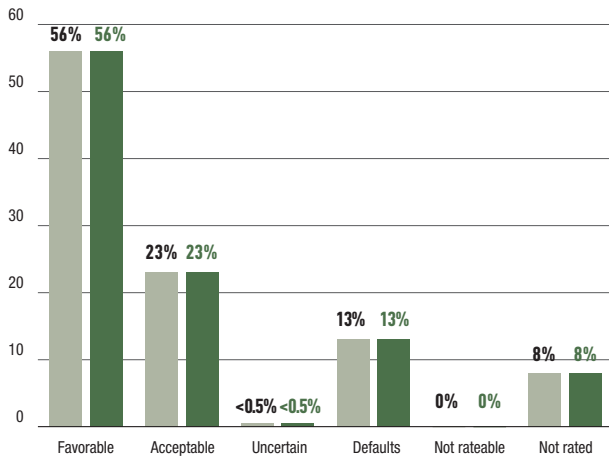
Thus, €1.4bn in outstandings in the portfolio are counter-guaranteed by the Monoline insurers. For FGIC, the deterioration of its creditworthiness means that its guarantee is less effective than at the outset (due to the fact that the transaction's intrinsic credit rating is higher than the one of the 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 €1.18bn 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 December 31, 2017, private corporate outstandings sold and assigned amounted to €509m, with 79% of the outstandings benefiting from “Favorable” or “Acceptable” ratings.



■ December 2016: €532m (amount calculated on a pro-forma basis, the amount reported as of 12/31/2016 was €466m)

■ December 2017: €509m

**BANKING SECTOR PORTFOLIO**

With €7.3bn of outstandings, the banking sector exposures declined by 1.3%.

They consist mainly of short term transactions with BPCE (€6.6bn). Compagnie de Financement Foncier had also 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 – SUMMARY

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

(in €m)	Exposures as of 12/31/2017				Exposures as of 12/31/2016			
	Total balance sheet	Doubtful loan rate sold	Doubtful loan rate assigned	Doubtful loan rate global	Total balance sheet	Doubtful loan rate sold	Doubtful loan rate assigned	Doubtful loan rate global
<b>Risk exposures</b>								
<b>A – Private Individuals' mortgage loans <sup>(1)(2)</sup></b>	<b>38,565</b>	<b>4.53%</b>	<b>0.07%</b>	<b>3.53%</b>	<b>39,353</b>	<b>4.16%</b>	<b>ns</b>	<b>3.42%</b>
<b>B – Public sector</b>	<b>29,500</b>	<b>&lt;0.5%</b>	<b>-</b>	<b>&lt;0.5%</b>	<b>34,251</b>	<b>&lt;0.5%</b>	<b>-</b>	<b>&lt;0.5%</b>
French public sector	21,502	<0.5%	-	<0.5%	24,003	<0.5%	-	<0.5%
<i>Social housing</i>	3,070	<0.5%	-	<0.5%	3,492	<0.5%	-	-
<i>French local authorities (FLA) <sup>(3)</sup></i>	15,370	<0.5%	-	<0.5%	16,374	<0.5%	-	-
<i>Sovereign France</i>	1,841	-	-	-	4,137	-	-	-
<i>Infrastructure project financing (IPF)</i>	1,221	-	-	-	1,236	-	-	-
International public sector	7,998	-	-	-	9,012	-	-	-
<i>International public sector (IPS)</i>	4,956	-	-	-	5,844	-	-	-
<i>International Sovereign</i>	2,640	-	-	-	2,710	-	-	-
<i>Public sector large corporations</i>	402	-	-	-	458	-	-	-
<b>C – Commercial mortgage exposures</b>	<b>509</b>	<b>46.87%</b>	<b>-</b>	<b>13.62%</b>	<b>532</b>	<b>42.80%</b>	<b>-</b>	<b>12.61%</b>
<b>D – Banking sector exposures</b>	<b>7,336</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,436</b>	<b>-</b>	<b>-</b>	<b>-</b>
Banks with sovereign guarantees or similar	632	-	-	-	706	-	-	-
Other banks	104	-	-	-	131	-	-	-
L. 211-38-RV <sup>(4)</sup>	6,600	-	-	-	6,600	-	-	-
<b>Total risk exposure (A + B + C + D)</b>	<b>75,909</b>	<b>2.95%</b>	<b>0.02%</b>	<b>1.89%</b>	<b>81,573</b>	<b>2.31%</b>	<b>-</b>	<b>1.74%</b>
Miscellaneous adjustments and other items <sup>(5)</sup>	2,547	-	-	-	2,775	-	-	-
<b>TOTAL</b>	<b>78,457</b>	<b>2.80%</b>	<b>0.02%</b>	<b>1.82%</b>	<b>84,349</b>	<b>2.21%</b>	<b>&lt;0.5%</b>	<b>1.68%</b>

(1) The "Private Individuals' mortgage loans" line item includes a limited amount of outstanding Dutch loans (€47m at December 31, 2017 and €57m at December 31, 2016).

(2) Of which Belgian L.211-38 amounted to €907m as of December 31, 2017 (carrying amount).

(3) Of which €78m L. 211-38 with Caisses d'Épargne and €110m with Banques Populaires as of December 31, 2017.

(4) Short-term loans to BPCE, guaranteed by collateralized assets.

(5) The line "Miscellaneous adjustments and other assets" is essentially composed of accrued interest on forward financial instruments and accruals.

The global doubtful loan rate is low at 1.8%.

Regarding mortgage-backed securities, the doubtful loan rate amounted to 3.5% at end December 2017.

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 46.9%, but it mainly concerns a single case in the subsidized sector for an amount of €66 m.

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

<i>(in €m)</i>	12/31/2017	12/31/2016
Individual cost of risk (A)	-8.4	-23.8
Collective provisions (B)	3.5	-3.2
<b>Cost of risk (A + B)</b>	<b>-4.9</b>	<b>-27.1</b>
Risk charge, net banking income (C)	-10.0	-0.1
<b>Net (A + B + C)</b>	<b>-14.9</b>	<b>-27.2</b>
<b>Cost and Charge of risk, annualized in % of total balance sheet</b>	<b>-0.006%</b>	<b>-0.032%</b>

At December 31, 2017, cost of risk for Compagnie de Financement Foncier was low at -€14.9 m. On an individual basis, the cost of risk was -€8.4m and on a collective basis, +€3.5 m.

The risk charge recorded in net banking income was -€10.0 m.

**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, 52.8% of outstanding loans to private individuals are covered by a FGAS guarantee.

In relation to individual customers, the main provider 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 for home ownership loans governed by the regulations of loan agreements and guaranteed by first-rank collateral (mortgage or lender's lien). For this reason, SGFGAS benefits from the external ratings assigned to the French state and allows a 0% weighting of loans for which SGFGAS coverage was signed prior to December 31, 2006. Due to a change in SGFGAS 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 non guaranteed by FGAS, but being at the expense of Crédit Foncier, benefits from a weighting of 0% for Compagnie de Financement Foncier.

In addition, some Individual customer loans are covered by a guarantee similar to a financial institution risk: mostly it is covered by Crédit Logement, a subsidiary of most of the largest 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 are 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 provides 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 LOANS****SPECIFIC CONTROLLER'S CERTIFICATION ON THE VALUATION AND PERIODIC REVIEW METHODS OF THE REAL ESTATE ASSETS AT DECEMBER 31, 2017**

To the Board of Directors of Compagnie de Financement Foncier,

In our capacity as the Specific Controller of Compagnie de Financement Foncier, and pursuant to Article 5 of Regulation No. 99-10 of the French Banking and Financial Services Regulatory Committee, we proceeded to the assessment of the validity, in accordance with regulations in force, of the methods used to value the real estate assets underlying the loans and their results, and of the methods for periodically reviewing their value, as published together with the financial statements for the year ended December 31, 2017 and appended hereto.

The valuation methods and their results for real estate assets and the methods for periodically reviewing their value have been defined and implemented under the responsibility of your company's management.

Our responsibility is to assess the validity of this procedure in terms of its compliance with regulations in force as of December 31, 2017.

We implemented the diligences that we considered necessary in view of the professional standards of Compagnie nationale des Commissaires aux comptes applicable to this assignment. Our work consisted in checking the compliance of:

- the procedures, the valuation and periodic review methods and their results, in their design and application, with regulations in force as of December 31, 2017;
- the information published together with the annual financial statements with, on one hand, the system for the valuation and periodic review implemented, and on the other hand, with the results arising from the implementation of the valuation system.

Based on our work, we have the following comments and observations:

- the valuation methods for the real estate assets and their results or the methods for periodically reviewing their value as published together with the financial statements for the year ended December 31, 2017, generally respect Articles 2 to 4 of Regulation No. 99-10 of the French Banking and Financial Services Regulatory Committee ;
- however, it should be specified that, on the basis of our tests and internal controls made by Crédit Foncier on behalf of Compagnie de Financement Foncier, the 2017 operational implementation of periodic review of pledges value could be improved regarding the complete application of statistical methods used. However, this observation has no impact on safe nature of pledges value realised in 2017.

Paris March 19, 2018

The Specific Controller

**CAILLIAU DEDOUIT et Associés**

Laurent BRUN  
19, rue Clément Marot  
75008 Paris

**C – SUMMARY**

The above-mentioned rules, applied since February 24, 2011, are summarized in the following table:

Property types	Cost of transaction is less than €600,000 or acquired loan less than €480,000	Cost of transaction is €600,000 or more, and acquired loan €480,000 or more
	Residential Property for private individuals	Transaction cost
Residential Property for Professionals	Appraisal	Appraisal
Commercial property *	Appraisal	Appraisal

\* Property for professional use means all properties other than residential and multiple-use properties where the value allocated to the residential part is less than 75% of the total value of the entire property.

An appraisal is made of all collateral underlying authorized loans (i.e. signed by the parties) during the year, regardless of whether or not they are implemented.

**PROCEDURE FOR THE VALUATION AND PERIODIC REVIEW OF THE VALUE OF THE ASSETS UNDERLYING THE LOANS FOR 2017**

**I. Valuation method applied to assets underlying loans**

**A – GENERAL ASSET VALUATION PRINCIPLES**

The procedure described below has been determined pursuant to Articles 1 and 2 of CRBF Regulation No. 99-10, as amended by regulations No. 2001-02 and No. 2002-02 and by the decrees of May 7, 2007 and February 23, 2011 transposing European directive 2006/48/EC of May 26, 2014 and November 3, 2014 into French law.

Real estate financed by eligible loans or posted as collateral for these loans is subject to cautious appraisal.

The valuation is performed taking into account the long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property.

**B – DEROGATION RULE USED BY COMPAGNIE DE FINANCEMENT FONCIER**

For loans originated between January 1, 2003 and December 31, 2006, in accordance with the provisions of CRBF Regulation No. 99-10 and a decision by the Chairman of Crédit Foncier's Executive Board dated July 28, 2003, a cost of transaction without discount is understood to be an estimated value of an asset for all transactions with Individuals involving residential property where a transaction cost is less than €350,000.

Following the changes to CRBF Regulation No. 99-10, this principle was extended to include:

- for the period between May 07, 2007 and February 23, 2011, all residential property transactions with individuals where a transaction cost is less than €450,000 or where an outstanding principal amount on the acquired loan or a total amount authorized is less than €360,000;
- beginning on February 24, 2011, all residential property transactions with individuals where a transaction cost is less than €600,000 or where an outstanding principal amount on the acquired loan or a total amount authorized is less than €480,000.

Above these thresholds, an appraisal value is considered to be the value of the property.

Other collateral (securing loans authorized before November 30, 2016 and already valued or re-valued) is subject to a periodic review of its value as presented hereafter (see sections II, III and IV).

## II. Methods used for periodic review of residential assets for individuals and professionals (Appendix 1)

The methods described below apply to all loans transferred to Compagnie de Financement Foncier.

Following the migration in November 2015 to the shared Groupe BPCE IT system, the revaluation methods were changed for residential loans to professionals and non-residential assets. This change, however, only affects a small proportion of the loan book held by Compagnie de Financement Foncier.

Two methods are used: a statistical method, sub-divided into two variants depending on the customer segment and property type, and an expert appraisal method.

### A – STATISTICAL METHODS

Two variant statistical methods are used for periodic reviews of the pledged value of residential properties depending on the valuation engine used:

- **A.1 Crédit Foncier statistical method**, unchanged from previous years and implemented in the valuation engine in the Crédit Foncier's IT system. These valuations are based on value change indices derived from prices provided by Crédit Foncier Immobilier appraisers:
  - for individual residential properties,
  - annually;
- **A.2 BPCE statistical method**, using an engine installed on the group's IT system. This permits valuation, using indices based on property prices:
  - for professional residential properties,
  - semi-annually.

In the special case of collateral located in the Netherlands and Belgium (Appendix 4), country-specific indices are used (Stadim for Belgium and the PBK indices, produced by the Dutch real estate registry, for the Netherlands).

#### A.1 CRÉDIT FONCIER PERIODIC STATISTICAL REVIEW METHOD (APPENDIX 2)

##### Principles

The model is based on the preparation of indices. The indices obtained are the changes observed from one year to the next in market values, clarifying that, in accordance with the relevant legislation, an appraisal is carried out, in compliance with the law, on the basis of a prudent assessment (which is then revalued by applying the indices).

The indices reflect four distinct geographical categories:

- i) the 114 sites established by postal code by the INSEE (French National Institute for Statistics and Economic Studies). They are defined as being urban areas with more than 50,000 inhabitants. The list of these urban areas and their composition changes as the urban fabric and real estate markets evolve;
- ii) outside these areas, the "non-urban" real estate market is divided into administrative regions that date from before the January 1, 2016 reforms (20 regions, not including Corsica and Île-de-France);

- iii) Île-de-France, excluding the city of Paris, is valued separately using specific indices for each of its seven departments;
- iv) Paris is also valued separately using a specific index.

Indices for each of these four categories (urban, non-urban, Île-de-France and Paris), are grouped according to postal codes, and broken down as follows:

- Urban areas: 114 Apartment indices/114 House indices;
- Non-urban area: 20 House indices;
- Île-de-France (excluding Paris): 7 Apartment indices/7 House indices;
- Paris: 1 Apartment index.

When the apartment/home distinction is not available for a particular item of collateral, the lower of the two indices for the corresponding postal code is used.

When the collateral is in Corsica or in the Dom-Toms (French overseas departments and territories) or its location is not known in the postal code table, the annual trend indices used for the corresponding type of housing are:

- for apartments: the average of the apartment indices for urban areas;
- for houses: the lower of the two averages for houses in urban areas and for regions.

##### Revaluation cycle management

Real estate value indices are updated annually. New indices are established each November based on the period ending on September 30.

The revaluation cycle is thus managed on a one year rolling period from September 30 of year "n-1" to September 30 of year "n".

##### Sources

These indices are based on an *ad hoc* survey and on expert appraiser estimates carried out each year by the Crédit Foncier Immobilier's Research department with the network of regional real estate appraisers, quarterly gross statistical real estate information available in its database and regional indicators from [www.marche-immobilier.com](http://www.marche-immobilier.com).

#### A.2 BPCE PERIODIC STATISTICAL REVIEW METHOD (APPENDIX 3)

##### Principles

The statistical review method used by BPCE applies to residential real estate assets granted to professionals and depends on the property's location.

It is based on average property prices in each department, taken from data bases maintained by notaries:

- for property in Ile-de-France (outside the city itself, where average prices are indexed by *arrondissement*) from a commercial data base provided by the company Paris Notaires Services for Île-de-France;

- for property in other metropolitan departments, from the PERVAL data base covering the rest of France.

For property in the Dom-Toms, the index used is the national re-evaluation index from the PERVAL data base.

**B – APPRAISER ESTIMATE REVALUATION METHOD**

This category, in application of Basel II provisions (Article 208 of European regulation n°575/2013 of European Parliament and Council dated June 26 2013), concerns residential real estate posted as collateral for a debt of over €3m.

Each property in this category is individually revalued every 3 years by means of appraisal. The appraiser determines a prudential mortgage value based on a thorough analysis of the type of asset and its specific aspects and on a prudent, forward-looking view of the market.

In each of the two years between each 3-year appraisal, the property is revalued using a statistical method:

- method A.1 for Individual customers;
- method A.2 for Professional customers ("Corporates").

**III. Method for periodic review of real estate for professional use (non-residential)**

In accordance with CRBF Regulation 99-10, the following revaluation method is used for properties for professional use:

**B – APPRAISER ESTIMATE REVALUATION METHOD**

This category concerns property for professional use (non-residential) where the loan has been transferred to the Compagnie de Financement Foncier.

Each property in this category is individually revalued every year by means of appraisal. The appraiser determines a cautious mortgage value based on a thorough analysis of the type of asset and its specific aspects and on a prudent, forward-looking view of the market.

**IV. Summary table of methods**

Type of asset	Individuals		Corporates	
	Loan less than €3m	Loan more than €3m	Loan less than €3m	Loan more than €3m
Residential	Method A.1 annually	Individual appraisal (method B) every 3 years and method A.1 in the other years	Method A.2 annually	Individual appraisal (method B) every 3 years and method A.2 in the other years
Non residential	Individual appraisal (method B) annually		Individual appraisal (method B) annually	

## APPENDIX 1 – BREAKDOWN OF LOANS AND COLLATERAL BY PERIODIC REVIEW METHOD (NOT INCLUDING COLLATERAL LOCATED IN CORSICA AND DOM-TOMS)

	Individual residential			Corporates and Individual non-residential		
	Crédit Foncier statistical method (A.1) or foreign indices			BPCE statistical method (A.2)		
	France	Belgium	Netherlands	Global	Individuals	Corporates
Outstandings (€m)	29,227	981	47	22	8	14
No. of guarantees	317,227	8,927	401	80	58	22
2017 value	51,901	2,097	92.5	80/35.2*	18/4.6*	62/30.6*
(2016 value)	(50,005)	(2,071)	(85.1)	(65/34.9)*	(18/4.5)*	(47/30.4)*
Change	1,76%	1,2%	8,7%	1,65%	1,84%*	0,57%*

Source: Reporting as of October 31 2016.

- \* For Corporates, after offsetting of 2 guarantees, the amounts of which after revaluation were up €12.4m and €2 m, respectively, the revaluation rate was 0.57% over the period from 05/31 to 11/30.
- \* For Individuals, after limiting the scope to 12 revalued guarantees primarily located in the Paris Region, PACA and Aquitaine, the revaluation rate stood at 1.84% over the period from 05/31 to 11/30.

Corporate loans revalued by appraiser estimate include 78 collateral items posted against 60 loans totaling €292m. No Individual collateral was revalued by appraiser estimate in 2017 under the revaluation procedure. But appraisals were sought when necessary for management and debt collection purposes (notably for legal disputes).

## APPENDIX 2 – STATICAL CHANGES CRÉDIT FONCIER (A.1)

### INDICES EVOLUTION 2016/2017

#### Agglomerations with more than 200,000 inhabitants

Region	Dept No.	Department	Town/City	Appartment index 2016-2017	House index 2016-2017
ALSACE	67	BAS-RHIN	Strasbourg	1.030	1.037
ALSACE	68	HAUT-RHIN	Mulhouse	1.009	1.027
AQUITAINE	64	PYRÉNÉES-ATLANTIQUES	Bayonne	1.052	1.011
AQUITAINE	33	GIRONDE	Bordeaux	1.092	1.076
AUVERGNE	63	PUY-DE-DÔME	Clermont-Ferrand	1.012	1.000
BOURGOGNE	21	CÔTE-D'OR	Dijon	1.037	1.025
BRETAGNE	29	FINISTÈRE	Brest	1.038	1.028
BRETAGNE	35	ILLE-ET-VILAINE	Rennes	1.059	1.007
CENTRE	45	LOIRET	Orléans	1.002	1.000
CENTRE	37	INDRE-ET-LOIRE	Tours	1.007	1.008
CHAMPAGNE	51	MARNE	Reims	1.056	1.062
HAUTE NORMANDIE	76	SEINE-MARITIME	Le Havre	1.022	1.004
HAUTE NORMANDIE	76	SEINE-MARITIME	Rouen	1.021	1.025
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Montpellier	1.041	1.003
LORRAINE	54	MEURTHE-ET-MOSELLE	Nancy	1.023	1.005
LORRAINE	57	MOSELLE	Metz	1.010	1.016
MIDI-PYRÉNÉES	31	HAUTE-GARONNE	Toulouse	1.031	1.067
NORD	59	NORD	Valenciennes	1.013	1.000
NORD	59	NORD	Lille	1.009	1.002
NORD	62	PAS-DE-CALAIS	Douai-Lens	0.994	1.000
NORD	62	PAS-DE-CALAIS	Béthune	1.006	1.007
PACA	13	BOUCHES-DU-RHÔNE	Marseille-Aix-en-Provence	1.028	1.006
PACA	6	ALPES-MARITIMES	Nice	1.040	1.000
PACA	84	VAUCLUSE	Avignon	1.000	0.990
PACA	83	VAR	Toulon	0.993	1.016
RHÔNE-ALPES	44	LOIRE-ATLANTIQUE	Nantes	1.041	1.049
RHÔNE-ALPES	49	MAINE-ET-LOIRE	Angers	1.024	1.016
RHÔNE-ALPES	72	SARTHE	Le Mans	1.003	1.000
RHÔNE-ALPES	69	RHÔNE	Lyon	1.026	1.029
RHÔNE-ALPES	38	ISÈRE	Grenoble	0.995	1.008
RHÔNE-ALPES	42	LOIRE	Saint-Étienne	0.981	1.000
<b>AVERAGE</b>				<b>1.022</b>	<b>1.017</b>

#### Cities of 100,000-199,999 inhabitants

Region	Dept No.	Department	Town/City	Appartment index 2016-2017	House index 2016-2017
AQUITAINE	64	PYRÉNÉES-ATLANTIQUES	Pau	1.032	1.025
BASSE NORMANDIE	14	CALVADOS	Caen	1.020	1.027
BRETAGNE	56	MORBIHAN	Lorient	1.000	1.000
CHAMPAGNE	10	AUBE	Troyes	1.024	1.037
FRANCHE-COMTÉ	25	DOUBS	Besançon	1.002	0.997
FRANCHE-COMTÉ	25	DOUBS	Montbéliard	0.997	0.990



Region	Dept No.	Department	Town/City	Appartment index	House index
				2016-2017	2016-2017
LANGUEDOC-ROUSSILLON	66	PYRENNÉES-ORIENTALES	Perpignan	1.024	1.022
LANGUEDOC-ROUSSILLON	30	GARD	Nîmes	1.011	1.023
LIMOUSIN	87	HAUTE-VIENNE	Limoges	0.894	1.039
LORRAINE	57	MOSELLE	Thionville	1.023	1.036
NORD	59	NORD	Dunkerque	1.017	1.012
NORD	59	NORD	Maubeuge	0.989	1.009
PICARDIE	60	OISE	Creil	0.985	1.011
PAYS DE LOIRE	44	LOIRE-ATLANTIQUE	Saint-Nazaire	1.037	1.041
PICARDIE	80	SOMME	Amiens	1.009	1.003
POITOU-CHARENTES	17	CHARENTE-MARITIME	La Rochelle	1.054	1.009
POITOU-CHARENTES	86	VIENNE	Poitiers	1.000	1.000
POITOU-CHARENTES	16	CHARENTE	Angoulême	1.000	0.942
RHÔNE-ALPES	26	DRÔME	Valence	1.026	1.013
RHÔNE-ALPES	74	HAUTE-SAVOIE	Annecy	1.026	1.048
RHÔNE-ALPES	74	HAUTE-SAVOIE	Genève-Annemasse	1.044	1.022
RHÔNE-ALPES	73	SAVOIE	Chambéry	1.043	1.031
<b>AVERAGE</b>				<b>1.012</b>	<b>1.015</b>

■ Cities of 50,000-99,999 inhabitants

Région	Dept No.	Departement	Town/City	Appartment index 2016-2017	House index 2016-2017
ALSACE	67	BAS-RHIN	Haguenau	1.010	1.034
ALSACE	68	HAUT-RHIN	Colmar	1.018	1.036
AQUITAINE	33	GIRONDE	Arcachon	1.016	1.040
AQUITAINE	24	DORDOGNE	Périgueux	0.968	1.092
AQUITAINE	24	DORDOGNE	Bergerac	1.000	0.993
AQUITAINE	47	LOT-ET-GARONNE	Agen	1.043	1.042
AUVERGNE	3	ALLIER	Vichy	1.000	0.951
AUVERGNE	3	ALLIER	Montluçon	0.966	0.968
BASSE NORMANDIE	50	MANCHE	Cherbourg	0.984	1.000
BOURGOGNE	71	SAÔNE-ET-LOIRE	Chalon-sur-Saône	1.047	1.009
BOURGOGNE	58	NIÈVRE	Nevers	0.975	1.013
BRETAGNE	22	CÔTES-D'ARMOR	Saint-Brieuc	1.019	1.017
BRETAGNE	29	FINISTÈRE	Quimper	1.000	1.000
BRETAGNE	56	MORBIHAN	Vannes	1.047	1.048
CENTRE	18	CHER	Bourges	1.026	0.997
CENTRE	41	LOIR-ET-CHER	Blois	1.000	1.000
CENTRE	45	LOIRET	Montargis	1.000	1.000
CENTRE	36	INDRE	Châteauroux	1.000	1.000
CENTRE	28	EURE-ET-LOIR	Chartres	1.023	1.030
CHAMPAGNE	51	MARNE	Châlons-en-Champagne	1.003	1.011
CHAMPAGNE	8	ARDENNES	Charleville-Mézières	0.992	0.996
FRANCHE-COMTÉ	90	TERRITOIRE DE BELFORT	Belfort	0.993	0.990
HAUTE NORMANDIE	27	EURE	Évreux	0.993	1.008
LANGUEDOC-ROUSSILLON	11	AUDE	Carcassonne	1.015	1.011
LANGUEDOC-ROUSSILLON	11	AUDE	Narbonne	1.000	1.000
LANGUEDOC-ROUSSILLON	30	GARD	Alès	1.012	1.008
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Béziers	1.011	1.007
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Sète	1.000	0.985
LIMOUSIN	19	CORRÈZE	Brive-la-Gaillarde	1.000	1.000

## RISK CONTROL AND MONITORING REPORT

### 5. Analysis of credit and counterparty risk

Région	Dept No.	Departement	Town/City	Appartement index2016-2017	House index 2016-2017
LORRAINE	88	VOSGES	Épinal	0.990	1.021
LORRAINE	57	MOSELLE	Forbach	1.020	1.026
MIDI-PYRENNÉES	81	TARN	Albi	1.023	1.025
MIDI-PYRENNÉES	81	TARN	Castres	1.016	1.014
MIDI-PYRENNÉES	65	HAUTES-PYRÉNÉES	Tarbes	0.990	1.017
MIDI-PYRENNÉES	82	TARN-ET-GARONNE	Montauban	1.040	1.032
NORD	62	PAS-DE-CALAIS	Arras	1.012	1.016
NORD	62	PAS-DE-CALAIS	Calais	1.011	1.000
NORD	59	NORD	Armentières	1.000	1.000
NORD	62	PAS-DE-CALAIS	Saint-Omer	1.011	1.003
NORD	62	PAS-DE-CALAIS	Boulogne-sur-Mer	1.010	1.006
PACA	83	VAR	Draguignan	0.989	1.000
PACA	83	VAR	Fréjus	1.004	1.049
PACA	6	ALPES-MARITIMES	Menton-Monaco	1.005	1.000
PACA	13	BOUCHES-DU-RHÔNE	Salon-de-Provence	1.013	1.038
PACA	13	BOUCHES-DU-RHÔNE	Arles	0.992	1.023
PAYS DE LOIRE	49	MAINE ET LOIRE	Cholet	1.022	1.000
PAYS DE LOIRE	53	MAYENNE	Laval	1.018	1.028
PAYS DE LOIRE	85	VENDÉE	La Roche-sur-Yon	1.024	1.030
PICARDIE	2	AISNE	Saint-Quentin	0.969	0.989
PICARDIE	60	OISE	Beauvais	0.987	1.014
PICARDIE	60	OISE	Compiègne	1.021	1.026
POITOU-CHARENTES	79	DEUX-SÈVRES	Niort	1.000	1.000
RHÔNE-ALPES	42	LOIRE	Roanne	1.006	1.025
RHÔNE-ALPES	42	LOIRE	Saint-Just-Saint-Rambert	0.976	1.000
RHÔNE-ALPES	1	AIN	Bourg-en-Bresse	0.995	0.985
RHÔNE-ALPES	26	DRÔME	Montélimar	0.988	1.005
RHÔNE-ALPES	26	DRÔME	Romans-sur-Isère	1.023	1.037
RHÔNE-ALPES	38	ISÈRE	Bourgoin-Jallieu	1.028	1.025
RHÔNE-ALPES	69	RHÔNE	Vienne	1.021	1.043
RHÔNE-ALPES	74	HAUTE-SAVOIE	Thonon-les-Bains	1.016	1.000
RHÔNE-ALPES	74	HAUTE-SAVOIE	Cluses	1.014	0.983
<b>AVERAGE</b>				<b>1.007</b>	<b>1.012</b>

■ Non-urban areas

Region	House index 2016-2017
ALSACE	1.014
AQUITAINE	0.986
AUVERGNE	0.989
BASSE NORMANDIE	1.042
BOURGOGNE	1.015
BRETAGNE	1.020
CENTRE	1.000
CHAMPAGNE	1.023
FRANCHE-COMTÉ	0.984
HAUTE NORMANDIE	1.038
LANGUEDOC-ROUSSILLON	1.000
LIMOUSIN	0.947
LORRAINE	1.032
MIDI-PYRÉNÉES	1.000
NORD	0.981
PACA	1.015
PAYS DE LOIRE	0.991
PICARDIE	0.992
POITOU-CHARENTES	0.958
RHÔNE-ALPES	1.020
<b>AVERAGE</b>	<b>1.002</b>

■ Paris and Île-de-France

Region	Dept No.	Departement	Appartment index 2016-2017	House index 2016-2017
Île-de-France	91	Essonne	1.009	1.028
	92	Hauts-de-Seine	1.032	1.024
	75	Paris	1.064	
	77	Seine-et-Marne	1.017	1.026
	93	Seine-Saint-Denis	1.023	1.028
	94	Val-de-Marne	1.026	1.026
	95	Val d'Oise	1.012	1.022
	78	Yvelines	1.015	1.027
<b>AVERAGE</b>				
<b>(EXCLUDING PARIS)</b>			<b>1.019</b>	<b>1.026</b>

■ Breakdown of the collateral portfolio revalued using the specific method of Crédit Foncier (by region and for Paris) for loans held by Compagnie de Financement Foncier as of Novembre 30, 2017

	Regional breakdown of collateral value <i>(in €m)</i>	Regional breakdown <i>(in %)</i>
ALSACE	642.87	1.24%
AQUITAINE	3,401.18	6.55%
AUVERGNE	401.14	0.77%
BASSE NORMANDIE	791.31	1.53%
BOURGOGNE	901.76	1.74%
BRETAGNE	1,745.86	3.37%
CENTRE	1,432.43	2.76%
CHAMPAGNE-ARDENNE	517.52	1.00%
CORSE	110.35	0.21%
DOM-TOM	395.89	0.76%
FRANCHE-COMTÉ	483.97	0.93%
HAUTE NORMANDIE	1,860.82	3.59%
IDF (EXCLUDING PARIS)	13,999.62	26.97%
LANGUEDOC-ROUSSILLON	2,838.60	5.47%
LIMOUSIN	296.01	0.57%
LORRAINE	1,049.99	2.02%
MIDI-PYRÉNÉES	2,886.54	5.56%
NORD-PAS-DE-CALAIS	2,208.45	4.26%
PACA	5,077.76	9.78%
PARIS	1,190.84	2.29%
PAYS DE LOIRE	2,344.42	4.52%
PICARDIE	1,825.55	3.52%
POITOU-CHARENTES	847.02	1.63%
RHÔNE-ALPES	4,553.29	8.77%
OTHERS (MONACO...)	98.12	0.19%
<b>TOTAL</b>	<b>51,901.31</b>	<b>100.00%</b>

## APPENDIX 3 – BREAKDOWN OF THE COLLATERAL PORTFOLIO REVALUED USING THE BPCE METHOD FOR LOANS HELD BY COMPAGNIE DE FINANCEMENT FONCIER AS OF NOVEMBER 30, 2017

### ■ Corporates (Periodic review method A.2)

Dept No.	Number of guarantees	Valuation (€) before revaluation	Valuation (€) after revaluation	Outstandings (in €) as of 10/31/2017
13	1	153,667.00	154,896.0	129,900.00
31	1	3,084,020.0	3,134,577.0	210,680.77
33	1	384,123.54	399,036.0	203,146.63
34	1	343,881.0	351,564.0	400,002.00
49	1	2,008,864.0	2,026,244.0	529,451.14
61	1	858,370.0	858,370.0	53,293.50
63	1	3,393,942.0	3,795,369.0	973,067.64
67	1	3,715,249.0	2,696,366.0	685,328.99
68	1	1,277,017.0	1,279,512.0	340,201.06
69	6	10,963,770.0	11,113,347.0	1,324,601.52
75	2	465,914.0	728,045.0	84,501.34
84	1	305,200.0	307,937.0	306,396.21
86	1	187,460.0	186,692.0	50,861.77
91*	2	6,397,738.0	8,776,446.0	853,370.40
94*	1	13,808,630.0	26,240,839.0	8,131,422.73
<b>TOTAL</b>	<b>22</b>	<b>47,347,845.54</b>	<b>62,049,240.00</b>	<b>14,276,225.70</b>

\* These 2 lines represent 2 guarantees, the value of which after revaluation increased by €12.4m and €2 m, respectively, over the period from 05/31 to 11/30: this abnormal change was caused by an anomaly that led to the unintentional updating of the post code of the asset used as collateral.

### ■ Individuals (Periodic review method A.2)

Dept no.	Number of guarantees	Valuation (€) before revaluation	Valuation (€) after revaluation	Outstandings (in €) as of 10/31/2017	Change
6	1	157,354.0	159,304.0	119,522.0	1.24%
13	3	1,119,941.0	1,128,900.0	908,771.7	0.80%
33	2	914,495.0	949,997.0	714,419.1	3.88%
77	1	556,892.0	556,892.0	219,157.8	0.00%
80	1	127,242.24	130,194.0	104,065.7	2.32%
91	1	362,748.0	362,748.0	347,046.4	0.00%
92	3	1,244,403.0	1,277,522.0	746,694.3	2.66%
<b>TOTAL</b>	<b>12</b>	<b>4,483,075.24</b>	<b>4,565,557.0</b>	<b>3,159,676.9</b>	<b>1.84%</b>

## APPENDIX 4

## ■ Revaluation of Belgian guarantees

Crédit Foncier proceeded to a revaluation of the guarantees of its Belgian branch for 2017, through its servicer, Stater. This revaluation carried out as of June 30, 2017 covers a 12-month period as the last revaluation dates from June 30, 2016.

8,927 guarantees were revalued representing an overall valuation amount of €2,096m, i.e. an average increase in value of 1.2% (after excluding guarantees that increased or decreased by more than 20%) associated with 8,437 loans with an outstanding amount of €981m.

Region	Number of guarantees	Valuation of collateral as of 06/30/2017 (in €)	Change 2016_2017	Outstandings (in €) as of 11/30/2017	Breakdown of outstandings
Antwerpen	1 221	309,304,449.18	0.87%	130,616,888.70	13.32%
Brabant-Wallon	332	96,746,447.18	3.30%	41,465,139.82	4.23%
Hainaut	1 664	268,943,063.90	-1.38%	163,837,223.93	16.70%
Liège	921	183,881,829.88	2.20%	97,547,919.04	9.95%
Limburg	542	128,563,580.47	2.90%	64,629,482.20	6.59%
Luxembourg	163	32,491,535.94	-1.74%	18,114,969.11	1.85%
Namur	445	93,605,283.59	1.16%	51,047,047.74	5.20%
Oost-Vlaanderen	1 302	361,232,369.56	1.53%	147,480,169.56	15.04%
Région Bruxelles-Capitale	702	180,652,685.96	1.09%	80,479,427.80	8.20%
Vlaams-Brabant	898	272,297,682.91	1.87%	105,987,672.21	10.81%
West-Vlaanderen	737	168,785,942.56	1.38%	79,665,320.08	8.12%
<b>TOTAL</b>	<b>8 927</b>	<b>2,096,504,871.13</b>	<b>1.20%</b>	<b>980,871,260.19</b>	<b>100.00%</b>

## ■ Revaluation of Dutch guarantees

Revaluation was made of a total of 418 guarantees associated with 594 loans representing a total outstanding value of €47m.

Revaluation was conducted based on the PBK Index developed by the Netherlands land registry. In 2017, the index average rose by +8.7%.

## 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 for assessing liquidity, interest rate and exchange rate risks

Liquidity and interest rate risks are measured using different, complementary approaches depending on the scope of the analysis. There are two distinct approaches:

- a static approach, which covers on- and off-balance sheet transactions existing at a given date and up until their final maturity. Static processing factors in the stock of transactions and all flows from contracted commitments;
- a dynamic approach for liquidity risk (preparing the financing plan, evaluation of cash requirements) that includes business level forecasts over the current and following periods. Dynamic analyzes consider likely events resulting from commitments that have been made or are under option and uncertain events resulting from future activity.

Within the framework of these two approaches, assumptions or agreements are made about flows of assets and liabilities:

- balance sheet items with contractual maturities: the assumption applied is the contractual amortisation of the item;

- balance sheet item without contractual maturity like capital or provisions : specific BPCE amortisation assumptions are applied.

Moreover, specific assumptions to certain products are modeled in order to adapt the cash flows. It depends on the probability of early repayments by the customers or of loans disbursement or deferred payments.

Early repayment and renegotiation assumptions are applied to each type of loan according to customer category (private individuals or local authorities) and the type of rate (fixed rate, adjustable rate or variable rate).

As regards information systems, the ALM uses a specific software package that is interfaced with the management systems.

Liquidity and interest rate risks are included in the Risk Appetite profile.

### 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 come from medium- and long-term issuances of *obligations foncières*.

In 2017, Compagnie de Financement Foncier issued €6.1bn 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 December 31, 2017, these outstandings amounted to €9.9bn in nominal value, divided into:

- €8bn in Public sector loans;
- €1.9bn in securities.

In 2017 Compagnie de Financement Foncier did not make any use of 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 stated above, cash requirements are analyzed using a combination of static and dynamic approaches. 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 was continued in 2017. 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 a sufficient short-term liquidity to cover its privileged debt repayment commitments for a period of one year.

At December 31, 2017, Compagnie de Financement Foncier had €0.67bn of available cash deposited with the Banque de France.

It also had €6.75bn in replacement values, 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 groupe Crédit Foncier and described in its Contingency Plan.

### 6.2.3. INDICES AND COMPLIANCE WITH LIMITS

Seeing that Compagnie de Financement Foncier has an account with the ECB, its intraday liquidity was made subject to a monitoring and oversight mechanism.

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

#### LCR (LIQUIDITY COVERAGE RATIO)

Compagnie de Financement Foncier's LCR ratio was kept above 140% in 2017, in excess of the regulatory minimum of 80% applicable since January 1, 2017. It should be noted that the regulatory minimum will be of 100% starting from January 1, 2018.

#### 180-DAY LIQUIDITY FORECAST

Compagnie de Financement Foncier also ensures that at any given time its cash requirements are covered for a period of 180 days in accordance with the order of May 26, 2014.

According to this order, 180-day liquidity forecast is submitted for very close scrutiny to the Specific Controller and then quarterly instructed to the ACPR.

### ASSET/LIABILITY MATCHING INDICATOR AND MATURITY GAP

The order of May 26, 2014 introduced the calculation of an asset-liability matching indicator.

It 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 2017, without restricting eligible assets within the requirements of the regulatory overcollateralization ratio, this limit is 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 2017, this commitment was also respected.

In addition, complementary liquidity limits are supervised regarding Compagnie de Financement Foncier:

#### LIMIT ASSOCIATED WITH THE ASSET/LIABILITY RATIO

In line with BPCE standards, the limit associated with the asset/liability ratio is monitored by Compagnie de Financement Foncier:

- 0 to 3 years: 85%;
- 3 to 6 years: 70%;
- 6 to 10 years: 55%.

In addition, for the sake of forward management of liquidity, a benchmark level approved by the Risk Executive Committee was set for the static liquidity ratio as follows:

- 0 to 3 years: 90%;
- 3 to 6 years: 75%;
- 6 to 10 years: 60%.

In 2017, Compagnie de Financement Foncier was in compliance with this limit and the reference level.

#### COVERAGE PLAN FOR PRIVILEGED LIABILITIES

This indicator was introduced by order of May 26, 2014. 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. According to the order of May 26, 2014, the plan is submitted to the Specific Controller for certification, then to the ACPR every quarter.

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 resources;
- securities and values safe and liquid 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 groupe 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

Compagnie de Financement Foncier is protected against foreign exchange and interest rate risk: all fixed rate and/or non-euro denominated asset acquisitions or debt issuances are systematically hedged with variable rates and/or swapped into euros at origination.

Derivatives transactions are generally intermediated by Crédit Foncier and results in an intragroup swap between Crédit Foncier and Compagnie de Financement Foncier.

This strategy usually does not apply to cross-currency swaps hedging issuances in foreign currencies or to structured swaps hedging private placements or some loans to local authorities that are concluded with other banking counterparts.

Given the various hedging mechanisms implemented by Compagnie de Financement Foncier at the time of transactions being entered into, an exposure to interest rate risk is limited to the possible distortion of the hedging transaction arising from events not known at the time of transaction conclusion and which occurred during the term of the contract (mainly early redemptions).

Interest rate position is reviewed each quarter by the Compagnie de Financement Foncier ALM Committee and macro-hedging transactions are entered into to keep interest rate gaps within 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.

The approved transactions are set out operationally by the Financial Management Committee and then implemented by the Cash Management Division of Crédit Foncier, which is the only point of entry to the market available to Compagnie de Financement Foncier for this kind of transaction.

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 the debit position and depending on their rating. These requests for funds are made on a daily basis if the rating of the counterparty falls below F1+ or AA- at Fitch Ratings, P1 or Aa3 at Moody's, A1+ or AA- at Standard & Poor's. If the opposite situation occurs, these agreements stipulate that Compagnie de Financement Foncier shall not deposit any collateral. As of December 31, 2017, the amount of deposits received was €1.4bn.

### 6.3.2. MONITORING FOREIGN EXCHANGE RISK

Compagnie de Financement Foncier has adopted a static approach for measuring risk.

The fixed interest-rate gap is calculated from total outstandings both on- and off-balance sheet on the balance sheet date, using predefined assumptions and rules for asset and liability flows.

Variable rates by categories' buckets were also analyzed.

All of these indicators are monitored quarterly by the ALM and Liquidity Oversight Committee and the Risk Executive Committee.

### 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. According to the rules applicable to Compagnie de Financement Foncier, these gaps measure the difference between the utilizations and fixed rates sources over time assuming no new asset acquisitions or new issuances and excluding adjustable indices for which the periodicity of the reference rate is less than one year.

The current limits for interest rate gaps are:

Horizon	Limits as percentage of the projected balance sheet
Less than 2 years	2%
2-5 years	3%
5-10 years	5%
10-15 years	10%

As of December 31, 2017, there was a non-material breach (€83 m) of the limit on the most recent 15-year dot plot. This breach will be managed in the context of the macro-hedging carried out in first quarter 2018.

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.

**LIMIT ON THE NET PRESENT VALUE OF EQUITY CAPITAL (BASEL II INDICATOR)**

This indicator measures the sensitivity of the net present value of mismatching positions to a uniform shift of 200 bp in the yield curve as a ratio of equity, within a limit of 20%.

As of December 31, 2017, Compagnie de Financement Foncier was in compliance with this limit.

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## 6.4. Monitoring foreign exchange risk

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Foreign exchange risk arises from exchange rate movements in currencies in which Compagnie de Financement Foncier's assets and liabilities are denominated that negatively affect the value of assets or commitments denominated in foreign currencies. Compagnie de Financement Foncier prohibits any open foreign exchange positions.

This means that all assets and liabilities denominated in currencies other than the euro are systematically swapped as soon as they are recognized on the balance sheet. This hedging can be achieved using exchange rate swaps, term loans or currency swaps. Residual differences arising from the adjustment of balance sheet positions,

particularly those created by cashing in margins, are hedged monthly.

They are monitored by Crédit Foncier's Risk department, which centralizes month-end foreign exchange positions, by currency and by total amounts of foreign currencies.

Compagnie de Financement Foncier established an internal limit equal to the exchange value of €5m for all currencies combined and to €3m per currency.

This limit was respected throughout 2017.

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## 6.5. Monitoring settlement risk

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The handling and the accounting control of treasury accounts is the responsibility of two managers each in charge of an independent unit, in keeping with the principle of segregation of duties. Compagnie de Financement Foncier has direct access to the market settlement systems of the Paris Stock Exchange for large transactions denominated in euros; it is a member of the European Target system. For transactions in foreign currencies and small transactions in euros, it has accounts with BPCE.

Daily procedures for monitoring settlement risk include:

- preparation of projected flow profiles;
- daily reconciliation of individual flows with forecasting;
- creation of a payment incidents database.

In the event of the definitive default of a settlement counterparty leading to Compagnie de Financement Foncier potentially being overdrawn with the Banque de France, there are provisions for hedging mechanisms to be put in place (interbank borrowing or end-of-day borrowing facility provided by the European Central Bank).

Compagnie de Financement Foncier has a contingency and business continuity plan for settlement under an agreement with BPCE. Accordingly, as regards its financial activities, Compagnie de Financement Foncier is covered by BPCE's Contingency and Business Continuity Plan.

## 7. Operating risks

Within Groupe BPCE, operational risks are defined as the risk of loss resulting from inadequate or faulty procedures, personnel, information systems or external events. Operating risks include in-house and external fraud, reputational risk and model 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 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's specific risk mapping was detected in the first half of 2017.

### 7.1. General management

All of group Crédit Foncier's Operational Risk processes are managed by its Risk department, which relies on the risk charters, on the operational risk standards and methods employed by

Groupe BPCE's Risk department and on the group's operational risk policy.

### 7.2 Governance

Operational risk management is part of group Crédit Foncier's Risk department. It is managed by a specialized unit that is separate from operating activities and attached to the Risk department. This

unit reports to Compagnie de Financement Foncier's executive bodies and those responsible for controlling Compagnie de Financement Foncier.

### 7.3. Management environment

#### 7.3.1. MANAGEMENT NETWORK

Operational risk oversight and management is delegated to the managers of various divisions. Each manager relies on a network of representatives coordinated by a risk manager, with a functional link to the Risk department.

#### 7.3.2. METHODS AND TOOLS

The risk approach is based on three key elements that are part of an iterative, interactive method:

- mapping of operational risk events: identification and assessment by each business line of its vulnerability to the main operational risks, updated whenever processes or the organizational structure changes, and in any case at least once a year;

- reporting incidents in a dedicated database: feeding the incident database by the management network as and when such incidents occur and evolve; monitoring of corrective action plans; analysis of changes in risk exposures and resulting losses;
- implementation of Key Risks Indicators for the main risk areas, warning when incidents are likely to enter a critical phase.

Group Crédit Foncier also receives reports through the OSIRISK system.

Lastly, for calculating capital adequacy requirements, group Crédit Foncier currently applies the Basel II standard approach.

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

In accordance with the service agreements between group Crédit Foncier and Compagnie de Financement Foncier, business continuity of Compagnie de Financement Foncier is covered by Crédit Foncier's Contingency and Business Continuity Plan (CBCP). All aspects of this plan are maintained in working condition as required by the regulations.

Compagnie de Financement Foncier has its own CBCP manager who acts on its behalf in matters of compliance and maintaining the plan in deployment-ready condition in cooperation with the Crédit Foncier CBCP team.

## 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 ongoing management and operational monitoring activities, the Information Systems Security department undertook the following in 2017:

- software intrusion tests concerning:
  - a monitoring application,
  - a program of attacks using contaminated USB keys involving employees at HQ;
- active participation in various Crédit Foncier digital projects on the Information Systems Security, business continuity and data protection components;
- implementation of protective and safeguarding measures in response to moderate-scale cyber attacks. These attacks did not impact the integrity of Crédit Foncier data;
- updating of the Crédit Foncier compliance analysis in the IS N2 BPCE security policy;
- updating of the sensitive assets classification;
- implementation of information system security risk mapping;
- stabilization of the Information System Security permanent control system;
- a major campaign to raise awareness of all company employees regarding Information System Security.

## 7.6. Insurance

As Compagnie de Financement Foncier's servicer, Crédit Foncier insures the risks relating to its activity. Under service agreements with Compagnie de Financement Foncier, it provides insurance-related services on behalf of Compagnie de Financement Foncier. As a result, Compagnie de Financement Foncier benefits from insurance policies subscribed by BPCE primarily covering the following risks:

- IT fraud and malicious acts and subsequent losses arising out of banking operations;
- professional civil liability;
- civil liability of senior executives and corporate officers.

## 7.7. Legal risks

According to the service agreements that link Crédit Foncier to Compagnie de Financement Foncier, legal risks incurred by the latter are monitored by the Crédit Foncier's Legal Division.

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.

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.

Following a media campaign, notably on the internet, all market participants received a number of complaints from borrowers, claiming that the effective annual interest rate (TEG rate) on their loan was wrong, and were subject to a number of legal proceedings on this matter. An appropriate defense was made in response to

these claims both in and out of court. A body of significant decisions favorable to the interests of lenders has gradually formed and strengthens the position of the creditor in the pending proceedings, enabling it to have counter claims thrown out in virtually all cases.

## 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 into

two separate units: compliance and ethics on one hand, and, financial security on the other. The compliance officer is responsible for the compliance of investment services for Compagnie de Financement Foncier.

### 8.1. General management

Non-compliance risk monitoring and control is based on the methods used by BPCE and covers all of Crédit Foncier's business lines including, in particular, activities carried out on behalf of Compagnie de Financement Foncier. 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 OSIRISK 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 collateral values.

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 combats 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 department.

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### 8.3. Compliance of banking and investment services

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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 Corporate Secretariat of Compagnie de Financement Foncier together with the Permanent Control Coordination Division is, in particular, responsible for monitoring services outsourced to Crédit Foncier. At its meeting of December 12, 2017, the Board of Directors of Compagnie de Financement Foncier received the information provided for in Article no. 253 c) of the Decree of November 3, 2014 on measures taken to supervise outsourced activities.

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.

Pursuant to Article 40 of the Decree of November 3, 2014, it finally coordinates the Monthly Regulatory Monitoring Committee, which brings together the main support and operating departments as well as a representative of the Corporate Secretariat of Compagnie de Financement Foncier.

Regarding investment services for its own account, related to refinancing activities, cash flow and balance sheet coverage, Crédit Foncier continued to develop the EMIR Regulation.

The Compliance Division is involved in works to implement changes to the MIFIR Regulation, applicable as of January 3, 2018. This regulation enhances the reporting obligations for transactions and enhances them (list and format of fields published by ESMA RTS22). Group 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.

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### 8.4. Banking and financial ethics

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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.

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### 8.5. Volcker Rule and SRAB

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The Compliance Division updates the mapping of group Crédit Foncier's Volcker and SRAB units annually in collaboration with Crédit Foncier's Risk Division. It then centralized the sub-certifications required to successfully complete the annual certification of Compagnie de Financement Foncier. The Chief Executive Officer of Crédit Foncier sends group Crédit Foncier's certification to BPCE SA, together with the Senior Management report, during the month of March in order to obtain certification from Groupe BPCE.

The Compliance Division, in collaboration with the Risk Division – financial risks, undertakes the level 2 permanent control and presents the results to Crédit Foncier's Volcker Committee.

Crédit Foncier is also rolling out a Group Volcker Rule e-learning program for employees of risk units to meet the requirements of regulators.

As part of the process of compliance with the Volcker rule and the law on the Separation and Regulation of Banking Activities (hereinafter SRAB), the Compliance Division drafted the Senior Management report (SMR). As a reminder, this SMR is a summary of the enhanced compliance program implemented within group Crédit Foncier. The Senior Management report was approved by

the Board of Directors of Compagnie de Financement Foncier on February 8, 2017. Furthermore, it was presented to the Volcker Committee on April 26, 2017. The Liquidity Management Plan sets out the rules for group Crédit Foncier's cash flow management. It was presented to the ALM and Liquidity Oversight Committee on March 24, 2017 by the Financial Management Division.



# Financial report

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# Financial statements

## BALANCE SHEET *(in thousands of euros)*

■ Assets	Notes	12/31/2017	12/31/2016	12/31/2015
Cash and amounts due from central banks		670,000	2,400,000	5,360,083
Treasury bills and equivalent	3	3,364,394	3,455,424	3,606,541
Loans and receivables due from credit institutions	1	28,761,396	20,827,904	21,092,317
• Demand		151,078	244,151	478,256
• Term		28,610,318	20,583,753	20,614,061
Customers, transactions	2	38,639,497	42,237,163	43,026,282
• Other facilities granted to customers		38,639,497	42,237,163	43,026,282
Bonds and other fixed-income securities	3	4,511,584	12,724,987	11,246,613
Equity interests and other long term investments *		0	0	4
Intangible assets and property plant and equipment		0	0	0
Other assets	4	214,855	8,175	59,306
Accrual accounts	5	2,204,862	2,694,997	3,187,163
<b>TOTAL ASSETS</b>		<b>78,366,588</b>	<b>84,348,650</b>	<b>87,578,310</b>

\* Participation certificates within the "deposit guarantee system" 2015.

■ Liabilities	Notes	12/31/2017	12/31/2016	12/31/2015
Central banks		0	0	0
Amounts due to credit institutions	6	7,945,176	8,778,050	9,852,497
• Demand		0	355	12,176
• Term		7,945,176	8,777,695	9,840,321
Amounts due to customers	7	0	0	408
• Demand		0	0	408
Debt securities	8	63,524,759	67,573,795	69,123,576
• Interbank market instruments and negotiable debt securities		151,533	151,243	151,326
• Bonds (obligations foncières)		63,373,226	67,422,552	68,972,251
Other liabilities	9	1,623,947	2,261,259	2,981,454
Accrual accounts	10	2,088,657	2,514,616	2,370,553
Provisions	11	18,917	20,435	16,129
Subordinated debt		0	0	0
Fund for general banking risks		20,000	20,000	20,000
Equity excluding fund for general banking risks	12	3,145,132	3,180,495	3,213,693
• Subscribed capital		2,537,460	2,537,460	2,537,460
• Additional paid-in capital		343,002	343,002	343,002
• Reserves		119,152	114,468	107,843
• Regulated provisions and investment subsidies		0	0	0
• Retained earnings		87,313	91,889	92,901
• Income to be allocated		0	0	0
• Net income for the period		58,205	93,676	132,486
<b>TOTAL LIABILITIES</b>		<b>78,366,588</b>	<b>84,348,650</b>	<b>87,578,310</b>

## OFF-BALANCE SHEET *(in thousands of euros)*

	Notes	12/31/2017	12/31/2016	12/31/2015
<b>TOTAL COMMITMENTS GIVEN</b>				
Financing commitments		1,153,541	868,607	1,412,588
• <i>Commitments given to credit institutions</i>	13	0	0	0
• <i>Commitments given to customers</i>	13	847,463	789,502	855,965
• <i>Other securities pledged as collateral</i>	13	306,078	79,104	556,624
Guarantee commitments		0	0	0
• <i>Commitments given to credit institutions</i>	13	0	0	0
• <i>Commitments given to customers</i>	13	0	0	0
Commitments on securities		0	0	0
• <i>Other commitments given</i>	13	0	0	0
<b>TOTAL COMMITMENTS RECEIVED</b>				
Financing commitments		31,484,834	31,032,177	29,096,967
• <i>Commitments received from credit institutions</i>	14	3,563,114	3,658,292	3,489,828
• <i>Other securities received as collateral from the Group</i>	14	27,921,720	27,373,885	25,607,139
Guarantee commitments		36,516,018	39,103,926	39,558,343
• <i>Commitments received from credit institutions</i>	14	7,129,671	6,983,537	5,865,858
• <i>Commitments received from customers</i>	14	29,386,347	32,120,388	33,692,484
Commitments on securities		60,000	0	0
<b>TOTAL RECIPROCAL COMMITMENTS</b>				
• <i>Sale and purchase of foreign currencies</i>	15	16,510,229	21,488,125	23,920,454
• <i>Other financial instruments</i>	15	64,330,739	62,999,652	60,765,652

**INCOME STATEMENT** *(in thousands of euros)*

	Notes	12/31/2017	12/31/2016	12/31/2015
Interest and similar income	16	2,456,124	2,850,600	3,128,590
Interest and similar expenses	16	-2,348,774	-2,571,615	-2,872,698
<b>Net interest margin</b>		<b>107,350</b>	<b>278,984</b>	<b>255,891</b>
Fees and commissions income	17	96,164	82,972	109,711
Fees and commissions expenses	17	-1,617	-2,047	-2,195
Net gains or losses on trading books transactions	18	-117	-456	213
Other banking income	19	129	7	77
Other banking expenses	19	-2,299	-4	-51
<b>Net banking income</b>		<b>199,611</b>	<b>359,457</b>	<b>363,646</b>
Payroll costs	20	-73	-60	-217
Taxes and regulated provisions <sup>(1)</sup>	20	-21,638	-23,033	-19,194
External services and other expenses	20	-96,189	-104,596	-103,744
Amortisation		0	0	0
<b>Total operating expenses</b>		<b>-117,901</b>	<b>-127,689</b>	<b>-123,155</b>
<b>Gross operating income</b>		<b>81,710</b>	<b>231,768</b>	<b>240,491</b>
Cost of risk <sup>(2)</sup>	21	-4,910	-27,078	-14,753
<b>Operating income</b>		<b>76,800</b>	<b>204,690</b>	<b>225,738</b>
Gains or losses on long-term investments	22	7,458	-48	-4,032
<b>Income before tax</b>		<b>84,257</b>	<b>204,642</b>	<b>221,706</b>
Non-recurring income		0	0	0
Income tax	23	-26,052	-110,965	-89,220
<b>NET INCOME</b>		<b>58,205</b>	<b>93,676</b>	<b>132,486</b>
Earnings per share <sup>(3)</sup> <i>(in €)</i>		0.37	0.59	1.34
Diluted earnings per share <i>(in €)</i>		0.37	0.59	1.34

(1) Taxes and regulated provisions include in particular Tax on Systemic Risk for Banks (TSB) in the annual amount of -€2.74m (compared to -€3.48m in December 2016) and regulated provisions essentially including the contribution for the Single Resolution Fund (FRU) in the annual amount of -€11.07m (compared to -€8.41m in December 2016).

(2) Cost of risk excluding the impact of the HETA securities in 2015 amounts to -€26.95m.

(3) Earnings per share are calculated by dividing net income by the average number of shares during the fiscal year.

The notes on the following pages are part of the individual 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 2017

#### 2.1. COMMERCIAL ACTIVITY

During 2017, Compagnie de Financement Foncier acquired €5,130m in loans from Crédit Foncier including related receivables, plus €303m 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 €18,443.5m at December 31, 2017, and with certain Caisses d'Épargne or Banque Populaire banks, amounting to €186.4m. The same facility was also granted to BPCE SA, amounting to €8,920m at December 31, 2017 excluding related receivables. Total loans granted under L. 211-38 were collateralized for €27,921.7m.

All mortgage notes (amounting to €7.3bn as of December 31, 2016) subscribed with Crédit Foncier were repaid early in 2017. At the same time, Crédit Foncier substituted these liabilities from Compagnie de Financement Foncier by refinancing loans to individuals under Article L. 211-38 (see above).

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 €6,751.1m. In addition to working cash balances, replacement values essentially comprise loans granted under Article L. 211-38 of the French Monetary and Financial Code.

Regarding the funding activities, Compagnie de Financement Foncier issued €6,060m of *obligations foncières* in 2017, exchange value at the date of issuance, within the limit of the annual issuance program. 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 2017.

#### 2.2. SECURITIES DISPOSALS ON MARKET

Compagnie de Financement Foncier disposed of five holdings of securities in 2017.

In total, outstandings of €295.6m (the value of securities in foreign currency converted at source value) were accordingly sold. These disposals, together with the cancellation of the associated hedging swaps, generated income of €7.5m, before tax in 2017, recorded in the income statement under "Gains or losses on long-term investments".

#### 2.3. EARLY REPAYMENTS

Given the low interest rate environment, the rate of early repayment for loans to individuals remains high, with outflows of assets amounting to €5,208m in 2017, *i.e.* a rate of early repayment of 16.5% at the end of 2017 compared with 13.1% at the end of 2016.

Early repayments had the following effects on the net banking income:

- an accelerated amortization of acquisition premiums/discounts, of which the impact is estimated at -€249m over the entire year;
- the collection of early repayment penalties for a gain of just over €93.7m; as a reminder, according to the agreement on services rendered by Crédit Foncier, one third of these penalties is transferred to the latter.

#### 2.4. BUYBACK OF OBLIGATIONS FONCIÈRES

During the year, Compagnie de Financement Foncier bought back a share of its own *obligations foncières* issued on the market for a nominal value of €40.7m. The premiums and discounts on these purchases, net of termination costs, were directly recognized in profit or loss under "Interest and similar income" or "Interest and similar expenses", in accordance with regulations.

The net impact of these purchases on income, before tax, in 2017 was a significant gain of €9.6m, justified in particular by the high maturity of certain lines (2055).

#### 2.5. DISPOSAL OF EXPOSURES

A disposal of individuals' non performing loans amounting to €47.8m was carried out on July 31, 2017 at a price close to the outstandings' value net of provisions. The buyer is a company specialised in the collection and acquisition of non-performing loans in the French market.

This transaction generated a net profit of €2.4m.

#### 2.6. TAXES

Pursuant to the tax consolidation agreement signed by Crédit Foncier and Compagnie de Financement Foncier, the latter has recognised as income the tax saving stemming from the tax deficit against its parent company, accounting for + €46m.

The item "taxes" amounts to €26m and includes a non-recurring income of €20.5m related to an adjustment of the tax treatment of certain transactions whose deductibility had not been fully apprehended the year of their occurrence. This naturally leads to a transfer of deferred taxes to current taxes, given that Compagnie de Financement Foncier has opted for a recognition of deferred taxes.

The 2018 Finance Act, adopted by the National Assembly and applicable as of January 1, 2018, progressively lowers the corporate tax rate from 34.43% to 25.83% over next five years. It amends the 2017 Finance Act which had already provided for a reduction in the future tax rates. Its impact on the "taxes" item, taking into account the recognition of deferred taxes, accounts for -€10.6m.

### 3. POST-BALANCE SHEET EVENTS

No subsequent event liable to have a significant impact on the financial statements at December 31, 2017 occurred between the closing date and February 9, 2018, the date on which the Board of Directors approved the financial statements.

## 4. ACCOUNTING PRINCIPLES AND METHODS

### 4.1. PRESENTATION AND VALUATION METHODS

The annual separate financial statements of Compagnie de Financement Foncier are prepared and presented in accordance with the rules defined by BPCE, in compliance with Regulation No. 2014-07 of the French National Accounting Standards Authority (*Autorité des Normes Comptables* – ANC).

### 4.2. CHANGES IN ACCOUNTING METHODS

No changes in accounting methods impacted the 2017 financial statements.

The rules adopted by the French accounting standards authority in 2016 had no material effect on the Company's separate financial statements.

The Company does not opt for early application of texts adopted by the French 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 basis method used to value accounting entries is the historical cost method. All balance sheet items are presented net of amortization, provisions and allowances.

The main methods used are the following:

### 4.3.1. Foreign exchange transactions

Income and capital gains or losses on foreign exchange transactions are calculated in accordance with Regulation No. 2014-07 of the French accounting standards authority (ANC).

Receivables, liabilities and off-balance sheet commitments denominated in a foreign currency are valued at the exchange rate as at the reporting date. Realized and unrealized exchange gains and losses are recognized in the income statement. Income and expenses paid or perceived are recorded at the transaction date.

Unsettled spot foreign exchange transactions are valued at the exchange rate as at the reporting date.

Premiums and discounts on foreign exchange forward and futures contracts used for hedging purposes are recognized in the income statement on a prorata temporis basis. Other foreign exchange contracts and forward financial instruments denominated in foreign currencies are marked to market. Outright foreign exchange forward contracts and those hedged by forward instruments are revalued over the remaining term. Foreign exchange swaps are recognized as coupled buy/sell forward transactions. Currency swaps are subject to Regulation No. 2014-07 of the French accounting standards authority (ANC).

### 4.3.2. Transactions with credit institutions and customers

Loans to credit institutions comprise all loans and advances arising out of banking transactions, with the exception of debt securities. They include securities received under repurchase agreements, regardless of the type of underlying, and loans and advances relating to securities repurchase agreements. Loans and advances are broken down into the sub-categories "Demand loans and advances" and "Term loans and advances". Loans to credit institutions are recorded in the balance sheet at their nominal value or acquisition cost and include accrued interest that is not yet due but is net of any impairment charges recognized for credit risk.

Amounts due from customers include loans to entities other than credit institutions, with the exception of debt securities issued by customers, assets purchased under resale agreements and receivables corresponding to securities sold under repurchase agreements. They are broken down into business loans, current accounts with overdrafts and other facilities granted to customers.

Customer loans are recorded as an asset on the balance sheet in proportion to the amount released, including accrued interest and net of any impairment charges recognized for credit risk. Amounts not yet released are recognized as off-balance sheet items under "Financing commitments given".

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

Premiums and discounts on receivables acquired are then taken to the year's income on an actuarial basis over the remaining term of the receivables.

Past due payments are recorded as assets in each receivables category, unless they are considered as doubtful. In this case, they are included in the doubtful loans category.

The commissions and marginal transaction costs that are amortized are integrated into the outstanding loan in question.

Early repayment penalties are fully recognized in the income statement for the fiscal year during which the transactions took place. Renegotiation penalties are amortized over the duration of renegotiated loans.

In compliance with BPCE standards, Compagnie de Financement Foncier has recognized guarantees that are explicitly or implicitly attached to certain types of customer loans recorded on the balance sheet and which are of a sufficiently material nature, such as the value of mortgages or counter-guarantees received from SGFGAS and assumed by the French government (see note 14 on Commitments received). They are revalued on a regular basis. The total carrying amount of all guarantees received for a single loan is limited to the outstanding amount of this loan.

Amounts due to credit institutions are recorded on the basis of their initial duration (demand or term), while amounts due to customers are classified by type. Depending on the counterparty involved, these items may include repurchase agreements involving securities and other assets. Accrued interest is recorded on related debts.

#### RESTRUCTURED LOANS

Within the meaning of ANC Regulation No. 2014-07, restructured loans are doubtful loans whose initial contractual characteristics (term and interest rate) have been modified to ensure repayment by the counterparty.

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

A restructured loan may be reclassified as performing when the new payment due dates are respected. When a loan that has been reclassified becomes overdue, regardless of the restructuring terms agreed, the loan is downgraded to doubtful.

#### DOUBTFUL LOANS AND RECEIVABLES

Doubtful loans and receivables consist of all outstanding amounts, whether or not due and guaranteed or otherwise, where at least one commitment made by the debtor has involved a known credit risk, classified as such on an individual basis. A risk is considered to be "known" when it is probable that the Group will not collect all or part of amounts owed under the terms of the commitments made by the counterparty, notwithstanding any guarantee or surety provided.

Doubtful loans are identified in compliance with Regulation No. 2014-07 of the French accounting standards authority (ANC) in cases of loans past due for over three months and over six months for real estate loans.

Loans to local authorities are classified as doubtful loans when past due over three months.

Doubtful loans are considered to be irrecoverable when full or partial collection is deemed to be highly unlikely and a write-off is considered. Loans and receivables for which payments have ceased beyond the specified time are assumed to be recorded as irrecoverable. The decision to reclassify a doubtful loan as irrecoverable and the amount of impairment determined must take

into account the guarantees provided and the recent loan repayment history. A debt that has been classified as doubtful for more than one year is assumed to be irrecoverable, unless a write-off is not foreseen. Reclassification of a debt from doubtful to irrecoverable does not automatically entail the reclassification of the counterparty's other doubtful loans and commitments to irrecoverable.

For doubtful loans and receivables, accrued interest or interest due but not received is recognized under income from banking operations and impaired accordingly. When the loan or receivable is classified as irrecoverable, accrued interest due but not received is no longer recognized.

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

#### IMPAIRMENT

When the collection of loans or other receivables is considered to be uncertain, an impairment loss is recognized on the asset to cover the risk of loss. Impairment losses are calculated on a case-by-case basis, taking into account the present value of the guarantees received. They are determined on at least a quarterly basis, on the basis of the estimated credit risk and the guarantees provided. Impairment losses cover at a minimum the interest not received on doubtful loans.

Impairment for probable losses includes all impairment charges, calculated as the difference between the principal outstanding and the projected cash-flows discounted at the initial effective interest rate. Projected cash flows are determined based on the type of receivables on the basis of historical losses and/or expert appraisals and are positioned over time using debt schedules based on historic recovery records.

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

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

Pursuant to the asset transfer agreement between Crédit Foncier and Compagnie de Financement Foncier, there is a mechanism that when only a portion of a loan is acquired, Compagnie de Financement Foncier may claim a right of priority over the full amount of the guarantee. Accordingly, as long as the collateral value covers Compagnie de Financement Foncier's portion of the doubtful loan, no impairment is recognized in the latter's financial statements. This impairment is recognized in the financial statements of Crédit Foncier.

When Compagnie de Financement Foncier has acquired the whole loan, any provision for impairment is wholly recognized in its financial statements.

A specific provision recognition is based on an individual estimate of doubtful loans and is made for all counterparties.

A provision recognition is carried out according to an expert opinion by the manager by filling in the guarantee amount and is applied in case of a loan of significant amount or in case of special treatment.

A provision calculated from guarantee values reevaluated yearly is selected for low unit amount loans with similar characteristics.

If the file is managed by a Litigation department and the guarantee amount is not yet available, a haircut is applied to the revalued grant value of the pledge.

Credit risk on financing commitments and off-balance sheet guarantees is recorded as a provision for contingencies and charges.

Loan impairment provisions and reversals, as well as the corresponding impairment charges, are recorded in income under "Cost of risk" for the principal portion of the loans, while the interest component is recorded as "Interest and similar income".

Non-recoverable receivables are recorded as losses and the corresponding impairment is reversed.

When credit risk is identified, not on an individual basis but on the basis of a loan portfolio with similar risk characteristics, the loans are placed in homogeneous risk portfolios that are collectively tested for impairment.

The loans are placed into homogeneous groups in terms of sensitivity to changes in the risk on the basis of the Group's internal rating-based system. The portfolios that are tested for impairment are those involving counterparties that have been significantly downgraded since origination and that are accordingly deemed to be at risk. These loans are impaired, even though the credit risk cannot be individually allocated to the various counterparties within these portfolios and to the extent that the loans in question collectively show indication of impairment.

The amount of impairment is determined on the basis of historical data on probability of default at maturity and expected losses, adjusted where necessary to reflect the circumstances prevailing at the balance sheet date.

This approach may be supplemented by a segmental analysis, based in general on an expert assessment having regard to a range of economic factors intrinsic to the assets reviewed. Impairment on a portfolio basis is determined having regard to the expected losses at maturity on the base determined in this way.

This counterparty risk on performing loans is recognized as a provision in the liabilities section.

#### 4.3.3. Securities

The term "securities" includes interbank market securities, treasury bills, other negotiable debt securities, bonds and other fixed-income instruments, equities and other variable-income instruments.

Security transactions are subject to the accounting Regulation No. 2014-07 of the French accounting standards authority (ANC) defining general rules governing the accounting and valuation of securities and the rules concerning certain specific transactions such as repurchase agreements.

Securities are classified as follows: equity investments and shares of related companies, other securities held long-term, held-to-maturity debt securities, portfolio securities (equity available for sale in the medium term), available-for-sale securities and trading securities.

With respect to trading securities, securities available for sale, debt securities held to maturity and equity securities available for sale in the medium term, any known counterparty default risk whose impact can be separately identified is recognized in the form of impairment loss. Changes in impairment are recorded under cost of risk.

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

Moreover, as a *société de crédit foncier*, Compagnie de Financement Foncier cannot hold equity investments, even as a

minority interest. It only holds one share in SGFGAS which enables it to acquire loans secured by the French government on behalf of SGFGAS. This investment was approved by the regulatory authority.

Finally, disposals of securities are recognized in the financial statements of Compagnie de Financement Foncier on the "settlement-delivery" date and not on the transaction date.

#### SECURITIES AVAILABLE FOR SALE

Securities available for sale are all securities that do not qualify for recognition in any other category.

They are recorded at their acquisition price, excluding transaction costs.

Where applicable, accrued interest on fixed-income securities is recognized in income under "Interest and similar income".

Any difference between the acquisition price and the redemption value (premium or discount) of fixed-income securities is recorded in the income statement over the remaining term of the relevant securities using the actuarial method.

Available for sale securities are valued at the lower of acquisition cost or market price. An impairment provision is recognized for any unrealized capital losses which may be measured on the basis of portfolios of similar securities, without offsetting against capital gains recognized for the other categories of securities.

In accordance with Article 2514-1 of Regulation No. 2014-07 of the French accounting standards authority (ANC), gains and losses from hedging instruments are taken into account when calculating impairment. Provisions are made to cover unrealized losses. Unrealized gains are not recognized.

Gains and losses on disposals of available for sale securities, impairment charges and reversals are recorded under "Gains or losses on available for sale portfolio transactions and similar instruments".

Compagnie de Financement Foncier held no available for sale securities at December 31, 2017.

#### HELD-TO-MATURITY SECURITIES

Held-to maturity securities are fixed-income securities with fixed maturity, acquired or reclassified from the category "Trading securities" or "Available for sale securities", with the clear intention and ability to hold them until maturity. These securities must not be subject to any existing restrictions, legal or other constraints that could compromise the capacity to hold them until maturity. The classification to securities held to maturity does not prevent them from being considered as items hedged against interest rate risk.

Securities held to maturity are recorded at cost excluding transaction costs, on their acquisition date. When previously classified as available for sale, they are recorded at cost and the previously recognized impairments are reversed over the residual life of the relevant securities.

The difference between the acquisition cost and the redemption value of these securities, as well as the corresponding interest, are subject to the same rules that apply to fixed income securities available for sale.

An impairment loss may be recognized against these securities if there is a strong probability that the bank will not hold them until maturity due to new developments or if there is a risk that the issuer of the securities will default. Unrealized gains are not recognized.

Securities held to maturity cannot be sold or transferred into another category of securities, except for certain cases.

Trading securities or available for sale fixed-income securities, reclassified in the debt securities held to maturity category, in the

context of market illiquidity, per CRC Regulation No. 2014-07 of the French accounting standards authority (ANC), may still be disposed of when the market on which they are traded becomes active again.

#### RECLASSIFICATION OF FINANCIAL ASSETS

In order to harmonize accounting practices and ensure compliance with IFRS, Regulation No. 2014-07 of the ANC (French accounting standards authority) specifies the provisions regarding the transfers of securities out of the "Trading securities" and the "Available for sale securities" categories.

The reclassification out of the "Trading securities" category to the "Available for sale securities" and "Securities held to maturity" categories is now allowed under either of the following conditions:

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

Re-classifications from the "Securities available for sale" category to the "Debt securities held to maturity" are effective as from the reclassification date under either of the following conditions:

- under exceptional market circumstances that require a change of strategy;
- when fixed-income securities are no longer tradable on an active market.

Compagnie de Financement Foncier did not reclassify any "Available for sale securities" as "Debt securities held to maturity" in 2017, or in previous fiscal years.

#### REPURCHASE AGREEMENTS

Collateralized repurchase agreements are recorded pursuant to Regulation No. 2014-07 of the French accounting standards authority (ANC), supplemented by French Banking Commission instruction No. 94-06.

The collateralized assets under repurchase agreements remain on the transferor's balance sheet. The transferor records the amount received under liabilities, representing its debt vis-à-vis the purchaser. The purchaser records the amount paid, representing its claim against the transferor, as an asset. At the balance sheet date, the collateralized assets, as well as the debt vis-à-vis the purchaser and the claim against the transferor, are valued according to the rules that apply to each.

#### 4.3.4. Debt securities

Debt securities are shown according to how they are supported: short-term notes, interbank market instruments and negotiable debt securities, bonds and similar instruments, excluding subordinated securities which are shown on their own line in liabilities.

Accrued interests relating to these securities are recorded in a related liabilities account through profit or loss.

Issuance fees are spread over the life of the corresponding loans. Bond issuance or redemption premiums are spread over the life of the loan *via* a deferred expenses account.

#### 4.3.5. Provisions

This item covers provisions for contingencies and losses that are not directly related to banking transactions as defined under Article L. 311-1 of the French Monetary and Financial Code or to related transactions as defined under Article L. 311-2 of this same Code, and which are clearly identifiable but of uncertain timing or amount. Unless covered by a specific text, such provisions may only be recognized if an obligation towards a third party exists at the end of the accounting period and is not offset by a receivable from this third party, in accordance with CRC Regulation No. 2000-06.

In particular, this item includes a provision for counterparty risk on performing loans detailed in section 4.3.2.

#### 4.3.6. Fund for general banking risks

This fund is intended to cover risks inherent to the entity's business activities, pursuant to the requirements of Regulation No. 2014-07 of the French accounting standards authority (ANC).

#### 4.3.7. Futures contracts

Trading and hedging transactions in interest rate, foreign exchange or equity futures are recognized in accordance with the provisions of Regulation No. 2014-07 of the French accounting standards authority (ANC).

Commitments on these instruments are recorded as off-balance sheet items at the notional value of the contracts. At the balance sheet date, the amount recognized for these commitments represented the volume of the open transactions at the balance sheet date.

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

#### FORWARD TRANSACTIONS

Interest rate swaps and similar contracts (forward rate agreements, caps and floors) are classified according to their initial purpose, in the following categories:

- micro-hedging (specific transactions);
- macro-hedging (overall asset and liability management);
- speculative positions/isolated open positions;
- specialized management of a trading book.

Income and expenses on the first two categories are recognized in the income statements on a *pro rata* basis.

Income and expenses on instruments used to hedge an item or a group of similar assets are recorded as profit or loss, symmetrically with the recognition of income and expenses on hedged items. Comprehensive income items of the hedging instrument are recognized in the same line item as income and expenses for hedged items, under "Interest and similar income" and "Interest and similar expenses". The "Gains/losses on trading book transactions" line item is used when the hedged items are included in the trading book.



Income and expenses on forward financial instruments used to hedge and manage the Company's overall interest rate exposure are recognized in the income statement on a *prorata* basis as "Interest and similar income" and "Interest and similar expenses". Unrealized gains and losses are not recognized.

Gains and losses on certain contracts qualified as isolated open positions are recorded in the income statement when the contracts are unwound or on a *prorata* basis depending on the nature of the instrument. Recognition of unrealized capital gains or losses is determined based on the type of market involved (organized, other markets considered as organized or over the counter):

- for over-the-counter options, unrealized mark-to-market losses are provided for at year-end. Unrealized gains are not recognized;
- instruments traded on organized markets or other markets considered as organized are continuously quoted and liquid enough to justify being marked to market. Unrealized gains are not recognized.

Compagnie de Financement Foncier does not have any trading book or isolated open position management contracts.

Termination balances or transfers are recognized as follows:

- transactions classified under specialized asset management or isolated open positions are recognized directly in the income statement;
- as to micro-hedging and macro-hedging, the closing balances are either amortized over the remaining life of the item formerly hedged or carried directly to profit or loss.

#### OPTIONS

The notional amount of the underlying asset on which the option or forward contract is based is recorded by distinguishing between hedging contracts and contracts traded on the markets.

For transactions involving interest rate, foreign exchange or equity options, the premiums paid or received are recognized in a temporary account. At the balance sheet date, these options are valued through profit or loss in the case of products quoted on organized markets or other markets considered as organized. For over-the-counter (OTC) options, provisions are recognized for capital losses but unrealized capital gains are not recognized. When an option is sold, repurchased or exercised, or when an option expires, the corresponding premium is recognized immediately in income.

Income and expenses for hedging instruments are recognized symmetrically with those from the hedged item. Seller options are not eligible for classification as macro-hedging instruments.

Over-the-counter markets may be treated as organized markets when market makers ensure continuous quotations with spreads that reflect market practice or when the underlying financial instrument is itself quoted on an organized market.

At December 31, 2017, Compagnie de Financement Foncier recognized no forward rate agreements on an isolated open position.

#### 4.3.8. Interest and similar income – Fees and commissions

Interest and similar fee and commission income is recognized in the income statement on a *prorata* basis.

The Group has elected the following option with regard to negative interest:

- when the yield on an asset is negative, it is shown in profit or loss as a reduction of interest income;
- when the yield on a liability is positive, it is shown in the income statement as a reduction of interest expense.

Fees and commissions for granting or acquiring a loan are treated as additional interest and spread over the effective life of the loan on a *prorata* basis according to the outstanding principal amount.

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

- fees and commissions received for an immediate service: recognized upon completion of the service;
- fees and commissions received for an ongoing or discontinued service paid for in installments: recognized over the period when the service is provided.

#### 4.3.9. Income tax

Compagnie de Financement Foncier has opted for accounting of deferred taxes on an unconsolidated basis. According to the principle of universality, this option applies to all temporary differences recognized in assets and liabilities.

The tax charge recorded in the income statement corresponds to corporate tax charges, deferred tax expense liabilities and changes in tax reserves.

Compagnie de Financement Foncier is included in BPCE's tax consolidation group and in Crédit Foncier's subgroup. Pursuant to the tax consolidation agreement signed on November 18, 2014, the tax charge payable is calculated and recognized as if there were no tax consolidation. In case of fiscal deficit, Compagnie de Financement Foncier will receive from Crédit Foncier a tax revenue equaling the income tax saving given to Crédit Foncier through the use of its fiscal deficit and will be deprived of the deferred losses for the determination of its future corporate tax expense.

As at December 31, 2017, Compagnie de Financement Foncier has recognized a tax receivables of €26m.

#### 4.3.10. Contribution to banking resolution mechanisms

The conditions of setting-up the guarantee fund of deposits and resolutions were changed by the decree of October 27, 2015. In 2016, the French Prudential Supervision and Resolution Authority (ACPR), in its decision 2016-C-51 of October 10, 2016, defined the method for calculating the contributions to the deposit guarantee mechanism. All the contributions for the mechanism of deposits, securities and guarantees paid either in the form of repayable deposits, deposit guarantee fund certificates or membership certificates amount to €42k.

The directive 2014/59/EU known as BRRD (Bank Recovery and Resolution Directive) establishes a framework for the recovery and resolution of credit institutions and investment firms and European regulation 806/2014 (MRU) implemented a resolution fund from 2015. In 2016, the fund became a Single Resolution Fund (SRF) between Member States participating in the Single Resolution Mechanism. An SRF is a resolution financing arrangement made available to the resolution authority (Single Resolution Board). This authority may call on this fund in connection with the implementation of resolution procedures.

In 2017, pursuant to delegated regulation 2015/63 and implementing regulation 2015/81 supplementing the BRRD directive on ex ante contributions to the resolution's financing arrangements, the Single Resolution Board defined contributions for 2017. In 2017, the amount of contributions received into the Fund represented €13m including €11m recognized as expenses and €2m as cash guarantee deposits entered on the asset side of the balance sheet (15% as cash guarantee deposits). The total amount of contributions entered on the asset side of the balance sheet amounted to €6m.

## **5. OTHER DISCLOSURES**

### **5.1. CONSOLIDATION**

In accordance with Article L. 4111-1-1 of Regulation No. 2014-07 of the French Accounting Standards Authority (ANC) Compagnie de Financement Foncier does not provide consolidated financial statements.

The separate financial statements of Compagnie de Financement Foncier are integrated into the consolidated financial statements of both Crédit Foncier and Groupe BPCE.

### **5.2. REMUNERATION AND ADVANCES**

Remuneration paid in 2017 to management bodies corresponds to Directors' fees paid.

### **5.3. IMPLEMENTATION IN NON-COOPERATIVE COUNTRIES**

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

These requirements are part of global endeavors arising from the various OECD initiatives and summits and contribute to the fight against money laundering and terrorist financing.

At December 31, 2017, Compagnie de Financement Foncier had no activities or offices in non-cooperative countries.

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

(in €k)	12/31/2017	12/31/2016	12/31/2015
<b>Demand loans to credit institutions</b>	<b>151,078</b>	<b>244,151</b>	<b>478,256</b>
Current accounts with overdrafts	42,025	28,398	106,284
Overnight loans			
Unallocated items	109,053	215,753	371,972
Related receivables			
<b>Term loans to credit institutions</b>	<b>28,610,318</b>	<b>20,583,753</b>	<b>20,614,061</b>
Term accounts and loans	1,024,631	1,121,802	1,145,553
Loans guaranteed under L. 211-38 (see Note 1A for detail)	27,549,881	19,426,941	19,431,385
Securities bought under repurchase agreements			
Subordinated loans and participating loans			
Related receivables	35,807	35,010	37,123
<b>Doubtful loans and receivables</b>			
<b>GROSS AMOUNT OF LOANS AND RECEIVABLES</b>	<b>28,761,396</b>	<b>20,827,904</b>	<b>21,092,317</b>
Impairment of doubtful loans			
<b>Impairment of doubtful loans</b>			
<b>NET AMOUNT OF LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS</b>	<b>28,761,396</b>	<b>20,827,904</b>	<b>21,092,317</b>
<b>BREAKDOWN OF TERM ACCOUNTS (GROUP /NON-GROUP)</b>			
Term accounts and loans			
• of which Group transactions			
• of which non-Group transactions	1,024,631	1,121,802	1,145,553
Loans guaranteed by securities received under repurchase agreements			
• of which Group transactions	27,549,881	19,426,941	19,431,385
• of which non-Group transactions			
Related receivables			
• of which Group transactions	14,822	12,865	14,401
• of which non-Group transactions	20,984	22,145	22,722
<b>Group loans</b>	<b>27,564,703</b>	<b>19,439,806</b>	<b>19,445,786</b>
<b>Non-Group loans</b>	<b>1,045,615</b>	<b>1,143,947</b>	<b>1,168,275</b>
<b>TOTAL</b>	<b>28,610,318</b>	<b>20,583,753</b>	<b>20,614,061</b>
<b>BREAKDOWN OF DEMAND ACCOUNTS (GROUP/NON-GROUP)</b>			
Demand accounts and loans			
• of which Group transactions	40,298	28,242	91,006
• of which non-Group transactions	1,727	155	15,278
Related receivables			
• of which Group transactions			
• of which non-Group transactions			
Unallocated items			
• of which Group transactions (at Crédit Foncier's scope)	108,358	215,734	369,019
• of which non-Group transactions	695	20	2,953
<b>Group loans</b>	<b>148,657</b>	<b>243,976</b>	<b>460,025</b>
<b>Non-Group loans</b>	<b>2,421</b>	<b>175</b>	<b>18,230</b>
<b>TOTAL</b>	<b>151,078</b>	<b>244,151</b>	<b>478,256</b>

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

<i>(in €k)</i>	12/31/2017			12/31/2016	12/31/2015
	Gross amount	Write-downs	Net amount	Net amount	Net amount
<b>TERM LOANS</b>					
Refinancing of subsidised residential property					
Refinancing of unsubsidised residential property					
Public entities	1,045,615		1,045,615	1,143,947	1,168,275
Other loans to credit institutions *	27,564,703		27,564,703	19,439,806	19,445,786
Doubtful term loans					
<b>NET AMOUNT OF TERM LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS</b>					
	<b>28,610,318</b>		<b>28,610,318</b>	<b>20,583,753</b>	<b>20,614,061</b>
* Of which:					
Replacement values pursuant to L. 211-38, part of replacement values, with BPCE	6,600,000		6,600,000	6,600,000	6,600,000
Loans guaranteed by local authority receivables pursuant to L. 211-38, with Crédit Foncier	18,443,500		18,443,500	10,303,000	10,290,500
Loans guaranteed by local authority receivables pursuant to L. 211-38, with BPCE, Caisses d'Épargne and Banques Populaires	2,506,381		2,506,381	2,523,941	2,540,885
Related and other receivables	14,822		14,822	12,865	14,401
<b>TOTAL</b>	<b>27,564,703</b>		<b>27,564,703</b>	<b>19,439,806</b>	<b>19,445,786</b>

## NOTE 2. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

(in €k)	Performing loans			Doubtful loans			Write-downs			Net amounts		
	12/31/17	12/31/16	12/31/15	12/31/17	12/31/16	12/31/15	12/31/17	12/31/16	12/31/15	12/31/17	12/31/16	12/31/15
<b>Current accounts with overdrafts</b>												
<b>Facilities granted to customers</b>	<b>37,298,347</b>	<b>40,925,204</b>	<b>41,796,656</b>	<b>1,431,257</b>	<b>1,417,841</b>	<b>1,318,127</b>	<b>90,108</b>	<b>105,882</b>	<b>88,502</b>	<b>38,639,497</b>	<b>42,237,163</b>	<b>43,026,282</b>
Loans to financial customers	240,094									240,094		
Export credits												
Short-term credit facilities <sup>(1)</sup>	936,109	1,063,370	1,381,042							936,109	1,063,370	1,381,042
Equipment loans <sup>(2)</sup>	5,900,528	6,973,638	7,624,600	100	-31	41	44	34	534	5,900,584	6,973,573	7,624,107
Home loans	30,106,387	32,755,152	32,646,649	1,428,140	1,414,809	1,314,744	90,027	105,822	87,939	31,444,500	34,064,139	33,873,455
Other customer loans	3,241	4,010	4,586	285	35	39	37	26	28	3,489	4,020	4,598
Unallocated items	24	106	951							24	106	951
Related receivables	111,964	128,927	138,827	2,732	3,028	3,302				114,696	131,955	142,130
<b>TOTAL<sup>(3)</sup></b>	<b>37,298,347</b>	<b>40,925,204</b>	<b>41,796,656</b>	<b>1,431,257</b>	<b>1,417,841</b>	<b>1,318,127</b>	<b>90,108</b>	<b>105,882</b>	<b>88,502</b>	<b>38,639,497</b>	<b>42,237,163</b>	<b>43,026,282</b>

Restructured loans amounted to €451.09m at December 31, 2017, of which €111.11m 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 €942.2m at December 31, 2017, versus €1,056m at December 31, 2016.

(2) Equipment loans are loans to local authorities.

(3) Customer loans eligible for refinancing with the Central Bank amounted to €3bn at December 31, 2017 in outstanding capital. This amount represents €2.1bn after haircut and overcollateralisation constraints.

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

(in €k)	12/31/2015	Increases	Reversals	12/31/2016 restated <sup>(3)</sup>	Increases	Reversals	Reversals used	12/31/2017
<b>IMPAIRMENT OF ASSETS</b>								
Customer loans and due from credit institutions <sup>(1) (2)</sup>	88,501	53,297	-28,352	105,882	90,108	-105,882		90,108
<b>PROVISIONS RECOGNISED AS LIABILITIES</b>								
Customer loans and due from credit institutions and provisions on securities	16,129	3,284	-36	19,377		-3,511		15,866
<b>TOTAL</b>	<b>104,630</b>	<b>56,581</b>	<b>-28,388</b>	<b>125,259</b>	<b>90,108</b>	<b>-109,393</b>		<b>105,974</b>

(1) Loan impairment is measured at discounted value in accordance with the Regulation No. 2014-07 of the French accounting standards authority.

(2) 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.

(3) Retreatment of stock as of December 31, 2017, according to Note 2. As a reminder, an amount reported in "impairment of assets" amounted to €113,446k.

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

(in €k)	12/31/2015	Reclassification/ Repayment	Additions	Amortisation	12/31/2016	Reclassification/ Repayment	Additions	Amortisation	12/31/2017
<b>DUE FROM CREDIT INSTITUTIONS</b>									
Premiums	47,589			-10,414	37,175			-10,238	26,937
Discounts									
<b>Net</b>	<b>47,589</b>			<b>-10,414</b>	<b>37,175</b>			<b>-10,238</b>	<b>26,937</b>
<b>CUSTOMER LOANS</b>									
<b>Performing loans and receivables</b>									
Premiums	1,439,601	-17,705	558,044	-380,596	1,599,344	-18,746		-438,826	1,141,772
Discounts	-1,019,847	11,304	-42,023	116,544	-934,022	11,172	-491,767	138,134	-1,276,483
<b>Doubtful loans and receivables</b>									
Premiums	29,092	17,705		-11,638	35,159	18,746		-15,873	38,032
Discounts	-29,794	-11,276		12,597	-28,473	-11,208		10,953	-28,728
<b>Net</b>	<b>419,052</b>	<b>28</b>	<b>516,021</b>	<b>-263,093</b>	<b>672,008</b>	<b>-36</b>	<b>-491,767</b>	<b>-305,612</b>	<b>-125,407</b>
<b>TOTAL</b>	<b>466,641</b>	<b>28</b>	<b>516,021</b>	<b>-273,507</b>	<b>709,183</b>	<b>-36</b>	<b>-491,767</b>	<b>-315,850</b>	<b>-98,470</b>

## NOTE 2 B. BREAKDOWN OF OUTSTANDING CUSTOMER LOANS

(in €k)	12/31/2017			12/31/2016	12/31/2015
	Gross	Impairment	Net	Net	Net
<b>French mortgages</b>	<b>28,505,379</b>		<b>28,505,379</b>	<b>30,991,320</b>	<b>30,500,103</b>
<b>Public sector</b>	<b>8,714,449</b>		<b>8,714,449</b>	<b>9,844,176</b>	<b>11,215,120</b>
French public sector	7,100,658		7,100,658	8,151,775	9,471,135
• Social housing	1,180,303		1,180,303	1,496,506	1,844,464
• French local authorities (FLA)	5,898,494		5,898,494	6,650,719	7,626,671
• Sovereign France	21,861		21,861	4,550	
Public-Private Partnership (PPP)	630,520		630,520	639,912	648,471
International public sector	983,271		983,271	1,052,489	1,095,514
• International public financing	983,271		983,271	1,052,489	1,095,514
• International Sovereign					
<b>Commercial mortgage exposures</b>	<b>78,519</b>		<b>78,519</b>	<b>89,708</b>	<b>42,936</b>
<b>Other</b>					<b>38,497</b>
<b>Sub-total performing customer loans</b>	<b>37,298,347</b>		<b>37,298,347</b>	<b>40,925,204</b>	<b>41,796,656</b>
<b>Doubtful loans</b>	<b>1,431,257</b>	<b>90,108</b>	<b>1,341,149</b>	<b>1,311,959</b>	<b>1,229,625</b>
<b>TOTAL CUSTOMER LOANS</b>	<b>38,729,605</b>	<b>90,108</b>	<b>38,639,497</b>	<b>42,237,163</b>	<b>43,026,281</b>

The 2016 exposures are drawn up in line with the breakdown presented in the table "Exposure analysis to credit risk". Consequently, the outstandings on December 31, 2015 are calculated on a pro forma basis.

Loans outstanding in the unsubsidized sector include €16.87bn in loans guaranteed by SGFGAS.

## NOTE 2 C. BREAKDOWN OF OUTSTANDING DOUBTFUL LOANS

At December 31, 2017 (in €k)	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Impairment	Net	Gross	Impairment	Net
<b>French mortgages</b>	<b>1,359,698</b>	<b>89,094</b>	<b>1,270,604</b>	<b>895,643</b>	<b>72,381</b>	<b>823,262</b>
<b>Public sector</b>	<b>2,284</b>	<b>93</b>	<b>2,191</b>	<b>1,373</b>	<b>7</b>	<b>1,366</b>
French public sector	2,284	93	2,191	1,373	7	1,366
• Social housing	1,463	83	1,380	1,351	7	1,344
• French local authorities (FLA)	821	10	811	22		22
• Sovereign France						
Public-Private Partnership (PPP)						
International public sector						
• International public financing						
• International Sovereign						
<b>Commercial mortgage exposures</b>	<b>69,275</b>	<b>921</b>	<b>68,354</b>	<b>66,800</b>		<b>66,800</b>
<b>Sub-total doubtful customer loans</b>	<b>1,431,257</b>	<b>90,108</b>	<b>1,341,149</b>	<b>963,816</b>	<b>72,388</b>	<b>891,428</b>

Doubtful loans outstanding in the unsubsidized sector includes €791m in loans guaranteed by SGFGAS.

In accordance with the Regulation No. 2014-07 of the French national accounting standards authority, irrecoverable doubtful loans do not include loans with a guarantee covering nearly all of the risks. These are mainly subsidised sector loans and loans with a FGAS guarantee.



At December 31, 2016 (in €k)	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Impairment	Net	Gross	Impairment	Net
<b>French mortgages</b>	<b>1,345,141</b>	<b>104,795</b>	<b>1,240,346</b>	<b>495,577</b>	<b>78,728</b>	<b>416,849</b>
<b>Public sector</b>	<b>5,571</b>	<b>166</b>	<b>5,405</b>	<b>616</b>	<b>7</b>	<b>609</b>
French public sector	5,571	166	5,405	616	7	609
• Social housing	4,303	85	4,218	616	7	609
• French local authorities (FLA)	1,268	81	1,187			
• Sovereign France						
Public-Private Partnership (PPP)						
International public sector						
• International public financing						
• International Sovereign						
<b>Commercial mortgage exposures</b>	<b>67,129</b>	<b>921</b>	<b>66,208</b>			
<b>Sub-total doubtful customer loans</b>	<b>1,417,841</b>	<b>105,882</b>	<b>1,311,959</b>	<b>496,193</b>	<b>78,735</b>	<b>417,458</b>

Doubtful loans outstanding in the unsubsidised sector includes €721m in loans guaranteed by SGFGAS.  
In accordance with the Regulation No. 2014-07 of the French national accounting standards authority, irrecoverable doubtful loans do not include loans with a guarantee covering nearly all of the risks. These are mainly subsidised sector loans and loans with a FGAS guarantee.

At December, 31 2015 (in €k)	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Impairment	Net	Gross	Impairment	Net
<b>French mortgages</b>	<b>1,224,122</b>	<b>86,726</b>	<b>1,137,396</b>	<b>409,345</b>	<b>61,349</b>	<b>347,996</b>
<b>Public sector</b>	<b>20,777</b>	<b>336</b>	<b>20,441</b>	<b>1,841</b>	<b>174</b>	<b>1,667</b>
French public sector	20,777	336	20,441	1,841	174	1,667
• Social housing	15,145	210	14,935	337	92	245
• French local authorities (FLA)	5,632	126	5,506	1,504	82	1,422
• Sovereign France						
Public-Private Partnership (PPP)						
International public sector						
• International public financing						
• International Sovereign						
<b>Commercial mortgage exposures</b>	<b>73,228</b>	<b>1,440</b>	<b>71,788</b>			
<b>Sub-total doubtful customer loans</b>	<b>1,318,127</b>	<b>88,502</b>	<b>1,229,625</b>	<b>411,186</b>	<b>61,523</b>	<b>349,663</b>

Doubtful loans outstanding in the unsubsidised sector includes €605.8m in loans guaranteed by SGFGAS.  
In accordance with the Regulation No. 2014-07 of the French national accounting standards authority, irrecoverable doubtful loans do not include loans with a guarantee covering nearly all of the risks. These are mainly subsidised sector loans and loans with a FGAS guarantee.

## NOTE 3. AVAILABLE FOR SALE AND HELD TO MATURITY SECURITIES

(in €k)	12/31/2017			12/31/2016			12/31/2015		
	Securities available for sale	Securities held to maturity	Total	Securities available for sale	Securities held to maturity	Total	Securities available for sale	Securities held to maturity	Total
Treasury bills and equivalent *		3,318,975	3,318,975		3,410,338	3,410,338		3,560,531	3,560,531
Related receivables		45,419	45,419		45,085	45,085		46,011	46,011
<b>Subtotal</b>		<b>3,364,394</b>	<b>3,364,394</b>		<b>3,455,424</b>	<b>3,455,424</b>		<b>3,606,541</b>	<b>3,606,541</b>
Bonds *		4,455,353	4,455,353		5,334,220	5,334,220		5,423,512	5,423,512
Interbank market instruments (mortgage notes) *				7,321,281		7,321,281	5,749,962		5,749,962
Negotiable debt securities									
Securitization units *									
Related receivables		56,231	56,231	3,537	65,950	69,487	5,252	67,887	73,139
<b>Subtotal</b>		<b>4,511,584</b>	<b>4,511,584</b>	<b>7,324,818</b>	<b>5,400,170</b>	<b>12,724,987</b>	<b>5,755,214</b>	<b>5,491,399</b>	<b>11,246,613</b>
Doubtful loans and securities including related receivables									
<b>GROSS AMOUNTS</b>		<b>7,875,978</b>	<b>7,875,978</b>	<b>7,324,818</b>	<b>8,855,594</b>	<b>16,180,411</b>	<b>5,755,214</b>	<b>9,097,940</b>	<b>14,853,154</b>
Impairment on fixed-income securities									
<b>NET AMOUNTS</b>		<b>7,875,978</b>	<b>7,875,978</b>	<b>7,324,818</b>	<b>8,855,594</b>	<b>16,180,411</b>	<b>5,755,214</b>	<b>9,097,940</b>	<b>14,853,154</b>

\* Of which:

	12/31/2017	12/31/2016	12/31/2015
Listed securities	7,346,859	8,292,594	8,507,563
Unlisted securities	427,469	7,773,244	6,226,430
<b>TOTAL</b>	<b>7,774,328</b>	<b>16,065,838</b>	<b>14,733,993</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. All mortgage notes have been repaid (see "Significant events of 2017"), unlisted securities are essentially represented by bonds.

Under the Regulation No. 2014-07 of the French national accounting standards authority, the aggregate fair value of the investment portfolio amounts to €8,927.23m at December 31, 2017 excluding related receivables.

Unrealized capital gains on Held-to-maturity securities amounted to €1,354.67m at December 31, 2017, before swap. At December 31,

2016, unrealised capital gains on Held-to-maturity securities amounted to €1,526.4m before swap.

Unrealized capital losses on Held-to-maturity securities amounted to €207.73m at December 31, 2017, before swap. At December 31, 2016, unrealized capital losses on Held-to-maturity securities amounted to €274.4m before swap.

The Company did not reclassify any securities to the "Held-to-maturity securities" portfolio either during the 2017 financial year or in previous years.

**NOTE 3 A. SOVEREIGN RISK**

At December 31, 2017, the net exposures of the Compagnie de Financement Foncier sovereign risk in these countries are:

Investment securities (in €m)	12/31/2017			12/31/2016			12/31/2015		
	Carrying amount	Market value	Value after swap *	Carrying amount	Market value	Value after swap *	Carrying amount	Market value	Value after swap *
Italy	2,267.4	2,708.3	1,878.9	2,305.4	2,734.5	1,786.3	2,327.9	2,794.4	1,956.9
Poland	341.5	392.5	269.6	373.6	417.1	248.4	351.7	381.9	252.3
<b>TOTAL</b>	<b>2,608.9</b>	<b>3,100.8</b>	<b>2,148.5</b>	<b>2,679.0</b>	<b>3,151.6</b>	<b>2,034.7</b>	<b>2,679.6</b>	<b>3,176.3</b>	<b>2,209.2</b>

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

The values given above exclude related receivables. Nominal values 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 December 31, 2017 are presented below:

	Residual maturity			
	1 year	7 years	> 8 years and < 10 years	> 10 years
Italy	64.1	242.0	800.0	972.8
Poland			156.3	185.2
<b>TOTAL</b>	<b>64.1</b>	<b>242.0</b>	<b>956.3</b>	<b>1,158.0</b>

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

## NOTE 3 B. FINANCIAL FIXED ASSETS

(in €k)	Gross 12/31/2015	Acqui- sitions	Disposals/ Redem- ptions *	Reclassi- fications	Change in premiums/ discounts	Currency differences	Gross 12/31/2016	Acqui- sitions	Disposals/ Redem- ptions *	Reclassi- fications	Change in premiums/ discounts	Currency differences	Gross 12/31/2017
Held to maturity securities	8,984,043		-111,081		-271,547	143,142	8,744,558		-369,210		-120,461	-480,560	7,774,328
<b>TOTAL</b>	<b>8,984,043</b>		<b>-111,081</b>		<b>-271,547</b>	<b>143,142</b>	<b>8,744,558</b>		<b>-369,210</b>		<b>-120,461</b>	<b>-480,560</b>	<b>7,774,328</b>
Related receivables	113,897				-2,862		111,035				-9,385		101,650
<b>TOTAL</b>	<b>9,097,940</b>		<b>-111,081</b>		<b>-274,408</b>	<b>143,142</b>	<b>8,855,593</b>		<b>-369,210</b>		<b>-129,846</b>	<b>-480,560</b>	<b>7,875,978</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 the issuer's important credit quality deterioration or regulatory constraints.

The group continued the sale of securities as part of its policy of reducing its international exposure, by selling €295.6m of securities and receivables in 2017.

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

## NOTE 4. OTHER ASSETS

(in €k)	12/31/2017	12/31/2016	12/31/2015
<b>Options bought</b>			
<b>Securities settlement accounts</b>		<b>1,083</b>	
<b>Other receivables</b>	<b>214,855</b>	<b>7,092</b>	<b>59,306</b>
Deposits on collateralisation transactions			
Other deposits and guarantees <sup>(1)</sup>	5,899	3,946	2,478
Tax consolidation receivables <sup>(2)</sup>	194,060		48,551
Other non-trade receivables	14,895	3,146	8,277
<b>Special bonus account</b>			
<b>TOTAL</b>	<b>214,855</b>	<b>8,175</b>	<b>59,306</b>

(1) As of December 31, 2017, this item includes mainly the guarantee deposits of €5,898k for 2015, 2016 and 2017 set up in the framework of the Single Resolution Fund.

(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

<i>(in €k)</i>	12/31/2017	12/31/2016	12/31/2015
<b>Collection accounts</b>			
<b>Deferred expenses</b>	<b>222,699</b>	<b>210,323</b>	<b>244,236</b>
Issue and redemption premiums on fixed income securities	222,699	210,323	244,236
Other deferred expenses			
<b>Prepaid expenses</b>	<b>1,275,389</b>	<b>1,465,050</b>	<b>1,612,521</b>
Termination balances of paid swaps to be amortised	1,275,389	1,465,050	1,610,243
Other prepaid expenses			2,278
<b>Accrued income</b>	<b>465,213</b>	<b>565,218</b>	<b>669,351</b>
Accrued interest on swaps	465,213	565,192	668,509
Other accrued income		26	842
<b>Other accrual accounts - assets</b>	<b>241,561</b>	<b>454,405</b>	<b>661,055</b>
Cash in domiciliation	1,857	-3,274	87,638
Deferred tax assets	228,991	444,814	538,918
Currency adjustment accounts			
Other accrued income *	10,713	12,866	34,499
<b>TOTAL</b>	<b>2,204,862</b>	<b>2,694,997</b>	<b>3,187,163</b>

\* Essentially composed of transit accounts or financial relations with Crédit Foncier.

## NOTE 6. AMOUNTS DUE TO CREDIT INSTITUTIONS

(in €k)	12/31/2017	12/31/2016	12/31/2015
<b>Due to credit institutions – on demand <sup>(1)</sup></b>		<b>355</b>	<b>12,176</b>
Current accounts of credit institutions			11,808
Demand loans to credit institutions			
Other amounts due to credit institutions		355	368
Related payables			
<b>Due to credit institutions – at maturity <sup>(2)</sup></b>	<b>7,945,176</b>	<b>8,777,695</b>	<b>9,840,321</b>
Term deposits and loans	6,227,489	5,148,342	6,509,044
Values sold under repurchase agreements			
Securities sold under repurchase agreements	1,717,299	3,628,236	3,317,707
Related payables	388	1,117	13,570
<b>TOTAL</b>	<b>7,945,176</b>	<b>8,778,050</b>	<b>9,852,497</b>
<b>(1) Details on due to credit institutions – on demand (Group/non-Group)</b>		<b>355</b>	<b>12,176</b>
Of which Group			59
• Other amounts due to credit institutions			59
• Demand loans to credit institutions			
• Related payables			
Of which non-Group		355	12,117
• Other amounts due to credit institutions		355	12,117
<b>(2) Details on due to credit institutions – at maturity (Group/non-Group)</b>	<b>7,945,176</b>	<b>8,777,695</b>	<b>9,840,321</b>
Of which Group	7,945,176	8,777,695	9,838,514
• Due and accounts at maturity	6,227,877	5,149,459	6,520,806
• Securities sold under repurchase agreements	1,717,299	3,628,236	3,317,707
Of which non-Group			1,808
• Due and accounts at maturity			1,037
• Banque de France refinancing (Overall collateral management pool – 3G pool)			
• Other term loans			770
• Values sold under repurchase agreements			
• Related payables			
<b>Due to Group credit institutions</b>	<b>7,945,176</b>	<b>8,777,695</b>	<b>9,838,573</b>
<b>Due to non-Group credit institutions</b>		<b>355</b>	<b>13,925</b>
<b>TOTAL</b>	<b>7,945,176</b>	<b>8,778,050</b>	<b>9,852,497</b>

**NOTE 7. AMOUNTS DUE TO CUSTOMERS**

<i>(in €k)</i>	12/31/2017	12/31/2016	12/31/2015
<b>Current accounts</b>			
<b>Other demand and term deposits</b>			<b>408</b>
Other amounts due			408
Other term loans to customers			
Term accounts in credit			
Related payables			
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>408</b>

**NOTE 8. DEBT SECURITIES**

<i>(in €k)</i>	12/31/2017	12/31/2016	12/31/2015
Negotiable debt securities	150,000	150,000	150,000
Related payables	1,533	1,243	1,326
<b>Negotiable debt securities and related payables</b>	<b>151,533</b>	<b>151,243</b>	<b>151,326</b>
<i>Obligations foncières</i>	62,559,580	66,437,242	67,860,404
Related payables	813,646	985,310	1,111,847
<b><i>Obligations foncières</i> and related payables</b>	<b>63,373,226</b>	<b>67,422,552</b>	<b>68,972,251</b>
<b>TOTAL</b>	<b>63,524,759</b>	<b>67,573,795</b>	<b>69,123,576</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 ("privilege" of *obligations foncières*).

## NOTE 9. OTHER LIABILITIES

(in €k)	12/31/2017	12/31/2016	12/31/2015
<b>Options sold</b>			
<b>Other payables</b>	<b>1,580,629</b>	<b>2,218,043</b>	<b>2,932,629</b>
Deposits on collateralisation transactions	1,410,462	2,021,034	2,755,396
Margin calls on repurchase agreements			
Trade payables*	70,072	65,438	
Tax consolidation liabilities <sup>(1)</sup>		215	
Other fiscal and social debts	85	1,652	11
Other payables accounts	13,556	58,199	119,663
Special bonus account	86,454	71,505	57,559
<b>Allocated public funds <sup>(2)</sup></b>	<b>43,318</b>	<b>43,216</b>	<b>48,825</b>
<b>TOTAL</b>	<b>1,623,947</b>	<b>2,261,259</b>	<b>2,981,454</b>

(1) Corporate tax due to Crédit Foncier (tax consolidation)

215

(2) Of which subsidised sector

36,975

32,847

34,250

\* The suppliers invoices received and not settled at December 31, 2017 amount to €250k. Pursuant to provisions of article D.441-4 of the French Commercial Code, the breakdown of the said invoices is the following:

Suppliers' invoices received and not settled as of December 31, 2017	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	more than 91 days	Total
The total amount of the invoices concerned (TTC, in €k)	80	170	-	-	250
Percentage of the total amount of the year purchases (TTC)	0.08%	0.18%	-	-	0.26%
Number of invoices	5	1	-	-	6

## NOTE 10. ACCRUAL ACCOUNTS – LIABILITIES

(in €k)	12/31/2017	12/31/2016	12/31/2015
<b>Collection accounts</b>	<b>159</b>	<b>52</b>	<b>919</b>
<b>Unearned income</b>	<b>1,286,462</b>	<b>1,619,769</b>	<b>1,896,151</b>
Subsidies on loans for low-income families and former interest-free loans	38,970	56,053	76,350
Balances of swaps received to be amortised	1,180,112	1,478,964	1,711,211
Other unearned income	67,380	84,752	108,590
<b>Accrued expenses</b>	<b>166,302</b>	<b>208,820</b>	<b>244,708</b>
Accrued interest on derivatives (swaps)	161,641	203,529	224,976
Other accrued expenses	4,661	5,291	19,732
<b>Other accrual accounts</b>	<b>635,735</b>	<b>685,974</b>	<b>228,774</b>
Currency adjustment accounts *	532,239	609,832	127,273
Other items	103,496	76,142	101,501
<b>TOTAL</b>	<b>2,088,657</b>	<b>2,514,616</b>	<b>2,370,553</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 11. PROVISIONS

<i>(in €k)</i>	12/31/2017	12/31/2016	12/31/2015
<b>Provisions for counterparty risks</b>	<b>15,866</b>	<b>19,377</b>	<b>16,129</b>
Provisions for potential risks on performing loans	15,866	19,377	16,129
Sectoral provisions			
<b>Provisions for litigation</b>	<b>2,228</b>		
Tax litigation			
Other litigation	2,228		
<b>Other provisions</b>	<b>823</b>	<b>1,058</b>	
Other provisions *	823	1,058	
<b>TOTAL</b>	<b>18,917</b>	<b>20,435</b>	<b>16,129</b>

\* Provision corresponding to an estimation of an accelerated amortization of several termination payments.

<i>(in €k)</i>	12/31/2016	Changes in 2017			12/31/2017	
		Additions	Reversals			Other changes
	Used		Not used			
<b>Provisions for counterparty risks</b>	<b>19,377</b>		<b>3,511</b>		<b>15,866</b>	
Provisions for counterparty risks on performing loans	19,377		3,511		15,866	
Sectoral provisions						
<b>Provisions for litigation</b>		<b>2,228</b>			<b>2,228</b>	
Tax litigation						
Other litigation		2,228			2,228	
<b>Other provisions</b>	<b>1,058</b>		<b>235</b>		<b>823</b>	
Other provisions	1,058		235		823	
<b>TOTAL</b>	<b>20,435</b>	<b>2,228</b>	<b>0</b>	<b>3,746</b>	<b>0</b>	<b>18,917</b>

## NOTE 12. CHANGES IN EQUITY

(in €k)	Opening balance at 01/01/2016		Changes in capital and reserves			Balance at 12/31/2016		Changes in capital and reserves			Balance at 12/31/2017
		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	52,326	6,625			58,951	4,684					63,635
General reserve	55,517				55,517						55,517
Regulated reserves											
Of which:											
• Regulated reserves for revaluation											
• Special reserve for long-term capital gains											
Retained earnings	92,901	-1,011			91,889	-4,576					87,313
<b>Net equity before net income for the year</b>	<b>3,081,207</b>				<b>3,086,820</b>						<b>3,086,927</b>
Net income for the year before distributions	132,486	-132,486			93,676	-93,676					58,205
<b>Equity after net income for the year</b>	<b>3,213,693</b>				<b>3,180,495</b>						<b>3,145,132</b>
Dividends paid		126,873				93,568					

(in €k)	Opening balance at 01/01/2016		Changes in provisions		Balance at 12/31/2016		Changes in provisions		Balance at 12/31/2017
		Allocation	Additions	Reversals		Allocation	Additions	Reversals	
Special revaluation provision									
Other regulated provisions									
Regulated provisions									
<b>Equity before distributions</b>	<b>3,213,693</b>				<b>3,180,495</b>				<b>3,145,132</b>

(in €k)	Opening balance at 01/01/2016		Changes in FRBG		Balance at 12/31/2016		Changes in FRBG		Balance at 12/31/2017
		Allocation	Additions	Reversals		Allocation	Additions	Reversals	
Reserve for general banking risks	20,000				20,000				20,000
<b>TOTAL</b>	<b>3,233,693</b>				<b>3,200,495</b>				<b>3,165,132</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 A. PROPOSED ALLOCATION OF INCOME**

<i>(in €k)</i>	<b>12/31/2017</b>	
<b>SOURCES</b>		
Retained earnings		87,313
Net income for the year		58,205
Deposit on dividends		
Transfer from reserves		
<b>ALLOCATION</b>		
Allocation to reserves		
• Legal reserve	2,911	
• Special long-term capital gains reserves		
• Other reserves		
Dividends	58,203	
Other distributions		
Retained earnings	84,404	
<b>TOTAL</b>	<b>145,518</b>	<b>145,518</b>

## NOTE 13. COMMITMENTS GIVEN

(in €k)	12/31/2017		12/31/2016		12/31/2015	
	Loans authorised but not yet established	Amounts not drawn down on loans already partially established	Loans authorised but not yet established	Amounts not drawn down on loans already partially established	Loans authorised but not yet established	Amounts not drawn down on loans already partially established
<b>Financing commitments</b>	<b>847,071</b>	<b>392</b>	<b>785,179</b>	<b>4,323</b>	<b>756,263</b>	<b>99,702</b>
<b>Subsidised sector</b>						
<b>Non-Group commitments</b>						
• Credit institutions						
• Customers						
<b>Unsubsidised sector</b>	<b>847,071</b>	<b>392</b>	<b>785,179</b>	<b>4,323</b>	<b>756,263</b>	<b>99,702</b>
<b>Non-Group commitments</b>	<b>847,071</b>	<b>392</b>	<b>785,179</b>	<b>4,323</b>	<b>756,263</b>	<b>99,702</b>
• Customers <sup>(1)</sup>	847,071	392	785,179	4,323	756,263	99,702
<b>Group commitments</b>						
• Credit institutions						
<b>Guarantee commitments</b>	<b>306,078</b>		<b>79,104</b>		<b>556,624</b>	
<b>Non-Group commitments</b>	<b>306,078</b>		<b>79,104</b>		<b>556,624</b>	
Other values used as collateral <sup>(2)</sup>	306,078		79,104		556,624	
<b>Commitments on securities</b>						
Other commitments given						
<b>TOTAL <sup>(3)</sup></b>	<b>1,153,541</b>		<b>868,607</b>		<b>1,412,588</b>	

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

(in €k)	12/31/2017	12/31/2016	12/31/2015
Permanent credit lines (outstanding transferred from Ixis CIB)	794,018	689,729	756,263
State housing savings accounts (primes d'épargne logement)	53,053	95,450	100,000

(2) This line 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)	12/31/2017	12/31/2016	12/31/2015
Securities	231,626		
Receivables	74,452	79,104	556,624

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

(3) Of which:

(in €k)	12/31/2017	12/31/2016	12/31/2015
Doubtful commitments	392	422	830

## NOTE 14. COMMITMENTS RECEIVED

(in €k)	12/31/2017	12/31/2016	12/31/2015
<b>Financing commitments</b>	<b>31,484,834</b>	<b>31,032,177</b>	<b>29,096,967</b>
<b>Non-Group commitments</b>	<b>563,114</b>	<b>258,292</b>	<b>489,828</b>
Credit institutions <sup>(1)</sup>	563,114	258,292	489,828
<b>Group commitments</b>	<b>30,921,720</b>	<b>30,773,885</b>	<b>28,607,139</b>
Repurchase guarantee			
Credit institutions <sup>(2)</sup>	3,000,000	3,400,000	3,000,000
Other assets received as collateral from the Group <sup>(3)</sup>	27,921,720	27,373,885	25,607,139
<b>Guarantee commitments</b>	<b>36,516,018</b>	<b>39,103,926</b>	<b>39,558,343</b>
<b>Non-Group commitments</b>	<b>34,234,487</b>	<b>36,576,008</b>	<b>39,086,007</b>
Credit institutions and similar institutions <sup>(4)</sup>	4,957,184	4,527,003	5,393,523
Customers <sup>(5)</sup>	29,277,303	32,049,005	33,692,484
<b>Group commitments <sup>(6)</sup></b>	<b>2,281,532</b>	<b>2,527,918</b>	<b>472,335</b>
Credit institutions and similar items	2,172,487	2,456,535	472,335
Customers	109,045	71,383	
<b>Commitments on securities</b>	<b>60,000</b>		
Other securities to be received	60,000		
<b>TOTAL COMMITMENTS RECEIVED</b>	<b>68,060,852</b>	<b>70,136,102</b>	<b>68,655,309</b>

(1) Non-Group financing commitments refer to the commitment received from the Banque de France in relation to the collateral management mechanism, including an amount of €265,6m at December 31, 2017, compared with €53,3m at December 31, 2016.

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

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

(in €k)	12/31/2017	12/31/2016	12/31/2015
• Guarantees received from Crédit Foncier for loans to French local authorities (L. 211-38)	18,789,564	10,412,727	10,348,612
• Guarantees received from BPCE SA as replacement values (L. 211-38 Short-term guaranteed notes)	6,590,777	6,656,400	6,655,400
• Guarantees received from Caisses d'Épargne and Banques Populaires for loans to French local authorities (L. 211-38)	2,541,378	2,542,445	2,555,844
• Guarantees received from Crédit Foncier for mortgage notes		7,762,299	6,047,283

(4) Mainly includes

(in €k)	12/31/2017	12/31/2016	12/31/2015
• Guarantees received from Crédit Logement rated Aa3 (Moody's)	3,264,384	2,728,231	1,712,796
• Guarantees received from Créserfi	269,305	6,412	324,625
• Security enhancement guarantees received from insurance companies	1,443,543	1,631,601	1,671,073

(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)	12/31/2017	12/31/2016	12/31/2015
• Government guarantees on loans, mainly to the subsidised sector	146,627	173,655	241,191
• Guarantees from the SFGAS on FGAS-eligible loans and covered by the government	16,874,627	16,966,939	16,603,041
• Mortgage guarantees for mortgage loans that are only covered by this guarantee	10,062,833	12,340,130	13,642,321
• Guarantees given by local authorities and other organisations	1,325,846	1,607,601	2,213,582
• Security enhancement guarantees given by governments	867,371	960,680	992,349

(6) At December 31, 2017, guarantee commitments on securities received from BPCE amounted to €800m and guarantee commitments on securities and loans and receivables received from Crédit Foncier for €21.4m.

## NOTE 15. COMMITMENTS ON FORWARDS AND OPTIONS CONTRACTS

(in €k)	12/31/2017		12/31/2016		12/31/2015	
	Euros currencies <sup>(2)</sup>	Other Euros currencies <sup>(2)</sup>	Euros currencies <sup>(2)</sup>	Other Euros currencies <sup>(2)</sup>	Euros currencies <sup>(2)</sup>	Other Euros currencies <sup>(2)</sup>
<b>OVER-THE-COUNTER MARKETS</b>						
<b>Options (nominal amounts)</b>	<b>1,615,671</b>		<b>1,882,745</b>		<b>2,191,843</b>	
<b>Hedging transactions (purchases)</b>						
• Interest rate instruments	1,615,671		1,882,745		2,191,843	
• Foreign exchange instruments						
• Other instruments						
<b>Other options</b>						
<b>Options (fair value)</b>	<b>4,285</b>		<b>8,619</b>		<b>13,183</b>	
<b>Forward transactions (nominal amounts)</b>	<b>70,094,424</b>	<b>9,130,872</b>	<b>70,325,602</b>	<b>12,279,430</b>	<b>68,864,424</b>	<b>13,629,839</b>
<b>Hedging transactions</b>						
• Interest rate instruments	62,404,320	310,747	60,790,418	326,490	58,208,844	364,965
• Foreign exchange instruments <sup>(3)</sup>	7,690,104	8,820,125	9,535,184	11,952,940	10,655,581	13,264,874
• Other instruments						
<b>Other transactions</b>						
<b>Forward transactions (fair value)<sup>(1)</sup></b>	<b>2,084,636</b>	<b>-1,901,504</b>	<b>1,798,965</b>	<b>-3,477,545</b>	<b>1,598,783</b>	<b>159,816</b>
<b>Forward and conditional transactions</b>	<b>71,710,096</b>	<b>9,130,872</b>	<b>72,208,347</b>	<b>12,279,430</b>	<b>71,056,267</b>	<b>13,629,839</b>
<b>TOTAL<sup>(2)</sup> (NOMINAL AMOUNTS)</b>	<b>80,840,968</b>		<b>84,487,777</b>		<b>84,686,107</b>	
<b>TOTAL (FAIR VALUE)</b>	<b>187,417</b>		<b>-1,669,961</b>		<b>1,771,782</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. These items are financial micro-hedging currency swaps.

(2) Notional amounts in euros at the reporting date.

(3) They are representative of foreign exchange forward position; the inverse position, spot currency transactions, is included in the balance sheet assets (See Note 25).

**NOTE 16. INTEREST AND SIMILAR INCOME AND EXPENSES**

<i>(in €k)</i>	12/31/2017			12/31/2016	12/31/2015
	Income	Expenses	Net	Net	Net
<b>Interbank transactions</b>	<b>297,114</b>	<b>-91,781</b>	<b>205,333</b>	<b>110,974</b>	<b>81,897</b>
Interest on Central Bank accounts		-7,331	-7,331	-7,590	-4,159
Interest on current accounts	5	-331	-325	-174	1
Interest on forwards	31,242	-74,998	-43,756	-35,023	-25,647
Interest on subordinated loans					
Interest on receivables guaranteed (replacement values)	265,867		265,867	156,785	124,282
Interest on securities received/sold under repurchase agreements		12,016	12,016	8,211	1,476
Financing and guarantee commitments					
Other interest income and expenses					
Hedging transactions (netting)		-21,137	-21,137	-11,235	-14,055
Hedged losses on receivables					
Non-hedged losses on receivables					
Net changes in provisions					
<b>Customers transactions</b>	<b>769,450</b>	<b>-113,143</b>	<b>656,308</b>	<b>899,781</b>	<b>1,171,279</b>
Interest on demand deposits, term deposits and regulated savings accounts					
Interest on loans to customers	700,527		700,527	940,175	1,096,671
Interest on subordinated loans					
Interest on non-performing loans	48,201		48,201	46,980	44,854
Amortization of additional loans fees (CRC Regulation 2009-03)	991		991	-419	-608
Interest on ABS cash collateral					
Other interest income and expenses	19,725	64	19,789	74,021	-6,076
Income on financing and guarantee commitments	6		6	1	21
Hedging transactions (netting)		-103,178	-103,178	-160,832	39,251
Hedged losses on receivables		-2,049	-2,049	-278	-735
Non-hedged losses on receivables		-7,373	-7,373	-861	-10
Net changes in provisions *		-606	-606	993	-2,089
<b>Finance lease transactions</b>					
<b>Securities portfolio transactions</b>	<b>1,372,641</b>	<b>-1,867,447</b>	<b>-494,806</b>	<b>-477,780</b>	<b>-607,978</b>
Interest on investment securities	13,737		13,737	108,487	70,301
Spreading of discounts/premiums on investment securities					
Interest on held-to-maturity securities	337,045		337,045	381,251	376,410
Amortisation of discounts/premiums on held-to-maturity securities	-37,223		-37,223	-36,493	-13,275
Interest on medium-term notes (BMTN) issued		-1,845	-1,845	-1,560	-2,003
Interest on certificates of deposits issued					
Interest on mortgage notes issued					
Interest and expenses on bond issuances		-1,816,722	-1,816,722	-2,037,434	-2,360,207
Interest on doubtful securities					
Hedging transactions (netting)	1,059,082	-48,880	1,010,202	1,107,969	1,312,639
Losses on non-recoverable receivables					-2,951
Net changes of provisions					11,108

<i>(in €k)</i>	12/31/2017			12/31/2016	12/31/2015
	Income	Expenses	Net	Net	Net
<b>Subordinated debt</b>					<b>-30,910</b>
Payables on subordinated term securities					-30,910
Payables on subordinated debt - credit institutions					
Payables on subordinated debt - customers					
<b>Other interest and similar income and expenses</b>	<b>16,918</b>	<b>-276,404</b>	<b>-259,486</b>	<b>-253,990</b>	<b>-358,397</b>
Income on debt securities	16,683		16,683	36,971	42,317
Fees on credit derivatives					
Commitments received/given on securities		-4,388	-4,388	-8,416	-3,688
Other interest income and expenses					
Macro-hedging transactions (netting)		-272,016	-272,016	-281,486	-397,025
Net changes of provisions	235		235	-1,058	
<b>TOTAL INTEREST AND SIMILAR INCOME AND EXPENSES</b>	<b>2,456,124</b>	<b>-2,348,774</b>	<b>107,350</b>	<b>278,984</b>	<b>255,891</b>

\* Net impact on customers interests listed on Net interest margin.



## NOTE 17. NET FEES AND COMMISSIONS

<i>(in €k)</i>	12/31/2017	12/31/2016	12/31/2015
<b>Commissions on interbank and cash transactions (net)</b>	-9	-8	-10
Income			
Expenses	-9	-8	-10
<b>Commissions on transactions with customers (net) *</b>	<b>96,161</b>	<b>82,969</b>	<b>109,659</b>
Income	96,161	82,969	109,659
Expenses			
<b>Commissions on securities transactions (net)</b>	<b>-1,112</b>	<b>-1,441</b>	<b>-1,550</b>
Income			
Expenses	-1,112	-1,441	-1,550
<b>Other commissions (net)</b>	<b>-493</b>	<b>-594</b>	<b>-584</b>
Income	3	3	52
Expenses	-496	-598	-636
<b>Total income</b>	<b>96,164</b>	<b>82,972</b>	<b>109,711</b>
<b>Total expenses</b>	<b>-1,617</b>	<b>-2,047</b>	<b>-2,195</b>
<b>TOTAL NET COMMISSIONS</b>	<b>94,547</b>	<b>80,926</b>	<b>107,515</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 prepayment rate observed on loans to individuals remains high, at 16.5% of outstandings for 2017.

## NOTE 18. NET GAINS/LOSSES ON TRADING PORTFOLIO TRANSACTIONS

<i>(in €k)</i>	12/31/2017	12/31/2016	12/31/2015
Gains on currency and arbitrage transactions	-117	-456	213
Losses on other financial instruments			
Gains on other financial instruments			
Charge to provisions for risks on Financial forward instruments			
Reversals from provisions for risks on Financial forward instruments			
<b>TOTAL NET GAINS/LOSSES ON TRADING BOOK TRANSACTIONS</b>	<b>-117</b>	<b>-456</b>	<b>213</b>

## NOTE 19. OTHER BANKING INCOME AND EXPENSES

(in €k)	12/31/2017			12/31/2016	12/31/2015
	Income	Expenses	Net	Net	Net
<b>Transfers of expenses and income, reallocated expenses</b>	0	0	0	0	0
<b>Other banking income and expenses</b>	129	-2,299	-2,169	2	25
Other operating income and expenses *	129	-70	59	2	25
Additions to and reserrals from provisions for other operating income and expenses *		-2,228	-2,228		
<b>TOTAL</b>	<b>129</b>	<b>-2,299</b>	<b>-2,169</b>	<b>2</b>	<b>25</b>

### \* Details

<b>Other operating income and expenses</b>	<b>129</b>	<b>-2,299</b>	<b>-2,169</b>	<b>2</b>	<b>25</b>
• Transfers to exceptional gains	73		73		
• Other operating income	56		56	7	77
• Losses on deferred interests and variable rate loans				-4	-10
• Transfers to exceptional losses		-65	-65		
• Other operating expenses		-5	-5		-41
• Charge to provisions		-2,228	-2,228		

**NOTE 20. GENERAL OPERATING EXPENSES**

<i>(in €k)</i>	<b>12/31/2017</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>TOTAL PAYROLL COSTS</b>	<b>-73</b>	<b>-60</b>	<b>-217</b>
Wages and salaries	-46	-54	-167
Costs of defined-contribution plans		-2	-9
Other social security costs and payroll-based taxes*	-28	-5	-41
Charges/reversals of provisions for litigation			
<b>TOTAL OTHER ADMINISTRATIVE EXPENSES</b>	<b>-117,827</b>	<b>-127,629</b>	<b>-122,938</b>
<b>Taxes other than on income</b>	<b>-21,638</b>	<b>-23,033</b>	<b>-19,194</b>
CET (local business tax) and CVAE (tax on company value added)	-1,705	-3,650	-1,935
Social solidarity contribution	-3,165	-4,617	-5,185
Contribution to the supervision expenses of the French Prudential Supervision and Resolution Authority (ACPR)	-815	-835	-791
Systemic banking risk tax	-2,741	-3,481	-3,942
Contributions to Single Resolution Fund	-11,071	-8,411	-5,739
Management fees to ECB	-1,082	-1,018	-818
Taxes other than on income	-1,060	-1,020	-784
Charges/reversals of provisions for tax disputes			
<b>EXTERNAL SERVICES</b>	<b>-96,189</b>	<b>-104,596</b>	<b>-103,744</b>
Leasing			
External services provided by the Group	-93,440	-100,802	-100,203
Fees, subcontracting and services	-2,460	-3,467	-3,211
Advertising	-161	-200	-234
Remuneration of intermediaries			
Transport and travel			
Maintenance and repairs			-4
Insurance premiums			
Other external services	-129	-128	-92
Additions to/reversals from provisions for disputes relating to external services			
Additions to/reversals from provisions for external services costs			
<b>Other expenses</b>			
<b>Transfers of expenses</b>			
<b>TOTAL OPERATING EXPENSES</b>	<b>-117,901</b>	<b>-127,689</b>	<b>-123,155</b>

\*The total amount of remuneration received by governing bodies at December 31, 2017 amounted to €46k. Following the decision of 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 recognized in 2017 under "Other social security costs and payroll-based taxes" corresponds to apprenticeship tax refunds for previous years.

## NOTE 21. COST OF RISK

(in €k)	12/31/2017			12/31/2016	12/31/2015
	Expenses	Income	Net	Net*	Net **
<b>Net additions/reversals on held-to-maturity securities</b>					<b>104,000</b>
Net additions/reversals on securities transactions <sup>(1)</sup>					104,000
<b>Net additions/reversals on customer transactions</b>	<b>-79,404</b>	<b>99,294</b>	<b>19,890</b>	<b>-44,156</b>	<b>-42,221</b>
Impairment of customer transactions	-79,404	95,783	16,379	-40,908	-41,767
Provisions for counterparty risks on performing loans		3,511	3,511	-3,248	-455
Sectoral provisions					
<b>Losses/recoveries on customer transactions</b>	<b>-30,246</b>	<b>5,445</b>	<b>-24,801</b>	<b>17,079</b>	<b>15,267</b>
Losses on irrecoverable loans and receivables covered by provisions	-24,442		-24,442	19,791	12,797
Losses on irrecoverable loans and receivables not covered by provisions	-2,598		-2,598	-6,741	-8,176
Recoveries of bad debts written off		5,445	5,445	4,029	10,647
Legal fees and litigation	-3,206		-3,206		
<b>Losses/recoveries on other transactions</b>					<b>-91,799</b>
Losses on the covered irrecoverable loans and receivables <sup>(1)</sup>					-91,799
<b>TOTAL COST OF RISK</b>	<b>-109,650</b>	<b>104,739</b>	<b>-4,910</b>	<b>-27,078</b>	<b>-14,753</b>

(1) Data corresponding to the capital loss recorded following the sale of HETA securities. This loss was covered by the €104m provision on held-to-maturity securities, recorded in 2014 and fully reversed in June 2015.

\*/\*\* Cost of risk neutralising an impact from HETA securities

-27,078

-26,954

## NOTE 22. GAINS/LOSSES ON LONG-TERM INVESTMENTS

(in €k)	12/31/2017	12/31/2016	12/31/2015
Capital gains or losses on disposals of held-to-maturity securities	7,458	-48	-4,032
Provisions for impairment on held-to-maturity securities			
Reversals for impairment on held-to-maturity securities			
<b>TOTAL GAINS OR LOSSES ON OTHER ASSETS</b>	<b>7,458</b>	<b>-48</b>	<b>-4,032</b>

## NOTE 23. INCOME TAX

<i>(in €k)</i>	12/31/2017	12/31/2016	12/31/2015
<b>TAX EXPENSE COMPONENTS</b>			
Current tax expenses (income) <sup>(1)</sup>	189,771	-16,862	48,551
Deferred tax liabilities (income) <sup>(1) (2)</sup>	-215,823	-94,104	-137,771
Provisions for deferred taxes			
Provisions for risks or for tax litigations			
<b>TOTAL</b>	<b>-26,052</b>	<b>-110,965</b>	<b>-89,220</b>
<b>BREAKDOWN OF DEFERRED TAXES FOR THE PERIOD</b>			
Termination swap balance	-213,626	-111,212	-117,722
Client provisions including credit risk provisions	-9,130	-231	3,272
Provisions on investment securities			
Other temporary differences	6,933	17,339	-23,321
<b>TOTAL</b>	<b>-215,823</b>	<b>-94,104</b>	<b>-137,771</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. The respective increase in each of the two components is essentially linked to the point mentioned in 2.5 of Note 1.

(2) Including -€0.195k recorded on the liability method for 2017.

## NOTE 24. TRANSACTIONS WITH RELATED CREDIT INSTITUTIONS <sup>(1)</sup>

(in €k)	12/31/2017	12/31/2016	12/31/2015	12/31/2017 Valuation of assets received as collateral <sup>(2)</sup>
<b>BALANCE SHEET</b>				
<b>Assets items</b>				
<b>Receivables due from credit institutions</b>				
Demand	148,657	243,976	460,025	
Term				
Term deposits guaranteed by repo securities	27,564,703	19,439,806	19,445,786	27,921,720
• <i>Loans guaranteed by French local authority loans (SPT) under L. 211-38</i>	11,838,381	12,826,941	12,831,385	11,908,290
• to Crédit Foncier	9,332,000	10,303,000	10,290,500	9,366,912
• to BPCE	2,320,000	2,320,000	2,320,000	2,353,458
• to other Group entities	186,381	203,941	220,885	187,920
• <i>Loans guaranteed by individuals loans under L. 211-38</i>	9,111,500			9,422,653
• to individuals	8,856,500			9,134,431
• to Corporates	255,000			288,222
• <i>Loans registered as replacement values under L. 211-38</i>	6,600,000	6,600,000	6,600,000	6,590,777
• to BPCE	6,600,000	6,600,000	6,600,000	6,590,777
• <i>Related receivables</i>	14,822	12,865	14,401	
<b>Customer transactions</b>				
Receivables				
<b>Securities transactions</b>				
Bonds and other fixed income securities	61,692	7,389,310	5,831,170	
• <i>Mortgage notes</i>		7,321,281	5,749,962	
• to Crédit Foncier		7,321,281	5,749,962	
• <i>Other fixed income securities</i>	58,802	61,497	72,457	
• <i>Related receivables</i>	2,890	6,532	8,750	
<b>Other assets <sup>(2)</sup></b>				
Other debtors	194,060		55,131	
<b>TOTAL ASSETS</b>	<b>27,969,112</b>	<b>27,073,092</b>	<b>25,792,112</b>	<b>27,921,720</b>
<b>Liabilities items</b>				
<b>Amounts due to credit institutions</b>				
Demand			59	
Term	6,228,709	5,151,053	6,521,208	
Securities sold under repurchase agreements	1,718,131	3,629,830	3,318,110	
<b>Customer transactions</b>				
Demand				
<b>Securities transactions</b>				
Debt securities				
Subordinated debts				
<b>Other liabilities <sup>(2)</sup></b>				
Other creditors	63,553	50,967	16,615	
<b>TOTAL LIABILITIES</b>	<b>8,010,393</b>	<b>8,831,850</b>	<b>9,855,992</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 25. STATEMENT OF FOREIGN EXCHANGE POSITIONS

## ■ At December 31, 2017

Heading (in €k)	Australian \$	Canadian \$	US \$	£ Sterling	Swiss Franc	Yen	Hungarian Forint	New Zealand \$	Norwegian Krone	Danish Krone	Total
<b>BALANCE SHEET</b>											
Financial assets	30	9	2,013,131	123,629	1,243,843	1,606,005	11	35	6,924	7	4,993,624
Financial liabilities			256,767	646,086	2,350,139	95,592			429,418		3,778,002
<b>Balance sheet differential (I)</b>	<b>30</b>	<b>9</b>	<b>1,756,364</b>	<b>-522,457</b>	<b>-1,106,296</b>	<b>1,510,413</b>	<b>11</b>	<b>35</b>	<b>-422,494</b>	<b>7</b>	<b>1,215,622</b>
<b>OFF-BALANCE SHEET</b>											
Commitments received			377,157	619,562	2,302,918	81,316			422,494		3,803,447
Commitments given			2,133,499	97,102	1,194,378	1,591,698					5,016,677
<b>Off-balance sheet differential (II)</b>			<b>-1,756,342</b>	<b>522,460</b>	<b>1,108,540</b>	<b>-1,510,382</b>			<b>422,494</b>		<b>-1,213,230</b>
<b>TOTAL (I)+(II) DIFFERENTIAL</b>	<b>30</b>	<b>9</b>	<b>22</b>	<b>3</b>	<b>2,244</b>	<b>31</b>	<b>11</b>	<b>35</b>	<b>0</b>	<b>7</b>	<b>2,392</b>

Financial assets are comprised of amounts due from credit institutions and customers.

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

## NOTE 26. STATEMENT OF LIQUIDITY POSITION

### ■ At December 31, 2017

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>7,852,037</b>	<b>1,002,128</b>	<b>2,204,142</b>	<b>18,179,908</b>	<b>44,052,815</b>	<b>73,291,030</b>
Receivables from credit institutions	7,052,500	442,292	905,300	8,125,265	12,049,155	28,574,512
Receivables from customers	720,455	554,525	1,229,232	9,000,585	25,437,394	36,942,191
Bonds and other fixed-income securities	79,082	5,311	69,610	1,054,058	6,566,266	7,774,327
Subordinated term loans						
<b>Financial liabilities</b>	<b>6,833,380</b>	<b>5,083,498</b>	<b>2,023,477</b>	<b>26,063,273</b>	<b>30,650,739</b>	<b>70,654,367</b>
Due to credit institutions	6,748,380	102,938	1,072,421	9,403	11,646	7,944,788
Due to customers						
Debt securities:	85,000	4,980,560	951,056	26,053,870	30,639,093	62,709,579
• Retails certificates of deposit						
• Interbank market securities						
• Negotiable debt securities				150,000		150,000
• Bonds	85,000	4,980,560	951,056	25,903,870	30,639,093	62,559,579
• Other debt securities						
Subordinated term debt						
<b>Balance sheet differential (I)</b>	<b>1,018,657</b>	<b>-4,081,370</b>	<b>180,665</b>	<b>-7,883,365</b>	<b>13,402,076</b>	<b>2,636,663</b>
<b>OFF-BALANCE SHEET</b>						
Commitments given			847,463			847,463
Commitments received	265,689			3,000,000		3,265,689
<b>Off-balance sheet differential (II)</b>	<b>265,689</b>	<b>0</b>	<b>-847,463</b>	<b>3,000,000</b>	<b>0</b>	<b>2,418,226</b>
<b>TOTAL DIFFERENTIAL (I)+(II)</b>	<b>1,284,346</b>	<b>-4,081,370</b>	<b>-666,798</b>	<b>-4,883,365</b>	<b>13,402,076</b>	<b>5,054,889</b>
Conditional positions			4,500	28,622	1,582,549	1,615,671

(1) The financial assets of Compagnie de Financement Foncier include €4.9bn 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 27. FINANCIAL RESULTS OF THE COMPANY OVER THE LAST FIVE YEARS

Description (in €)	2013	2014	2015	2016	2017
<b>I) FINANCIAL SITUATION AT THE END OF THE FINANCIAL YEAR</b>					
a) Share Capital	1,187,459,936	1,187,459,936	2,537,459,936	2,537,459,936	2,537,459,936
b) Number of shares in issue	74,216,246	74,216,246	158,591,246	158,591,246	158,591,246
c) Number of bonds convertible into shares	None	None	None	None	None
<b>II) OVERALL EARNINGS FROM OPERATIONS</b>					
a) Revenue excluding taxes	3,951,959,039	3,483,192,834	3,238,589,705	2,933,578,888	2,543,480,488
b) Profit for the financial year before tax, employee profit sharing and net increase/reversal in amortisation and provisions	522,287,700	211,614,676	136,262,954	232,455,527	66,965,494
c) Income taxes <sup>(1)</sup>	476,207,470	-8,920,504	-48,551,006	16,483,217	-26,052,279
d) Employee profit sharing for the financial year	None	None	None	None	None
e) Profit for the financial year after tax, employee profit sharing and net increase/reversal in amortisation and provisions	32,593,283	84,328,007	132,485,939	93,676,428	58,204,957
f) Amount of profits distributed	30,428,661	74,216,246	126,872,997	93,568,835	58,202,987
<b>III) EARNINGS FROM OPERATIONS PER SHARE <sup>(2)</sup></b>					
a) Profit for the financial year after tax and employee profit sharing but before net increase/reversal in amortisation and provisions	0.62	0.19	0.48	0.77	0.26
b) Profit for the financial year after tax and employee profit sharing and net increase/reversal in amortisation and provisions	0.44	0.07	1.34	0.59	0.37
c) Dividend paid per share	0.41	1.00	0.80	0.59	0.37
<b>IV) STAFF</b>					
a) Number of employees	Negligible	Negligible	Negligible	Negligible	Negligible
• Management category	Negligible	Negligible	Negligible	Negligible	Negligible
• Employee and Technician category	None	None	None	None	None
b) Total employee salaries	Negligible	Negligible	Negligible	Negligible	Negligible
c) Amount paid for social contributions and benefits (social security, other staff benefits, etc.)	Negligible	Negligible	Negligible	Negligible	Negligible

(1) At December 31, 2015, Compagnie de Financement Foncier's fiscal deficit was offset by a compensation for tax savings transferred to tax consolidation Group, in compliance with the tax consolidation agreement.

(2) Earnings per share are determined by the average number of shares for the year concerned.

## NOTE 28. CASH FLOW STATEMENT

### 1. Principles

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

The Compagnie de Financement Foncier Cash Flow Statement is presented according to Recommendation 2004-R-03 of the French National Accounting Board (CNC), concerning the format of corporate summary documents subject to the supervision of the French Banking and Financial Regulatory Committee (BFRC).

It is prepared using the indirect method: net income for the period is restated for non-monetary items: depreciation allowances for tangible and intangible assets, net provisions, other transactions without cash payments such as expenses payable and accrued income. Cash flows from operating, investing and financing activities are determined by 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 by allocating 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 securitisation 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>	12/31/2017	12/31/2016	12/31/2015
<b>OPERATING ACTIVITIES</b>			
Net income for the year	58,205	93,676	132,486
Restatement of earnings related to operating activities			
Tangible and intangible fixed assets, excluding goodwill			
Net provisions/customers and credit institutions	-15,774	17,380	29,211
Net provisions/available-for-sale securities			
Net provisions/held-to-maturity securities			-115,108
Net provisions for risks/loans	-3,746	4,306	455
Net gain on sale of fixed assets			
Other transactions without cash payments	156,331	957,331	-606,237
Cash flows on loans to credit institutions and customers	-4,322,888	,945,978	1,439,818
Cash flows on short-term investment securities	7,321,281	-1,571,315	1,567,579
Cash flows on long-term investment securities	497,281	-384,249	628,600
Cash flows on other assets	5,065	258,864	544,053
Cash flows on debts/credit institutions and customers	-832,145	-1,062,401	4,798,405
Net borrowing	-3,877,663	-1,423,161	-1,567,500
Cash flows on other liabilities	-608,751	-747,505	-651,939
<b>Net cash flows used for operating activities</b>	<b>-1,622,804</b>	<b>-2,911,096</b>	<b>6,199,823</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	-93,569	-126,873	-74,216
Net issuances of subordinated debt			
Other			
<b>Net cash flows from financing activities</b>	<b>-93,569</b>	<b>-126,873</b>	<b>-74,216</b>
<b>NET CHANGE IN CASH POSITION</b>	<b>-1,716,373</b>	<b>-3,037,969</b>	<b>6,125,607</b>
Opening cash position	2,428,398	5,466,367	1,440,760
Closing cash position	712,025	2,428,398	5,466,367
<b>Net</b>	<b>-1,716,373</b>	<b>-3,037,969</b>	<b>4,025,607</b>
Cash: deposits at Banque de France	670,000	2,400,000	5,360,083
Due to credit institutions on demand *	42,025	,28,398	106,284
<b>TOTAL</b>	<b>712,025</b>	<b>2,428,398</b>	<b>5,466,367</b>
* Of which:			
BPCE	39,819	27,744	90,442

## NOTE 29. FEES OF STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS

(in €k)	KPMG				PricewaterhouseCoopers			
	Amount (incl. tax)		%		Amount (incl. tax)		%	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Audit</b>	<b>305</b>	<b>303</b>	<b>100%</b>	<b>100%</b>	<b>300</b>	<b>321</b>	<b>100%</b>	<b>100%</b>
Certification of financial statements	216	192	71%	63%	210	214	70%	67%
Services other than certification of financial statements	89	111	29%	37%	90	107	30%	33%

*These amounts are included in the income statement.*

*"Services other than certification of financial statements" include provision of confort letters for issuances.*

# Statutory Auditor's report on the financial statements

To the annual general meeting of **Compagnie de Financement Foncier**

For the year ended 31 December 2017

## OPINION

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of Compagnie de Financement Foncier for the year ended 31 December 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

## BASIS FOR OPINION

### ■ Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ■ Current and deferred taxes

Description of risk	How our audit addressed this risk
<p>As described in the notes to the financial statements, Compagnie de Financement Foncier has opted to recognize deferred taxes in its financial statements for all temporary differences between the tax and accounting value of its assets and liabilities.</p> <p>In 2017, the bank's deferred tax assets altered significantly due in particular to the adjustment of the tax treatment of certain balances paid on previously terminated macro-hedging swaps, generating a tax receivable in relation to BPCE offset by a nearly equivalent decrease in the net deferred tax position.</p> <p>In addition, recent changes in French tax regulations regarding corporate income tax have had an impact on the calculation of deferred taxes.</p> <p>We deemed the recognition of tax assets and liabilities to constitute a key audit matter in view of:</p> <ul style="list-style-type: none"> <li>the scale of the impact of certain transactions and of changes in tax legislation that took place over the year; and</li> <li>the large number and the impact of the restatements between the accounting and tax treatment leading to recognition of deferred taxes.</li> </ul> <p>On December 31, 2017, deferred tax assets amounted to €229 million.</p> <p>For more details on the accounting policies, see Notes 2.6 (Significant events of 2017), 4.3.9 (Income tax), 5 (Accrual accounts - Assets) and 23 (Income tax) to the financial statements.</p>	<p>We familiarized ourselves with the internal procedures implemented by the Company to calculate its current taxes and identify temporary differences between the accounting and tax values of the assets and liabilities recognized in Compagnie de Financement Foncier's balance sheet.</p> <p>With the assistance of our tax experts, we examined:</p> <ul style="list-style-type: none"> <li>the calculations of current taxes and deferred taxes;</li> <li>the accounting and tax treatment of the year's main transactions that impacted current taxes and the deferred tax asset and liability bases; and</li> <li>findings of previous tax audits to identify possible tax risks or accounting treatment anomalies.</li> </ul> <p>We also:</p> <ul style="list-style-type: none"> <li>examined the accounting impact of changes in tax legislation; and</li> <li>analyzed the tax proof at year-end.</li> </ul>

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

### ■ Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (code de déontologie) for statutory auditors.

### JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

## ■ IT system: management of access rights to IT systems

Description of risk	How our audit addressed this risk
<p>As is the case for all credit institutions with high volumes of daily transactions, Compagnie de Financement Foncier is very dependent on its IT systems.</p> <p>In this type of environment, our audit approach relies on certain automated controls relating to access rights to and management of these IT systems. We focus in particular on the management of authorizations that enable Compagnie de Financement Foncier to ensure that users are given access to applications and to make changes, thus limiting the risk of fraud or error as a result of unauthorized changes to application settings or underlying data.</p> <p>As part of a major migration of its IT systems to a Group platform and Group applications at the end of 2015, Compagnie de Financement Foncier had to grant broader access rights to a large number of bank employees while awaiting finalization of certain specific developments.</p> <p>A remediation plan was implemented following the migration but was only gradually completed over the course of the year. We deemed that this situation represented a particular risk area and consequently a key audit matter.</p>	<p>We gained an understanding and verified the actual application of the remediation plans implemented by the bank and their roll-out timetable in order to determine what, if any, additional procedures would need to be carried out for those periods or scopes that might not be covered.</p> <p>We examined and tested the main compensatory measures implemented by the bank's management to mitigate the risk of registering unauthorized or inaccurate transactions and, in particular those implemented in relation to :</p> <ul style="list-style-type: none"> <li>• the releases of funds;</li> <li>• the transfer of loans and receivables between Crédit Foncier de France and Compagnie de Financement Foncier ; and</li> <li>• customer complaints.</li> </ul> <p>We also performed the following tests in order to verify, on a sample basis, the appropriateness of the entries recorded:</p> <ul style="list-style-type: none"> <li>• identification of atypical access to IT systems in relation to the transactions carried out and the user profiles;</li> <li>• identification and analysis of transactions or data showing atypical characteristics; and</li> <li>• recalculation of components of Net Banking Income from transactional data.</li> </ul>

## VERIFICATION OF THE MANAGEMENT REPORT AND OF THE OTHER DOCUMENTS PROVIDED TO SHAREHOLDERS

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

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to Shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. article L. 225-37-3 of the French Commercial Code (code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### ■ Appointment of the Statutory Auditors

We were appointed as statutory auditors of Compagnie de Financement Foncier by the annual general meeting held on 17 May 2002 for PricewaterhouseCoopers Audit and on 25 May 2005 for KPMG S.A..

As at 31 December 2017, PricewaterhouseCoopers Audit and KPMG S.A. were in the 6th year and 12th year of total uninterrupted engagement respectively.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

## STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

### ■ Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related

disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

#### ■ Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (code de commerce) and in the French Code of Ethics (code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Paris La Défense, 28 March 2018

**PricewaterhouseCoopers Audit**

Anik Chaumartin

**KPMG S.A.**

Xavier de Coninck

## Details of the calculation of the overcollateralisation ratio and control of limits

	Net book values or amounts eligible for refinancing (in €k)	Weighting (in %)	Weighted amounts (in €k)
<b>Assets used to cover privileged resources</b>	<b>1</b>	<b>2</b>	<b>3</b>
<b>1. Mortgage-backed loans – prime mortgages or equivalent collateral</b>	<b>34,411,782</b>	<b>100%</b>	<b>34,411,782</b>
<b>2. Promissory notes (Articles L. 313-42 To L. 313-49 of the French Monetary and Financial Code).</b>	<b>0</b>		<b>0</b>
2.1. Of which: Mortgage-backed loans – prime mortgages or equivalent collateral			
2.2. Guaranteed loans	0	100%	0
2.2.1. • Satisfying the conditions of 1-a) in the appendix to Regulation No. 99-10: The guarantee company outside the consolidation scope of the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> has a minimum of the second-highest grade of credit quality.	0	100%	0
2.2.2. • Satisfying the conditions of 1-a) in the appendix to Regulation No. 99-10: The guarantee company outside the consolidation scope of the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> has the third-highest grade of credit quality.	0	100%	0
2.2.3. • Satisfying the conditions of 1-b) in the appendix to Regulation No. 99-10: The guarantee company within the consolidation scope of the <i>société de financement de l'habitat</i> has a minimum of the second-highest grade of credit quality.		80%	
2.2.4. • Satisfying the conditions of 1-b) in the appendix to Regulation No. 99-10: The guarantee company within the consolidation scope of the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> has the third-highest grade of credit quality.		80%	
<b>3. Exposures on public entities</b>		<b>60%</b>	
3.1. Of which: • Exposures set out in paragraph 5 of Article L. 513-4 I of the French Monetary & Financial Code	29,178,000	100%	29,178,000
3.2. • Exposures set out in paragraph 5 of Article L. 513-4 I of the French Monetary & Financial Code entered in the balance sheet prior to December 31, 2007			
<b>4. Fixed assets resulting from the acquisition of property under the application of a guarantee</b>		<b>50%</b>	
<b>5. Safe securities and deposits, and liquidities coming under Article R. 513-6</b>	<b>6,751,078</b>	<b>100%</b>	<b>6,751,078</b>
5.1. Receivables and securities from credit institutions and investment firms corresponding to subparagraph 1 of Article R. 513-6	5,340,828	100%	5,340,828
5.2. Receivables and securities from the management of forward financial instruments corresponding to subparagraph 2 of Article R. 513-6	1,410,250	100%	1,410,250
5.3. Receivables and securities from credit institutions and investment firms corresponding to subparagraph 3 of Article R. 513-6		100%	
<b>6. Guaranteed loans</b>	<b>4,968,182</b>		<b>4,968,182</b>
6.1. • Satisfying the conditions of 1-a) in the appendix to Regulation No. 99-10: The guarantee company outside the consolidation scope of the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> has a minimum of the second-highest grade of credit quality.	4,968,182	100%	4,968,182
6.2. • Satisfying the conditions of 1-a) in the appendix to Regulation No. 99-10: The guarantee company outside the consolidation scope of the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> has the third-highest grade of credit quality.		80%	
6.3. • Satisfying the conditions of 1-b) in the appendix to Regulation No. 99-10: The guarantee company that is within the consolidation scope of the <i>société de financement de l'habitat</i> has a minimum of the second-highest grade of credit quality.		80%	
6.4. • Satisfying the conditions of 1-b) in the appendix to Regulation No. 99-10: The guarantee company that is within the consolidation scope of the <i>société de financement de l'habitat</i> has the third-highest grade of credit quality.		60%	



		Net book values or amounts eligible for refinancing (in €k)	Weighting (in %)	Weighted amounts (in €k)
		1	2	3
<b>Assets used to cover privileged resources</b>				
<b>7.</b>	<b>Shares, equities and debt securities issued by a securitisation entity</b>			
7.1.	Shares, equities and debt securities issued by a securitisation or similar entity whose assets have been disposed of exclusively by entities belonging to the same consolidation scope as the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> and satisfying the conditions of 2-a) of the appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> before December 31, 2011 that have the highest grade of credit quality (until December 31, 2014).		100%	
	Of which:			
7.1.1.	• Assets are at least 90% composed of loans to natural persons to finance housing			
7.1.2.	• Assets are 90% composed of loans mentioned in Article L. 513-3 that do not fall within the scope of R. 513-3 II			
7.1.3.	• Assets are 90% composed of exposures defined in Article L. 513-4			
7.2.	Shares, equities and debt securities issued by a securitisation or similar entity whose assets have been disposed of exclusively by entities belonging to the same consolidation scope as the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> and satisfying the conditions of 2-a) of the appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> before December 31, 2011 that have the second-highest grade of credit quality (until December 31, 2014).		80%	
	Of which:			
7.2.1.	• Assets are at least 90% composed of loans to natural persons to finance housing			
7.2.2.	• Assets are 90% composed of loans mentioned in Article L. 513-3 that do not fall within the scope of R. 513-3 II			
7.2.3.	• Assets composed 90% of exposures defined in Article L. 513-4			
7.3.	Shares, equities and debt securities issued by a securitisation or similar entity whose assets have been disposed of exclusively by entities belonging to the same consolidation scope as the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> and satisfying the conditions of 2-b) of the appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> after December 31, 2011 and shares, equities and debt securities acquired or financed prior to that date that have the highest grade of credit quality from January 1, 2015.		100%	
	Of which:			
7.3.1.	• Assets composed at least 90% of loans to natural persons to finance housing			
7.3.2.	• Assets composed 90% of loans mentioned in Article L. 513-3 that do not fall within the scope of R. 513-3 II			
7.3.3.	• Assets composed 90% of exposures defined in Article L. 513-4			
7.4.	Shares, equities and debt securities issued by a securitisation or similar entity whose assets have been disposed of exclusively by entities belonging to the same consolidation scope as the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> and satisfying the conditions of 2-b) of the appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> after December 31, 2011 and shares, equities and debt securities acquired or financed prior to that date that have the second-highest grade of credit quality from January 1, 2015.		50%	
	Of which:			
7.4.1.	• Assets composed at least 90% of loans to natural persons to finance housing			
7.4.2.	• Assets composed 90% of loans mentioned in Article L. 513-3 that do not fall within the scope of R. 513-3 II			
7.4.3.	• Assets composed 90% of exposures defined in Article L. 513-4			

## FINANCIAL REPORT

Statutory Auditor's report on the financial statements

		Net book values or amounts eligible for refinancing (in €k)	Weighting (in %)	Weighted amounts (in €k)
		1	2	3
<b>Assets used to cover privileged resources</b>				
7.5.	Shares, equities and debt securities issued by a securitisation or similar entity some of whose assets have been disposed of by an entity not belonging to the same consolidation scope as the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> and satisfying the conditions of 3-a) of the appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> before December 31, 2011 that have the highest grade of credit quality (until December 31, 2014).		100%	
7.5.1.	Of which:			
	• Assets composed at least 90% of loans to natural persons to finance housing			
7.5.2.	• Assets composed 90% of loans mentioned in Article L. 513-3 that do not fall within the scope of R. 513-3 II			
7.5.3.	• Assets composed 90% of exposures defined in Article L. 513-4			
7.6.	Shares, equities and debt securities issued by a securitisation or similar entity some of whose assets have been disposed of by an entity not belonging to the same consolidation scope as the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> and satisfying the conditions of 3-a) of the appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> before December 31, 2011 that have the second-highest grade of credit quality (until December 31, 2014).		50%	
7.6.1.	Of which:			
	• Assets composed at least 90% of loans to natural persons to finance housing			
7.6.2.	• Assets composed 90% of loans mentioned in Article L. 513-3 that do not fall within the scope of R. 513-3 II			
7.6.3.	• Assets composed 90% of exposures defined in Article L. 513-4			
7.7.	Shares, equities and debt securities issued by a securitisation or similar entity some of whose assets have been disposed of by an entity not belonging to the same consolidation scope as the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> and satisfying the conditions of 3-b) of the appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the <i>société de crédit foncier</i> or <i>société de financement de l'habitat</i> after December 31, 2011 and shares, equities and debt securities acquired or financed prior to that date that have the highest grade of credit quality from January 1, 2015.		100%	
7.7.1.	Of which:			
	• Assets composed at least 90% of loans to natural persons to finance housing			
7.7.2.	• Assets composed 90% of loans mentioned in Article L. 513-3 that do not fall within the scope of R. 513-3 II			
7.7.3.	• Assets composed 90% of exposures defined in Article L. 513-4			
<b>8.</b>	<b>Other assets</b>	<b>2,174,947</b>	<b>100%</b>	<b>2,174,947</b>
8.1.	Other class 1 items	670,000	100%	670,000
8.2.	Other class 2 items	10,071	100%	10,071
8.3.	Other class 3 items	1,494,875	100%	1,494,875
8.4.	Other class 4 items		100%	
<b>9.</b>	<b>Transactions deducted from assets</b>	<b>3,282,645</b>	<b>100%</b>	<b>3,282,645</b>
9.1.	Funds received from clients awaiting charging, recorded under liabilities on the balance sheet		100%	
9.2.	Security repurchase agreements: securities sold	1,529,078	100%	1,529,078
9.3.	Receivables funded in the conditions set by Articles L. 313-23 to L. 313-34 of the French Monetary & Financial Code		100%	
9.4.	Assets deducted following the implementation of Article 9 of Regulation 99-10	1,753,567		1,753,567
<b>10.</b>	<b>Total weighted amounts of assets (1+2+3+4+5+6+7+8+9)</b>			<b>74,201,343</b>
	<b>Coverage ratio</b> (with 2 decimals) (A/L x 100)		117.23%	

<b>Resources having the privilege defined in Article L. 513-11 of the French Monetary &amp; Financial Code: liabilities</b>		<b>Amounts (in €k)</b>
<b>1.</b>	<b>Privileged resources from credit institutions</b>	
1.1.	of which nominal amount	
<b>2.</b>	<b>Privileged resources from clients</b>	
2.1.	Financial clients	
2.2.	Non-financial clients	
2.3.	of which nominal amount	
<b>3.</b>	<b>Securities with privilege</b>	<b>63,524,758</b>
3.1.	<i>Obligations foncières</i> or housing finance bonds	62,559,580
3.2.	Negotiable debt securities	150,000
3.3.	Other securities with privilege	
3.4.	Debts related to these securities	815,179
3.5.	To be deducted: <i>obligations foncières</i> or housing finance bonds issued and subscribed for by the credit institution when they are not used as collateral for credit transactions by Banque de France	
3.6.	Subtotal	63,524,758
3.7.	of which nominal amount	62,709,579
<b>4.</b>	<b>Amounts due in respect of the contract provided for by Article L. 515-22 of the French Monetary and Financial Code</b>	<b>2,060</b>
<b>5.</b>	<b>Amounts due in respect of the forward financial instruments having the privilege defined under Article L. 515-19 of the French Monetary and Financial Code</b>	<b>-230,962</b>
5.1.	of which impact of variations in exchange rate on the nominal amount of privileged resources	-267,040
<b>6.</b>	<b>Liabilities resulting from the incidental expenses set out in the last paragraph of Article L. 515-19 of the French Monetary and Financial Code</b>	
<b>7.</b>	<b>Privileged resources (1+2+3+4+5+6) L</b>	<b>63,295,856</b>
<b>8.</b>	<b>Nominal amount of privileged resources (1.1+2.3+3.7+5.1)</b>	<b>62,442,539</b>

<b>Audit of the limits applicable to asset classes (ratio with 2 decimals)</b>		<b>Ratios/Amounts</b>
		<i>(in % / €k)</i>
<b>1.</b>	<b>Total assets</b>	<b>78,366,588</b>
2.1.	Loans guaranteed held directly	3,474,117
2.2.	Guaranteed loans included as assets of securitisation or similar entities, or assigned by promissory notes	1,514,328
2.3.	Total guaranteed loans (2.1 + 2.2) / asset (1) ( $\leq 35\%$ except for housing finance companies)	6.37%
3.1.	Promissory notes held directly	n.a.
3.2.	Promissory notes included as assets of securitisation or similar entities	n.a.
3.3.	Total promissory notes (3.1 + 3.2) / asset (1) ( $\leq 10\%$ )	n.a.
4.	Total shares, equities and debt securities of securitisation or similar entities satisfying the conditions of section II of Article R. 513-3 of the French Monetary & Financial Code and not satisfying section IV of Article R. 513-3/nominal amount of privileged resources ( $\leq 10\%$ )	0.00%
4.1.	Total shares, equities and debt securities of securitisation or similar entities held satisfying the conditions of section II of Article R. 513-3 of the French Monetary & Financial Code and not satisfying section IV of Article R. 513-3 / nominal amount of privileged resources	0.00%
5.	Total shares, equities and debt securities of securitisation or similar entities satisfying the conditions of section III of Article R. 513-3 of the French Monetary & Financial Code and not satisfying section IV of Article R. 515-3/nominal amount of privileged resources ( $\leq 10\%$ )	0.00%
5.1.	Total shares, equities and debt securities of securitisation or similar entities held satisfying the conditions of section III of Article R. 513-3 of the French Monetary & Financial Code and not satisfying section IV of Article R. 513-3/nominal amount of privileged resources	
6.	Total exposures covered under paragraph 5 of section I in Article L. 515-15 of the French Monetary & Financial Code/nominal amount of privileged resources ( $\leq 20\%$ )	
7.	Safe and liquid assets / nominal amount of privileged resources ( $\leq 15\%$ )	8.55%

## DETAILS OF THE CALCULATION OF THE OVERCOLLATERALISATION RATIO AND CONTROL OF LIMITS

Details of the calculation of the 25% exposure limit to assets of related parties pursuant to the final subparagraph of Article 9 of Regulation No. 99-10		Amounts <i>(in €k)</i>	Weighting <i>(in %)</i>	Weighted amounts <i>(in €k)</i>
		<b>1</b>	<b>2</b>	<b>3</b>
<b>1</b>	<b>Exposures to the entities mentioned in the third subparagraph of Article R. 513-8 of the French Monetary &amp; Financial Code</b>	<b>7,166,260</b>	<b>100%</b>	<b>7,166,260</b>
	Of which:			
1.1	Receivables and securities from credit institutions corresponding to subparagraphs 1 and 3 of Article R. 513-6 of the French Monetary & Financial Code	6,807,459	100%	6,807,459
1.2	Receivables and guarantees corresponding to subparagraph 2 of Article R. 513-6 of the French Monetary & Financial Code (including receivables and guarantees connected with the management of forward financial instruments)		100%	
1.3	Other assets	358,801	100%	358,801
1.3.1	Interest accrued on swaps	147,028	100%	147,028
1.3.2	Accrued income		100%	
1.3.3	Other	211,772	100%	211,772
<b>2</b>	<b>Non-privileged resources</b>	<b>14,145,890</b>	<b>100%</b>	<b>14,145,890</b>
2.1	Amount of the 25% limit of non-privileged resources provided for in Article 9 of CRBF Regulation No. 99-10	3,536,472		
<b>3</b>	<b>Assets received in guarantee, as security or outright with respect to 1 pursuant to Articles L. 211-36 to L. 211-40, L. 313-23 to L. 313-35 and L. 342 to L. 313-49 of the French Monetary &amp; Financial Code</b>	<b>1,876,220</b>		<b>1,876,220</b>
3.1	Assets weighted at 100%	1,876,220	100%	1,876,220
3.2	Assets weighted at 80%		80%	
3.3	Assets weighted at 60%		60%	
3.4	Assets weighted at 50%		50%	
<b>4</b>	<b>Amount to be deducted from assets</b>	<b>1,753,567</b>		



# Legal information

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# 1. General information concerning the Company

## a. Registered office

The registered office of Compagnie de Financement Foncier is located at 19, rue des Capucines, 75001 Paris.

## b. Activity

Compagnie de Financement Foncier is the *société de crédit foncier* of group Crédit Foncier de France, specifically governed by the provisions of section IV of the second part of French law No. 99-532 of June 25, 1999 governing savings and financial security, which has been incorporated into Articles L. 513-2 to L. 513-27 of the French Monetary and Financial Code.

Pursuant to Article 110 of this law, Crédit Foncier transferred on October 21, 1999 to Compagnie de Financement Foncier assets

and liabilities covered by the specific legislative and regulatory requirements that applied to it before the transfer.

The purpose of Compagnie de Financement Foncier is to grant or purchase secured loans and exposures to public authorities financed by the issuance of covered bonds, by other privileged resources, or by resources which may not benefit from the preferred status, or "privilege", as defined by Article L. 513-11 of the French Monetary and Financial Code.

## c. Structure of the relationship between Compagnie de Financement Foncier and Crédit Foncier

As stipulated by law, Compagnie de Financement Foncier draws on the technical and human resources of its parent company under agreements binding the two companies. These agreements, which are regulated as defined by Article L. 225-38 of the French Commercial Code, cover all of the Company's activities.

The general principles applied in preparing these agreements are described below.

The texts are drafted taking into account the special nature of the relationship between Crédit Foncier and its subsidiary Compagnie de Financement Foncier.

Sixteen agreements are signed by and between Crédit Foncier and Compagnie de Financement Foncier as of December 31, 2017, namely:

- a framework agreement, setting forth the general principles;
- an agreement for loan assignments;
- an agreement for loan servicing and recovery;
- an agreement governing financial services;
- an asset/liability management (ALM) agreement;
- an administrative and accounting management agreement;
- a service agreement on internal control and compliance;

- an agreement related to the implementation of information technology services;
- an agreement concerning human resources;
- an agreement concerning remuneration for services;
- an agreement related to settlement bank services;
- a guarantee agreement for adjustable-rate loans;
- a guarantee and compensation agreement;
- a paying agent agreement;
- an agreement related to shareholder's account advance effective as of September 15, 2015, the date of that the account was established;
- an agreement relating to the assignment of mortgage ranking/priority and an agreement between Crédit Foncier, Compagnie de Financement Foncier and the French State: an agreement relating to management and recovery of regulated loans.

Apart from its corporate officers, Compagnie de Financement Foncier does not have any direct employees.

## d. Legal form and applicable legislation

Compagnie de Financement Foncier is a credit institution authorized as a financial company and a *société de crédit foncier* by a decision of the French Credit Institutions and Investment Companies Committee (CECEI – *Comité des établissements de crédit et des entreprises d'investissement*) on July 23, 1999. It is thus subject to all laws and regulations applicable to credit institutions and, as a *société de crédit foncier*, it is also subject to Articles L. 513-2 to L. 513-27 of the French Monetary and Financial Code.

It was formed as a *société anonyme* (French limited company) and, for this reason, is also subject, apart from certain exemptions, to the requirements applicable to commercial companies under the French Commercial Code.

A *société de crédit foncier* benefits from a certain number of exemptions from ordinary laws, specifically:

- Article L. 513-11 of the French Monetary and Financial Code instituting a privilege for holders of *obligations foncières*;
- Article L. 513-20 of the French Monetary and Financial Code, which stipulates that the safeguard procedure, legal receivership or liquidation of a company holding shares of a *société de crédit foncier* cannot be extended to the *société de crédit foncier*;
- in addition, Article L. 513-21 of the French Monetary and Financial Code provides that, notwithstanding any provisions to the contrary, including those of Book VI, Title II to IV of the French Commercial Code, contracts that make provision for the management or recovery of the loans of a *société de crédit foncier* may be terminated immediately in the event of the safeguard, compulsory liquidation or administration of the company in charge of the management or collection of such loans.

## e. Duration

The Company was incorporated on December 22, 1998 for a period of 99 years.

## f. Corporate purpose (Article 2 of the Bylaws)

### ARTICLE 2 – PURPOSE

The purpose of the Company, in the context of the laws and regulations applicable to *sociétés de crédit foncier*, is:

1° to perform all transactions mentioned in Articles L. 513-2 and further of the French Monetary and Financial Code without restrictions in terms of the countries in which it operates other than those resulting from said Articles.

These transactions include:

- granting or acquiring secured loans, exposures to public authorities and investments and securities as defined in Articles L. 513-3 to L. 513-5 and L. 513-7 of the French Monetary and Financial Code,
- financing these types of loans, exposures, investments and securities by issuing covered bonds known as *obligations foncières*, benefiting from the privilege defined in Article L. 513-11 of the French Monetary and Financial Code and by raising other resources whose issuance or subscription agreement mentions this privilege.

The Company may also finance the activities mentioned above by issuing bonds or resources that do not benefit from the privilege. It may issue the promissory notes referred to in Articles L. 313-42 to L. 313-49-1 of the French Monetary and Financial Code.

Notwithstanding any other provisions or stipulations to the contrary, the Company may carry out temporary transfers of its securities in accordance with Articles L. 211-22 to L. 211-34 of the French

Monetary and Financial Code, pledge securities accounts pursuant to Article L. 211-20 of said Code and assign all or some of the receivables that it holds in accordance with Articles L. 211-36 to L. 211-40 or in accordance with Articles L. 313-23 to L. 313-35, whether or not these receivables are professional. The receivables or securities thus assigned or transferred do not fall within the scope of the privilege defined in Article L. 513-11 of the French Monetary and Financial Code and are not booked pursuant to Article L. 513-12 of said Code.

As an exception to Articles L. 1300 of the French Civil Code and L. 228-44 and L. 228-74 of the French Commercial Code, the Company may subscribe for its own *obligations foncières* solely for the purpose of using them as collateral for access to the refinancing facilities of the Banque de France under the conditions set forth in Article L. 513-26 of the French Monetary and Financial Code.

The Company cannot hold equity investments.

2° to conclude, with any credit institution or financial company, all agreements necessary for:

- servicing and recovering loans, exposures and securities,
- managing bonds and other resources,
- more generally, providing all services necessary to manage the assets, liabilities and the financial balances of the Company,
- as well as all agreements concerning the distribution and refinancing of loans;



- 3° to acquire and hold all property and equipment necessary to fulfill its purpose or arising from the recovery of its loans and contracting with any authorized third party any agreement related to the acquisition, ownership, management, maintenance and disposal of such assets;
- 4° to conclude, with any insurance company, any agreement that serves the corporate purpose, notably to cover risks related to borrowers, risks in respect of both assets securing the loans and assets being held by the Company, and the liability risks of the Company or its corporate officers;
- 5° in connection with its own activity or on behalf of other companies, to provide customers with and managing payment processes, in particular:
- for the payment of funds or the receipt of all cash flows arising from loan activities,
  - for maintenance of any financial relationship or account with any other credit institution, financial institution or public entity,
  - for the management of technical accounts in respect of expenses and receipts;
- 6° to participate in any system for interbank settlements, settlement-delivery of securities and all clearing system, as well as any transaction within the framework of the monetary policy of the European Central Bank, that contributes to the development of the Company's activities;
- 7° more generally:
- to carry out all operations contributing to the fulfillment of its corporate purpose, as long as such transaction complies with the purpose of *sociétés de crédit foncier* as defined in the legislation and regulations that regulate their activity,
  - to conclude any agreement that allows the Company to use essential outsourcing services and related controls.

## g. Company registration number

Compagnie de Financement Foncier is registered in the Paris Trade and Companies Register under number 421 263 047.

## h. Location of legal documents concerning the Company

Legal documents concerning Compagnie de Financement Foncier can be consulted at 4, quai de Bercy, 94220 Charenton-le-Pont.

## i. Fiscal year

The Company's fiscal year starts on January 1 and ends on December 31.

## j. Statutory allocation of earnings

If the financial statements for a given fiscal year, as approved by the Annual General Shareholder's Meeting, show distributable earnings as defined by law, shareholders shall decide either to attribute them to one or more reserve accounts, the allocation and use of which it determines, or to retained earnings, or to distribute them.

After noting the existence of the reserves at its disposal, the Annual General Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In such a case, the decision shall specify the reserve accounts from which the distributed amounts are to be drawn.

## LEGAL INFORMATION

### 2. Resolutions submitted to the Annual General Shareholders' Meeting

However, dividends shall be withdrawn first from the distributable earnings for the fiscal year.

The Annual General Shareholders' Meeting also has the right to grant each shareholder an option to receive payment either in the form of cash or in shares for all or part of the dividend or interim dividend to be distributed.

## k. Annual General Shareholders' Meetings

Annual General Shareholders' Meetings shall be called and shall deliberate under the conditions stipulated by law. An Ordinary General Shareholders' Meeting must be held each fiscal year within five months of the closing date of the preceding fiscal year. Meetings shall be held at the registered office or at another location stated in the notice of meeting. Any shareholder may participate personally, or by proxy, in Annual General Shareholders' Meetings with proof of identity and ownership of shares in the form of a record in his name on the Company's books five days before the date of the Annual General Shareholders' Meeting.

He may also vote by email under the conditions stipulated by law. Shareholders who participate in the Annual General Shareholder's

Meeting by video conference or telecommunications that enable them to be identified shall be considered present for calculating the quorum and the majority. Annual General Shareholders' Meetings shall be chaired by the Chairman of the Board of Directors or, in his or her absence, by a Director specially authorized for that purpose by the Board. Otherwise, the General Meeting shall appoint a Chairman. An attendance sheet shall be kept under the conditions stipulated by law. Minutes of Annual General Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

# 2. Resolutions submitted to the Annual General Shareholders' Meeting

Ordinary General Shareholders' Meeting of May 16, 2018.

## Draft resolutions

### FIRST RESOLUTION

The Annual General Shareholders' Meeting, having considered the Management report of the Board of Directors and the report of the Statutory Auditors, approves the annual financial statements for the fiscal year ended December 31, 2017 as presented and that show a profit of €58,204,957.06.

Consequently, the Annual General Shareholders' Meeting grants full and unconditional discharge to the members of the Board of Directors for this fiscal period.

The Annual General Shareholders' Meeting takes note that the fiscal statements for the past fiscal year do not include any non-tax deductible expenses as per Article 39-4 of the French General Tax Code.

### SECOND RESOLUTION

The Annual General Shareholders' Meeting, having recorded the distributable earnings of €145,517,961.25 composed of net income for the financial year of €58,204,957.06 plus retained earnings of €87,313,004.19 resolved to allocate said distributable earnings as follows:

Allocated to legal reserves: €2,911,000.00

Dividend: €58,202,987.28

Retained earnings: €84,403,973.97

The dividend per share for each of the 158,591,246 shares comprising the share capital is therefore fixed at €0.367.

Pursuant to Article 243a of the French General Tax Code, it is specified that the total dividend proposed is eligible for the 40% discount available to individuals who are resident in France for tax purposes, provided for in Article 158-3 of the French General Tax Code.

The dividend payment date is set for June 29, 2018.

Pursuant to Article 24 of the Bylaws, the Annual General Shareholders' Meeting decides to grant each shareholder the possibility of choosing to receive payment of the dividend in shares. New shares will have the same features and the same rights as the shares that gave the entitlement to the dividend. Their vesting date is set for January 1, 2018.

The issuance price of the new shares will be equal to the amount of shareholders' equity after allocation, as shown in the balance sheet as of December 31, 2017 approved by the Annual General Shareholders' Meeting in the first resolution set forth above, divided by the number of existing shares.

It amounts to €19.46 per share.

The number of shares that can be allocated to shareholders who have chosen to receive payment of the balance of the dividend in shares will be determined in function of the calculated price. It is

understood that shareholders cannot receive the dividend to which they are entitled partly in shares and partly in cash.

If the dividends thus determined do not give rise to a whole number of shares, shareholders who have chosen to receive payment in shares may subscribe for the nearest whole number of shares below the dividend payable, with the balance being paid in cash or the nearest whole number above the dividend payable, with the shareholder paying the difference in cash.

Shareholders must make their choice between June 1, 2018 and June 15, 2018.

Any shareholder who has not exercised his option by June 15, 2018 at the latest will receive the dividends in cash on the dividend payment date of June 29, 2018.

The Annual General Shareholders' Meeting gives full powers to the Board of Directors to record the number of shares issued and the corresponding increase in capital stock and to amend Article 6 of the Bylaws accordingly.

Pursuant to Article 47 of the Act of July 12, 1965 and Article 243bis of the French General Tax Code, it is recalled that the dividend and total return per share have evolved as follows over the last three fiscal years:

Fiscal Year	Number of shares	Overall remuneration per share	Dividend distributed *
2014	74,216,246	€1,00	€1,00
2015	158,591,246	€0.80	€0.80
2016	158,591,246	€0.59	€0.59

\* Eligible for the 40% discount provided for in Article 158-3 of the French General Tax Code.

### THIRD RESOLUTION

The Annual General Shareholders' Meeting, pursuant to Article 24 of the Bylaws and Articles L. 232-12, L. 232-18 and L. 232-20 of the French Commercial Code, authorizes the Board of Directors to consider allowing shareholders to receive all or part of any interim dividends for the 2018 fiscal year in shares and to establish the terms thereof, pursuant to the regulations in force.

### FOURTH RESOLUTION

The Annual General Shareholders Meeting, having considered the Statutory Auditors' special report concerning the agreements referred to in Article L. 225-38 of the French Commercial Code, approves the agreements mentioned therein.

### FIFTH RESOLUTION

The Annual General Shareholders' Meeting, noting that the term of office of Ms Christine FABRESSE was expiring, resolved to renew its term of office for six years, ending at the Annual General Shareholders' Meeting called to approve the financial statements for the 2023 fiscal year.

### SIXTH RESOLUTION

The Annual General Shareholders' Meeting, noting that the term of office of Mr Dominique GARNIER was expiring, resolved to renew his term of office for six years, ending at the General Meeting called to approve the financial statements for the 2023 fiscal year.

### SEVENTH RESOLUTION

The Annual General Shareholders' Meeting, noting that the term of office of Mr Benoît CATEL was expiring, resolved to renew his term of office for six years, ending at the General Meeting called to approve the financial statements for the 2023 fiscal year.

### EIGHTH RESOLUTION

The Annual General Shareholders' Meeting ratifies the appointment, by the Board of Directors of March 30, 2017, of Ms Muriel COLLE as Director, as of July 23, 2017, to replace Mr Thierry DUFOUR, resigning Director, for the remaining term of office of his predecessor, *i.e.* until the Annual General Shareholders' Meeting to approve the financial statements for the 2018 fiscal year.

### NINTH RESOLUTION

The Annual General Shareholders' Meeting appoints Mr Mathieu LEPELTIER as Director, to replace Mr Bruno DELETRÉ, resigning Director, for the remaining term of office of his predecessor, *i.e.* until the Annual General Shareholders' Meeting to approve the financial statements for the 2018 fiscal year.

### TENTH RESOLUTION

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, hereby expresses a favorable opinion on the remuneration due or allocated, for the fiscal year ended December 31, 2017, to Mr Bruno DELETRÉ, Chairman of the Board of Directors and executive director, as mentioned in the financial report.

## LEGAL INFORMATION

### 2. Resolutions submitted to the Annual General Shareholders' Meeting

#### ELEVENTH RESOLUTION

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, hereby expresses a favorable opinion on the remuneration due or allocated, for the fiscal year ended December 31, 2017, to Mr Thierry DUFOUR, Chief Executive Officer and Executive Director, as mentioned in the financial report.

#### TWELFTH RESOLUTION

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, hereby expresses a favorable opinion on the remuneration due or allocated, for the fiscal year ended December 31, 2017, to Mr Olivier AVIS, Deputy Chief Executive Officer and Executive Director, as mentioned in the financial report.

#### THIRTEENTH RESOLUTION

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, hereby expresses a favorable opinion on the remuneration due or allocated, for the fiscal year ended December 31, 2017, to Mr Paul DUDOUIT, Deputy Chief Executive Officer and Executive Director, as mentioned in the financial report.

#### FOURTEENTH RESOLUTION

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, after reading the report drafted according to Article L. 225-37-2 of the French Commercial Code, hereby expresses a favorable opinion on the remuneration of Mr Bruno CATEL, Chairman of the Board of Directors, for the 2018 fiscal year.

#### FIFTEENTH RESOLUTION

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, after reading the report drafted according to Article L. 225-37-2 of the French Commercial Code, hereby expresses a favorable opinion on the remuneration of Mr Olivier AVIS, Deputy Chief Executive Officer, for the 2018 fiscal year.

#### SIXTEENTH RESOLUTION

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, after reading the report drafted according to Article L. 225-37-2 of the French Commercial Code, hereby expresses a favorable opinion on the remuneration of Mr Paul DUDOUIT, Deputy Chief Executive Officer, for the 2018 fiscal year.

#### SEVENTEENTH RESOLUTION

Consultation pursuant to Article L. 511-73 of the French Monetary and Financial Code regarding the overall package of all kinds of compensation paid to the persons referred to in Article L. 511-71 of the French Monetary and Financial Code, for the fiscal year ended December 31, 2017.

The Annual General Shareholders' Meeting, consulted pursuant to Article L. 511-73 of the French Monetary and Financial Code, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, having considered the report of the Board of Directors, expresses a favorable opinion on the nul compensation package for the financial year ended December 31, 2017 to the persons referred to in Article L. 511-71 of the French Monetary and Financial Code, either with respect to the office of Chief Executive Officer or of Deputy Chief Executive Officer.

#### EIGHTEENTH RESOLUTION

The Annual General Shareholders' Meeting gives full powers to the bearer of a copy or excerpt of the minutes of this meeting for the accomplishment of all filing and publication formalities.

## 3. Bylaws

Bylaws applicable at the filing date of this Registration document.

### Section I: Legal form – purpose – corporate name – registered office – term of the Company

#### ARTICLE 1 – LEGAL FORM

The Company is a French public limited company (*société anonyme*).

The Company is governed by the legislative and regulatory provisions in force applicable to *sociétés anonymes*, credit institutions, and in particular to *sociétés de crédit foncier*, and by these Bylaws.

#### ARTICLE 2 – PURPOSE

The purpose of the Company, in the context of the laws and regulations applicable to *sociétés de crédit foncier*, is:

1° to perform all transactions mentioned in Articles L. 513-2 and the following of the French Monetary and Financial Code without restrictions in terms of the countries in which it operates other than those resulting from said Articles.

These transactions include:

- to grant or acquire secured loans, exposures to public authorities and investments and securities as defined in Articles L. 513-3 to L. 513-5 and L. 513-7 of the French Monetary and Financial Code;
- to finance these types of loans, exposures, investments and securities by issuing covered bonds known as *obligations foncières*, benefiting from the “privilege” defined in Article L. 513-11 of the French Monetary and Financial Code and by raising other resources whose issuance or subscription agreement mentions this “privilege”.

The Company may also finance the activities mentioned above by issuing bonds or resources that do not benefit from the “privilege”. It may issue the promissory notes referred to in Articles L. 313-42 to L. 313-49-1 of the French Monetary and Financial Code.

Notwithstanding any other provisions or stipulations to the contrary, the Company may carry out temporary transfers of its securities in accordance with Articles L. 211-22 to L. 211-34 of the French Monetary and Financial Code, pledge securities accounts pursuant to Article L. 211-20 of said Code and assign all or some of the receivables that it holds in accordance with Articles L. 211-36 to L. 211-40 or in accordance with Articles L. 313-23 to L. 313-35, whether or not these receivables are professional. The receivables or securities thus assigned or transferred do not fall within the scope of the “privilege” defined in Article L. 513-11 of the French Monetary and Financial Code and are not booked pursuant to Article L. 513-12 of said Code.

As an exception to Articles 1300 of the French Civil Code and L. 228-44 and L. 228-74 of the French Commercial Code, the Company may subscribe for its own *obligations foncières* solely for the purpose of using them as collateral for access to the refinancing facilities of the Banque de France under the conditions set forth in Article L. 513-26 of the French Monetary and Financial Code.

The Company cannot hold equity investments;

2° to conclude, with any credit institution or financial institution, all agreements necessary for:

- servicing and recovering loans, exposures and securities,
- managing bonds and other resources,
- more generally, providing all services necessary to manage assets, liabilities and financial balances of the Company,
- as well as all agreements concerning the distribution and refinancing of loans;

3° to acquire and hold all property and equipment necessary to fulfill its purpose or arising from the recovery of its loans:

- concluding any agreement with any authorized third party related to the acquisition, ownership, management, maintenance and disposal of such assets;

4° to conclude, with any insurance company, any agreement that serves the corporate purpose, notably to cover risks related to borrowers, risks in respect of both assets securing the loans and assets being held by the Company, and the liability risks of the Company or its corporate officers;

5° in connection with its own activity or on behalf of other companies, to provide customers with and managing payment processes, in particular:

- for the payment of funds or the receipt of all cash flows arising from loan activities,
- for maintenance of any financial relationship or account with any other credit institution, financial institution or public entity,
- for the management of technical accounts in respect of expenses and receipts;

6° to participate in any system for interbank settlements, settlement-delivery of securities and all clearing system, as well as in any transactions within the framework of the monetary policy of the European Central Bank, which contribute to the development of the Company’s activities;

7° more generally:

- to carry out all operations contributing to the fulfillment of its corporate purpose, as long as such transaction complies with the purpose of *sociétés de crédit foncier* as defined in the legislation and regulations that regulate their activity,
- to conclude any agreement that allows the Company to use essential outsourcing services and related controls.

### ARTICLE 3 – CORPORATE NAME

The name of the Company is: “Compagnie de Financement Foncier”.

### ARTICLE 4 – REGISTERED OFFICE

The registered office is located at 19, rue des Capucines, Paris (75001), France.

If the location of the registered office is moved by the Board of Directors in accordance with the conditions set out in the applicable legislation, the new location shall be automatically substituted for the previous one in this Article, provided the move is ratified by an Ordinary General Shareholders' Meeting.

### ARTICLE 5 – TERM

The legal life of the Company is ninety-nine years, starting from December 22, 1998, unless the period is extended or the Company is liquidated, in accordance with the legislation in force or these Bylaws.

## Section II: Share capital – shares

### ARTICLE 6 – SHARE CAPITAL

The share capital is set at €2,537,459,936 (two billion, five hundred and thirty-seven million, four hundred and fifty-nine thousand, nine hundred and thirty-six euros).

It is divided into 158,591,246 shares with a par value of €16 (sixteen) each, all of which belong to the same class and are fully paid up in cash.

### ARTICLE 7 – FORM OF THE SHARES

The shares are in registered form. They are registered in accordance with the terms and conditions set forth by law.

### ARTICLE 8 – RIGHTS AND OBLIGATIONS ATTACHED TO SHARES

Each share confers a right to ownership of the Company's assets and a share in its profits proportional to the fraction of the Company's capital that it represents.

All shares which comprise or will comprise the share capital, as long as they are of the same type and the same par value, are strictly equivalent to each other so long as they have the same dividend-bearing date. Both during the Company's existence and its liquidation, they provide payment of the same net amount on all allocations or redemptions, so that, if applicable, all shares are aggregated without distinction with respect to all tax savings or charges resulting from such allocations or redemptions.

The rights and obligations attached to shares are transferred with the title to the shares.

Ownership of a share automatically implies acceptance of the Bylaws and the decisions of Annual General Shareholders' Meetings.

The beneficiaries, creditors, successors or other representatives of a shareholder cannot cause legal seals to be placed on the assets and securities of the Company or request the distribution or division of such assets and securities or interfere in any manner in the Company's administration.

They must refer to the financial statements and to the decisions of Annual General Shareholders' Meetings to exercise their rights.

Every time when an ownership of several shares is required to exercise a given right, in cases of exchange, grouping or allotment of shares, or as a result of an increase or decrease in capital stocks, splits or reverse splits of shares, or any other operation on the share capital, the owners of single shares or of less than the required number of shares, may exercise their rights only if they undertake to combine, sell or purchase the necessary number of shares.

### ARTICLE 9 – TRANSFER OF SHARES

Shares can be traded freely.

Shares can be transferred, with respect to third parties and the Company, by an order to transfer them from one account to another.

### ARTICLE 10 – INDIVISIBILITY OF SHARES

Shares are indivisible *vis-à-vis* the Company, which only recognizes one owner for each share. Joint owners of a share are required to be represented within the Company by one of the joint owners or by a single agent.

The beneficial owner shall represent the bare owner in Ordinary General Shareholders' Meetings, however, the bare owner is the only one entitled to vote in Extraordinary General Meetings.

## Section III: Corporate governance

### ARTICLE 11 – BOARD OF DIRECTORS

The Company is administered by a Board of Directors comprised of at least three and at most eighteen members, selected among the shareholders and appointed by the Ordinary General Shareholders' Meeting.

Directors can be natural persons or legal entities. Legal entities shall, at the time of their appointment, appoint a permanent representative who is subject to the same conditions and obligations and bears the same liability as if he/she were a Director in his/her own name. This without prejudice to the joint and several liabilities with the legal entity he/she represents.

When the Director of a legal person terminates the term of its permanent representative, he/she must notify the Company without delay by registered mail of his/her decision as well as the identity of the new permanent representative. The same applies in the event of the death or resignation of the permanent representative.

### ARTICLE 12 – DIRECTORS' TERM

The Directors' term is six years.

The renewal of the terms is carried out gradually, in such a way that members of the Board are required to seek re-election on a regular basis in the most equal proportions possible.

Exceptionally, the Ordinary General Shareholders' Meeting may elect a Director to serve for a term of two or four years, in order to ensure adequate rotation of Board members.

Directors can be dismissed at any time by the Ordinary General Shareholders' Meeting.

They may resign from their term without giving any reason. Reaching the end of his or her term, each Director may be re-elected.

The age limit for exercising the function of Director is set at 72 years old. The number of Directors above the age of 68 may not be more than a third of the number of Directors. Once the age limit is reached, the oldest Director is deemed to have resigned from office following the next Ordinary General Shareholders' Meeting.

### ARTICLE 13 – MEETINGS AND PROCEEDINGS OF THE BOARD – MINUTES

The Board of Directors is called to meetings by its Chairman, as often as the interest of the Company requires, either at the registered office, or at any other location indicated on the notice. Meetings may be called by all means, even verbally.

If no meeting has been held for more than two months, at least one third of the members of the Board of Directors can request that the Chairman call a Board meeting with a specific agenda.

The Chief Executive Officer can also request that the Chairman call a Board meeting with a specific agenda.

The Chairman must comply with requests that have been made to him in accordance with the two previous paragraphs.

Resolutions are adopted with the quorum and majority required by law. In the event of a tie vote, the Chairman shall cast the deciding vote.

For the purposes of calculating a quorum and majority, Directors participating in the meeting through videoconferencing or other means of telecommunications that allow them to identify themselves and effectively participate shall be considered present.

This rule is not applicable to the adoption of resolutions that require, in accordance with the current legislation, the physical presence of Directors.

Sufficient proof of the number of Directors in office and of their presence at a meeting of the Board is provided by the production of a copy or an excerpt of the minutes of the Board meeting.

The minutes of the meeting are prepared, and the copies or excerpts are delivered and certified as required by law.

### ARTICLE 14 – POWERS OF THE BOARD

The Board of Directors determines the strategic direction of the Company's activities and supervises the implementation of such strategies. Subject to the powers expressly attributed to Annual General Shareholders' Meetings, and within the limits of the Company's purpose, the Board deals with any issue affecting the Company's operations and settles, through its decisions, all matters concerning the Company.

The Board shall carry out any controls and checks that it considers appropriate.

Each Director receives all the information necessary to perform his or her duties and can request all documents that he or she considers useful.

In its relations with third parties, the Company is responsible for the acts of the Board of Directors which are not in accordance with the Company's purpose, unless it can prove that the third party knew that the act in question was not in accordance with the Company's purpose or that the third party could not have been unaware of this fact given the circumstances, the sole fact that the Company's Bylaws are published does not constitute sufficient evidence.

In addition, without any effect to third parties, unless the Company proves that the third party knew that the acts exceeded those purposes or could not in view of the circumstances have been unaware of it, decisions are submitted to the prior approval of the Board of Directors:

- (i) to establish the strategic guidelines of the Company;
- (ii) to agree on a business plan;
- (iii) to agree on the annual budget of the Company;
- (iv) any expenditure decisions exceeding thirty million euros (€30,000,000);
- (v) granting any pledge, collateral, or other guarantees on the Company's assets outside banking operations;
- (vi) authorize all proposals on issuing securities (bonds, other debt and hybrid securities) other than those approved in the budget or the debt issuance program of the Company;

(vii) – approve the strategy and the policy in relation to risk-taking and the monitoring, management and reduction of risks;

(viii) – take note of the results of the review of the policy, procedures and defined limits in relation to liquidity risk that are not included in the statement of risk appetite;

(ix) – regularly review outsourced activities as well as the associated risks;

(x) – annually perform a review of the efficiency and effectiveness of the risk management function in terms of positioning, resources and independence.

The Board of Directors can grant any representative of its choice a delegation of powers within the limit of its powers under law or these Bylaws.

### ARTICLE 15 – COMPENSATION OF THE BOARD OF DIRECTORS

An Ordinary General Shareholders' Meeting may allocate to the Board of Directors a fixed annual remuneration in the form of attendance fees, the amount of which it shall determine. This compensation remains applicable until an Ordinary General Shareholders' Meeting decides otherwise.

The Board of Directors shall allocate this remuneration in the proportions that it considers appropriate.

### ARTICLE 16 – CHAIRMAN OF THE BOARD OF DIRECTORS

The Board of Directors elects, from among its individual members, a Chairman and determines his or her remuneration. It also sets the Chairman's term of office, which may not exceed his or her term as Director. The Chairman can be re-elected.

The Chairman's term must expire no later than the end of the Ordinary General Shareholders' Meeting that follows the date on which the Chairman reaches the age of 68.

The Chairman represents the Board of Directors. He or she organizes and directs the work of the Board, and reports to the Annual General Shareholders' Meeting on such work. The Chairman verifies that the Company's decision-making bodies function properly and ensures, in particular, that the Directors are able to fulfill their responsibilities.

The Board may confer on one or more of its members or on third parties, whether or not they are shareholders, special mandates for one or more specific purposes.

It may also appoint one or more committees, the structure and roles of which it shall determine. These committees, which can include both Directors and third parties chosen for their expertise, study the questions that the Board or the Chairman submits for their review.

In these various cases, the Board may allocate special compensation to the appointed Directors.

### ARTICLE 17 – EXECUTIVE MANAGEMENT

The Company's Executive Management is directed, under his or her responsibility, by an individual appointed by the Board of Directors with the title of Chief Executive Officer. The positions of Chairman of the Board of Directors and Chief Executive Officer may no longer be held by the same person.

The Board of Directors shall appoint the Chief Executive Officer, determine the period for which the Chief Executive Officer is

appointed and, if applicable, the limitation of his/her powers beyond the provisions laid down in Article 14 of these Bylaws.

The Chief Executive Officer has the broadest powers to act in all circumstances in the name of the Company, within the limits of its purpose, and subject to the specific powers expressly attributed to Annual General Shareholders' Meetings by law and to the specific powers of the Board of Directors.

The Chief Executive Officer represents the Company in its relationships with third parties. The Company is responsible for the acts of the Chief Executive Officer which are not in accordance with the Company's purpose, unless it can prove that the third party knew that the act in question was not in accordance with the Company's purpose, or that the third party could not have been unaware of this fact in light of the circumstances. The sole fact that the Company's Bylaws are published does not constitute sufficient proof.

On the recommendation of the Chief Executive Officer, the Board of Directors can appoint one or more individuals, whether Directors or not, to assist the Chief Executive Officer, with the title of Deputy Chief Executive Officer. The number of Deputy Chief Executive Officers may not exceed five. The scope and duration of the powers of the Deputy Chief Executive Officers shall be determined by the Board of Directors with the consent of the Chief Executive Officer.

With respect to third parties, Deputy Chief Executive Officers have the same powers as the Chief Executive Officer.

The Board of Directors determines the compensation of the Chief Executive Officer and the Deputy Chief Executive Officers.

The Chief Executive Officer and, if they have been appointed, Deputy Chief Executive Officers, even if not members of the Board, are invited to the meetings of the Board of Directors.

The duties of the Chief Executive Officer and Deputy Chief Executive Officer must cease no later than the end of the Annual General Shareholders' Meeting that follows the date at which the person reaches the age of 68.

The Chief Executive Officer may be removed at any time by the Board of Directors. The same applies, on the recommendation of the Chief Executive Officer, to the Deputy Chief Executive Officers. If the removal is decided without just cause, it may result in legal damages.

If the Chief Executive Officer resigns, or cannot carry out his or her duties, the Deputy Chief Executive Officers retain, unless the Board decides otherwise, their positions and the responsibilities assigned to them until a new Chief Executive Officer is appointed.

### ARTICLE 18 – NON-VOTING DIRECTORS

The Ordinary General Shareholder's Meeting may, on the recommendation of the Board of Directors, appoint up to four non-voting directors.

The term of a non-voting director is six years. They may be re-appointed.

The renewal of the terms is carried out gradually, in such a way that non-voting directors are required to seek re-election on a regular basis in the most equal proportions possible.

Exceptionally, the Ordinary General Shareholders' Meeting may elect non-voting directors to serve for a term of two or four years, in order to ensure adequate rotation.

The age limit for exercising the function of non-voting directors is set at 72 years old. The number of non-voting directors above the age of 68 may not be more than a third of the number of non-voting



directors in office. Once the age limit is reached, the oldest non-voting director is deemed to have resigned from office following the next Ordinary General Shareholders' Meeting.

Non-voting directors are responsible for ensuring that Bylaws are strictly applied.

Non-voting directors attend meetings of the Board of Directors and have an advisory role.

The Board of Directors determines their compensation in the context of the allocation of the attendance fees awarded by the Annual General Shareholders' Meeting.

## Section IV: Company Audits

### ARTICLE 19 – STATUTORY AUDITORS

The Annual General Shareholders' Meeting shall designate one or more Acting Statutory Auditors and one or more Acting Auditors, under the conditions stipulated by law.

### ARTICLE 20 – SPECIFIC CONTROLLER

Under the conditions stipulated by law and by the regulations applicable to a *société de crédit foncier*, and after obtaining the opinion of the Board of Directors, the Chief Executive Officer shall appoint one Specific Controller and an alternate.

The Specific Controller and, if applicable, the alternate shall perform the duties assigned to them by the laws governing a *société de crédit foncier*.

## Section V: Annual General Shareholder's Meetings

### ARTICLE 21 – GENERAL MEETINGS

Annual General Shareholders' Meetings shall be called and shall deliberate under the conditions stipulated by law.

An Ordinary General Shareholders' Meeting must be held each fiscal year within five months of the closing date of the preceding fiscal year.

Meetings shall be held at the registered office or at another location stated in the notice of meeting.

Any shareholder may participate personally, or by proxy, in Annual General Shareholders' Meetings with proof of identity and ownership of shares in the form of a record in his name on the Company's books five days before the date of the Annual General Shareholders' Meeting.

He may also vote by email under the conditions stipulated by law.

Shareholders who participate in the Annual General Shareholders' Meeting by videoconference or telecommunications that enable

them to be identified shall be considered present for calculating the quorum and the majority.

Annual General Shareholders' Meetings shall be chaired by the Chairman of the Board of Directors or, in his or her absence, by a Director specially authorized for that purpose by the Board. Otherwise, the Annual General Shareholders' Meeting shall appoint a Chairman.

An attendance sheet shall be kept under the conditions stipulated by law.

Minutes of Annual General Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

### ARTICLE 22 – DELIBERATIONS OF THE ANNUAL GENERAL SHAREHOLDERS' MEETING

Ordinary and Extraordinary General Shareholders' Meetings ruling with the quorum and majority set by law shall exercise the powers that are conferred to them by law.

## Section VI: Annual financial statements – distribution of earnings

### ARTICLE 23 – FISCAL YEAR

The Company's fiscal year starts on January 1 and ends on December 31.

The Board of Directors may change the closing date of the fiscal year if it determines such a change to be in the Company's best interest.

As an exception, the first fiscal year started on December 22, 1998, from the registration date, and ended on December 31, 1998.

### ARTICLE 24 – DISTRIBUTION OF EARNINGS

If the financial statements for a given fiscal year, as approved by the Annual General Shareholder's Meeting, show distributable earnings as defined by law, shareholders shall decide either to attribute them to one or more reserve accounts, the allocation and use of which it determines, or to retained earnings, or to distribute them.

After noting the existence of the reserves at its disposal, the Annual General Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In such a case, the decision shall specify the reserve accounts from which the distributed amounts are to be drawn.

However, dividends shall be withdrawn first from the distributable earnings for the fiscal year.

The above provisions shall apply if non-voting preferred shares are created.

Annual General Shareholders' Meeting also has the right to grant each shareholder an option to receive payment either in the form of cash or in shares for all or part of the dividend or interim dividend to be distributed.

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## Section VII: Dissolution – liquidation – disputes

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### ARTICLE 25 – DISSOLUTION AND LIQUIDATION

At the expiration of the Company or in the event of early dissolution, the Annual General Shareholders' Meeting shall determine the method of liquidation and shall appoint one or more liquidators, whose powers it shall determine and who shall perform their duties pursuant to law.

### ARTICLE 26 – DISPUTES

All disputes that might arise during the legal life of the Company or at the time of liquidation, either between the shareholders, regarding

the interpretation or execution of these Bylaws or between the Company and its shareholders, shall be adjudicated as required by law and shall be subject to the jurisdiction of the competent courts of the place of the registered office.

To this effect, in the case of a dispute, any shareholder is bound to designate an address for service of process within the area of jurisdiction of the court of the registered office and any assignments or notifications will be duly issued to this elected domicile, without consideration of the actual address. Failing an election of domicile, the assignments and notifications will be validly issued to the Public Prosecutor's office in the county court in the location of the registered office.

## 4. General information

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### Outlook for Compagnie de Financement Foncier

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#### RECENT EVENTS

The Company has not recorded any recent events that significantly impact the evaluation of its solvency.

#### TRENDS

No significant deterioration has affected the Company's outlook since its last financial report was 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 February 9, 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 December 31, 2017, 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.

## 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.

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## Specific Controllers

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### 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.

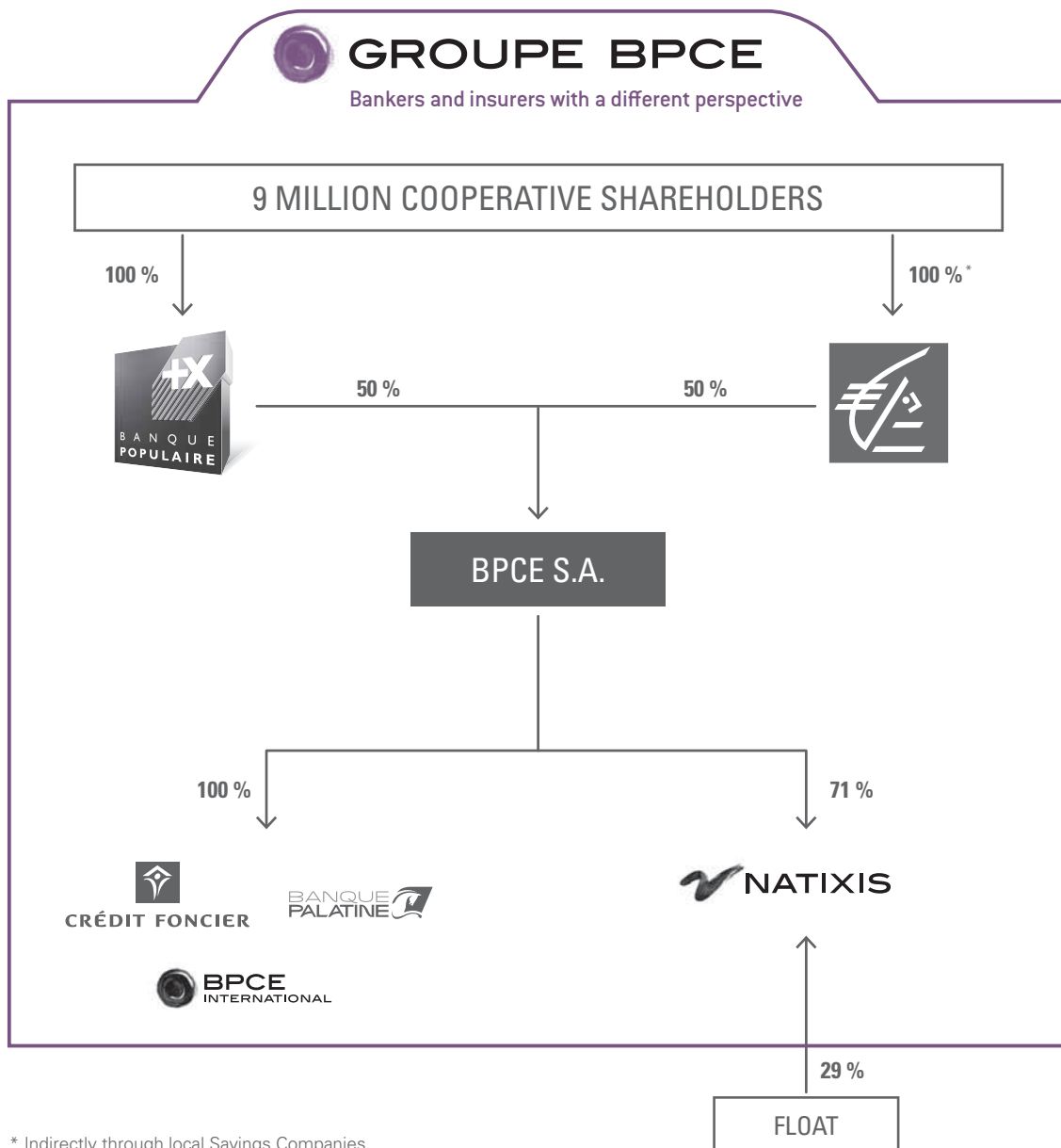
End of term: after submission of the report and the certified statements for the fiscal year ending December 31, 2018.

# Appendix

## Positioning of Crédit Foncier, fully-owner of Compagnie de Financement Foncier, within Groupe BPCE

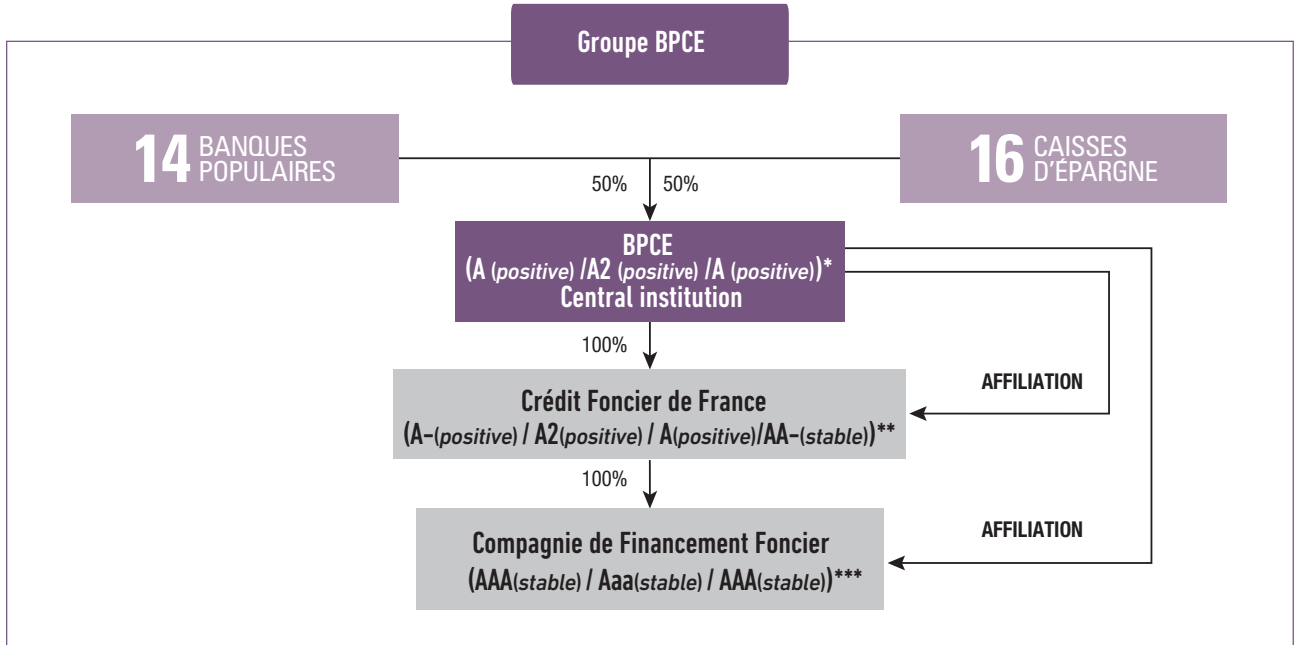
Since the merger of holding companies previously owned by Banques Populaires (BP Participations) and Caisses d'Épargne (CE Participations) on August 5, 2010 within the Central body (BPCE), Crédit Foncier's is wholly owned by Groupe BPCE, the second banking group in France<sup>(1)</sup>.

### ■ Organization chart of Groupe BPCE at December 31, 2017



(1) Market shares: 21.6% of market share for customer savings and 21.1% for customer credits (source: Banque de France Q3-2017 – all non-financial customers).

■ Focus-on the positioning of Compagnie de Financement Foncier



\* Ratings (S&P/Moody's/Fitch) updated as of the 2017 Registration document's filing date.

\*\* Ratings (S&P/Moody's/Fitch/Scope) updated as of the 2017 Registration document's filing date.

\*\*\* Ratings (S&P/Moody's/Scope) updated as of the 2017 Registration document's filing date.

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

## PERSON RESPONSIBLE FOR FINANCIAL INFORMATION

Olivier AVIS  
Chief Executive Officer  
Compagnie de Financement Foncier

Address: 4, quai de Bercy – 94220 Charenton-le-Pont  
Telephone: +33 (1) 57 44 85 51  
Fax: +33 (1) 57 44 92 73

## STATEMENT FROM THE PERSON WHO ASSUMES RESPONSIBILITY FOR THE REGISTRATION DOCUMENT

I certify, after having taken every reasonable measure to this purpose, that the information provided in this Registration Document is, to my knowledge, true to fact and that no information has been omitted that would change the interpretation of the information provided. I further certify that, to the best of my knowledge, the financial statements have been prepared in compliance with the applicable accounting standards and give a true and fair view of the Company's assets, financial position and earnings, and that the information contained in the management report pages 79 to 99 gives an accurate representation of the business trends, earnings and financial position of the Company, as well as a description of the primary risks and uncertainties the Company faces. I have received a letter from the Statutory Auditors indicating that they have completed their work, which consisted of verifying the information on the financial position and the financial statements provided in this registration document, as well as reading the entire document.

Charenton-le-Pont, 28 March, 2018

Olivier AVIS

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(1) 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, 2016 and the related Statutory Auditors' report, presented on pages 80 to 123 and 124 to 125 of Registration document No. D.17-0215 filed with the AMF on March 23, 2017;
- the parent company financial statements for the financial year ended December 31, 2015 and the related Statutory Auditors' report, presented on pages 70 to 113 and 114 to 115 of Registration document No. D.16-0278 filed with the AMF on April 5, 2016.

<b>Information required in the annual financial report</b>	<b>Pages</b>
<b>Statement from the person who assumes responsibility for the registration document</b>	<b>213</b>
<b>Management report</b>	
• Analysis of results, financial position and risks of parent company and the consolidated scope (Articles L.225-100 and L.225-100-2 of the French Commercial Code)	79-99, 103-141
• Information related to the share capital structure and the elements likely to have an impact in the event of a takeover (Article L.225-100-3 of the French Commercial Code)	47, 208
• Information related to the repurchase of stock (Article L.225-211, para. 2 of the French Commercial Code)	n/a
<b>Financial statements and reports</b>	
• Annual financial statements	143-186
• Statutory Auditors' report on the annual financial statements	187-189
• Consolidated financial statements	n/a
• Statutory Auditors' report on the consolidated financial statements	n/a

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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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