

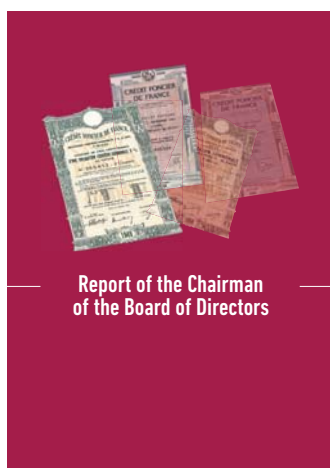
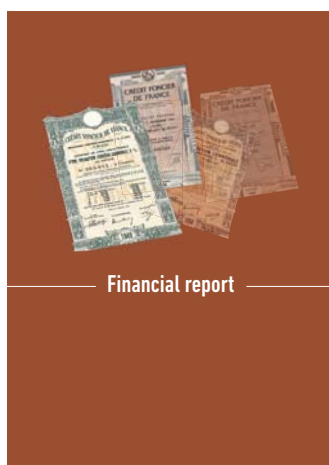
# COMPAGNIE DE FINANCEMENT FONCIER

## 2016 Registration document

including the annual financial report







*This is a free translation into English of Compagnie de Financement Foncier 2016 annual report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails. Only the French version of the Registration document has been submitted to the AMF. It is therefore the only version that is binding in law.*

The original document was filed with the Autorité des marchés financiers (French Financial Market's Authority) on March 23, 2017, in accordance with Article 212-13 of its general regulation and registered under the number D.17-0215 and represents the French "Document de référence" of Compagnie de Financement Foncier.

As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF. It was prepared by the Issuer and its signatories assume responsibility for it.

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



# Activity report 2016

## PROFILE

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# Profile

Compagnie de Financement Foncier is a credit institution 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- (stable)/A2 (stable)/A (stable)] <sup>(1)</sup> and as an affiliate of BPCE [A (stable)/A2 (stable)/A (stable)] <sup>(1)</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>(2)</sup>.

Compagnie de Financement Foncier's obligations are French legal covered bonds that comply with the European directives UCITS 52-4 <sup>(3)</sup> and CRD <sup>(4)</sup> and with the Article 129 of the European Regulation CRR <sup>(5)</sup>. All *obligations foncières* of Compagnie de Financement Foncier are eligible for the European Central Bank (ECB) refinancing operations.

Since 2012, Compagnie de Financement Foncier is a member of the ECBC <sup>(6)</sup> Covered Bond Label. This label was created in order to meet the expectations of covered bonds market players for improving standards and increasing transparency, especially by providing investors with a regular and harmonized information.

Firmly supported by its parent company, Crédit Foncier, French issuer of *obligations foncières* since 1852, Compagnie de Financement Foncier continued to be a major player in its market, with a total *obligations foncières* outstanding of €67.4bn as of December 31, 2016 and an issuance volume of €5.2bn, excluding non-recurring operations (buy-back).

(1) Standard & Poor's/Moody's/Fitch Ratings, updated as of the 2016 Registration document's filing date.

(2) Standard & Poor's/Moody's/Scope Ratings, updated as of the 2016 Registration document's filing date.

(3) 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.

(4) CRD: Capital Requirements Directive.

(5) CRR: Capital Requirements Regulation.

(6) ECBC: European Covered Bond Council.



# Chairman's message

**Bruno Deletré**  
Chairman

***Question: How does Compagnie de Financement Foncier fit into Crédit Foncier and Groupe BPCE in general?***

As an issuer of covered bonds, Compagnie de Financement Foncier plays a dominant role in the refinancing strategy of all Groupe BPCE entities.

A wholly-owned subsidiary of Crédit Foncier de France, Compagnie de Financement Foncier is its major and natural refinancing vehicle. Given extraordinarily favorable market conditions, Crédit Foncier continued the transfers in eligible outstandings to Compagnie de Financement Foncier at a sustained pace.

***Question: Does the monetary policy of the European Central Bank (ECB) have an impact on Compagnie de Financement Foncier's activity?***

Under its quantitative easing program, which calls for purchasing €80bn per month of securities by March 2017 then €60bn from April until December 2017, the ECB appears to be an important actor in the covered bonds market in Europe. By the end of 2016, the ECB had an exposure of more than €200bn.

The ECB remains an important counterparty for Compagnie de Financement Foncier. Nevertheless, its share in the Compagnie de Financement Foncier's issuances stays under control. In fact, an acceleration of the covered bonds purchases program carried out by the European Central Bank led to an increase of its exposure in the Compagnie de Financement Foncier's issuances in 2015. However, in 2016 Compagnie de Financement Foncier has managed to achieve a better balanced breakdown of investors. The exposure to central banks has thus been reduced from 50 % to 35% this year.

In fact, Compagnie de Financement Foncier benefits from a very diversified and very active investor base as proved by high oversubscription levels on public issuances in 2016.



# Message of Executive Management

**Thierry Dufour**  
Chief Executive Officer

***Question: What is the Compagnie de Financement Foncier's positioning in the covered bonds market?***

Enjoying as they do a continually strengthened regulatory framework, covered bonds remain a desirable asset class for investors.

Being a regular and dynamic covered bond issuer with €5.2bn of net issuances during the year and with total outstandings of €67.4bn, Compagnie de Financement Foncier is a reference player on the capital market.

***Question: What were Compagnie de Financement Foncier's issuances in 2016?***

In 2016, Compagnie de Financement Foncier raised €5.2bn net in new issuances. This volume included 4 benchmark issuances: €1bn with 10-year maturity in January, €1bn with 6-year maturity in March, €1bn with 8-year maturity in April and €1bn with 10-year maturity carried out in September. These benchmarks were carried out with historically low spreads and benefited from a very high investors' demand.

Compagnie de Financement Foncier thus did €4bn in public issuances along with meeting investors' demand in private

placements under competitive environment. In fact, on December 15, 2016 Compagnie de Financement Foncier was awarded the MTN-I Deal of the Year for an extraordinary private placement of €730m at 15 years.

***Question: Compagnie turned in a good performance in 2016, both in the public issuances and in terms of private placements. What are the objectives for 2017?***

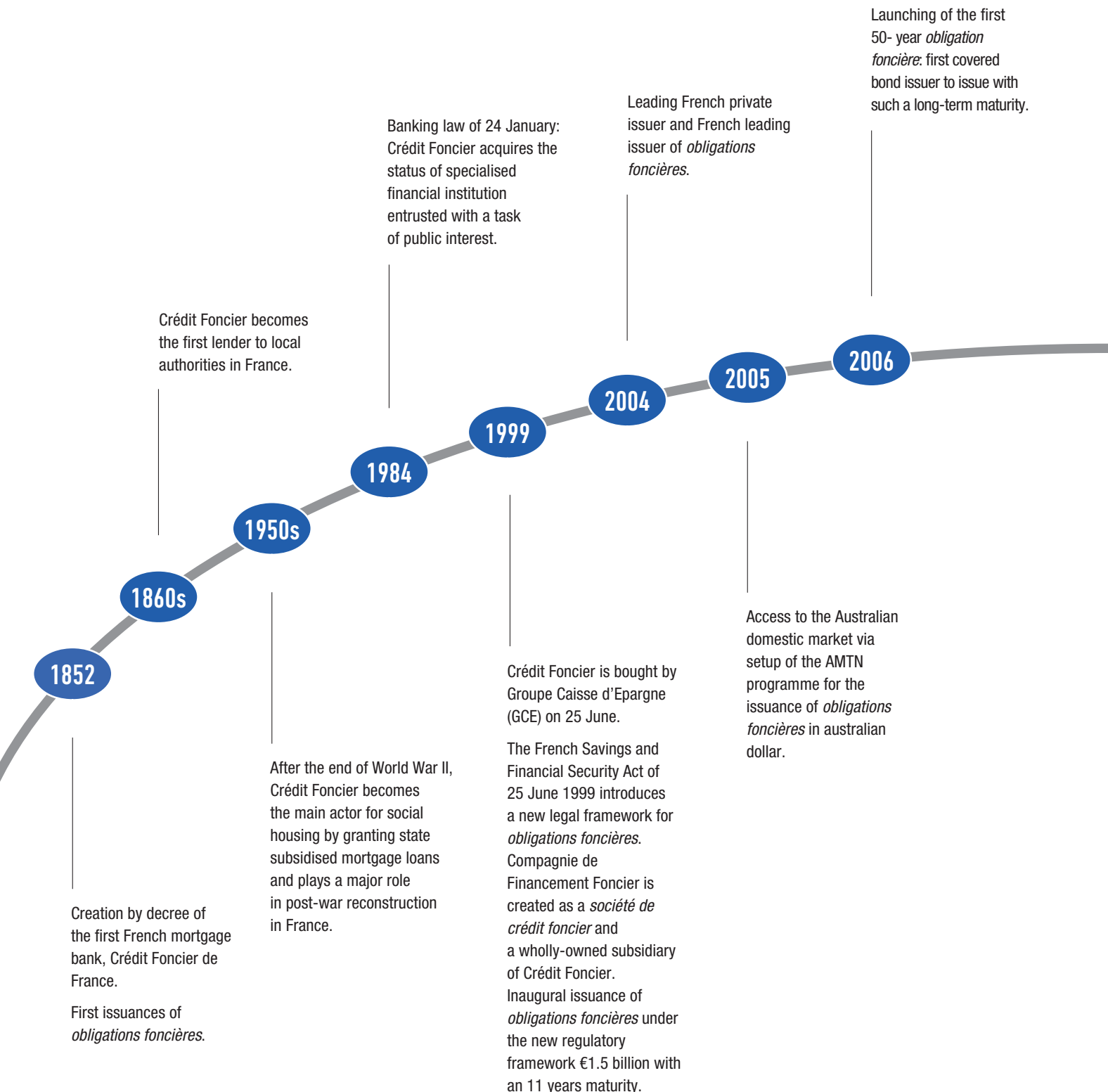
The monetary policy of the European Central Bank is expected to be updated with a remodelling of its quantitative easing starting from March 2017. Indeed, the ECB announced its decision to reduce the volumes of its purchasing program from €80bn to €60bn per month.

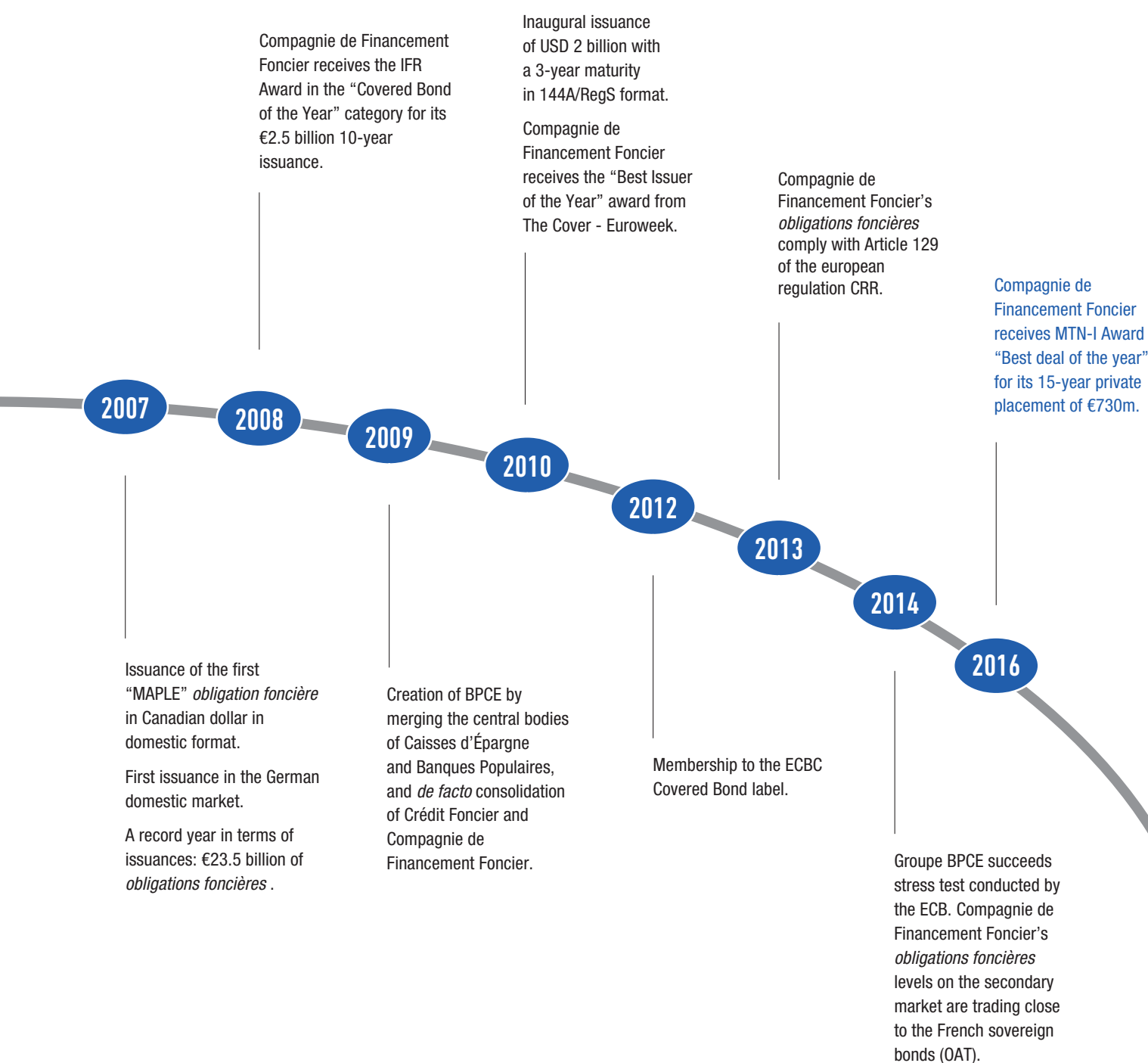
The various political deadlines in Europe are expected to induce an increased volatility in 2017 and with its corrolaire, an opportunity market.

Given the low rate environment and the creditworthiness of Compagnie de Financement Foncier, it is very likely that the demand from private investors would increase in the year to come. Compagnie de Financement Foncier will thus provide a prominent place to private placements in its issuance strategie.

# History

Created in 1852, Crédit Foncier de France, 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-(stable)/A2(stable)/A(stable)/AA-(stable)] <sup>(1)</sup>

A subsidiary of BPCE [A(stable)/A2(stable)/A(stable)] <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 Ratings updated as of the Registration document's filing date.

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

## SIMPLIFIED ECONOMIC BALANCE SHEET

Assets (by type of exposures)	At 12/31/2016		At 12/31/2015	
	€bn	%	€bn	%
<b>Mortgage loans or equivalent</b>	<b>39.4</b>	<b>46.7%</b>	<b>38.0</b>	<b>43.3%</b>
<b>Public sector exposures</b>	<b>34.7</b>	<b>41.2%</b>	<b>39.3</b>	<b>44.9%</b>
French public sector *	25.0	29.6%	29.3	33.5%
Foreign public sector	9.7	11.5%	10.0	11.4%
<b>Replacement values and other assets</b>	<b>10.3</b>	<b>12.2%</b>	<b>10.3</b>	<b>11.8%</b>
Replacement values	6.8	8.1%	7.1	8.1%
Other assets	3.4	4.0%	3.2	3.7%
<b>TOTAL ASSETS</b>	<b>84.3</b>	<b>100.0%</b>	<b>87.6</b>	<b>100.0%</b>

\* Including deposits and short term loans at Banque de France of €2.4bn at the end of 2016 and €5.4bn at the end of 2015.

Liabilities	At 12/31/2016		At 12/31/2015	
	€bn	%	€bn	%
<b>Privileged resources</b>	<b>66.8</b>	<b>79.2%</b>	<b>68.0</b>	<b>77.7%</b>
<i>Obligations foncières</i>	67.4	80.0%	69.0	78.8%
Foreign exchange rate difference on <i>obligations foncières</i>	-0.8	-1.0%	-1.2	-1.3%
Other privileged resources	0.2	0.2%	0.2	0.3%
<b>Difference associated with hedging balance sheet items</b>	<b>1.6</b>	<b>1.9%</b>	<b>1.5</b>	<b>1.7%</b>
<b>Non-privileged resources</b>	<b>15.9</b>	<b>18.9%</b>	<b>18.1</b>	<b>20.7%</b>
Unsecured debt	10.5	12.5%	12.6	14.4%
Subordinated debt or equivalent	2.2	2.6%	2.2	2.6%
Shareholders' equity, provisions and reserve for general banking risks	3.2	3.8%	3.3	3.7%
<b>TOTAL LIABILITIES</b>	<b>84.3</b>	<b>100.0%</b>	<b>87.6</b>	<b>100.0%</b>

Regulatory capital according to CRR/CRD IV

3.0

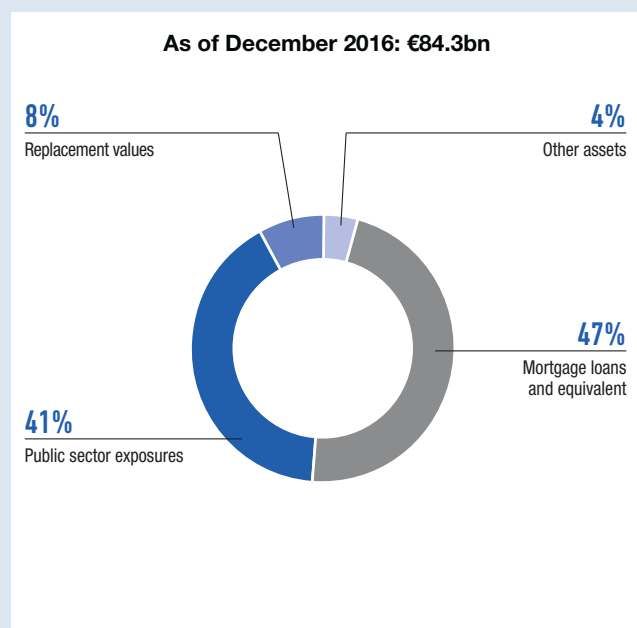
3.6%

3.1

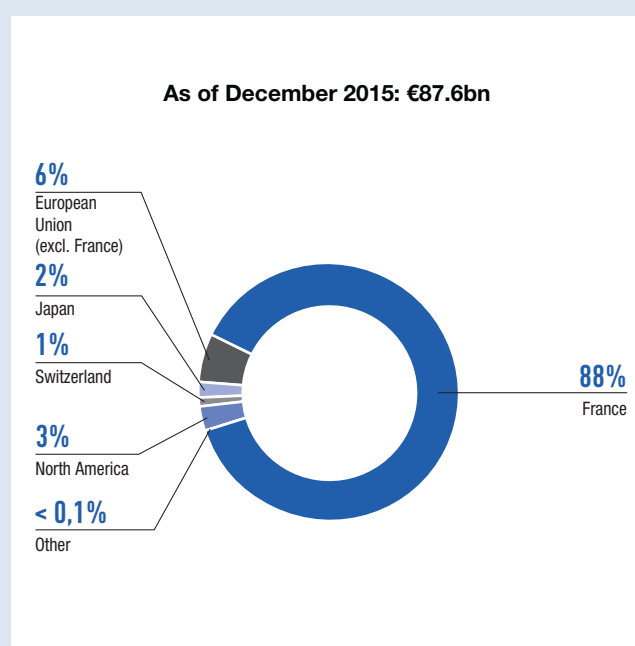
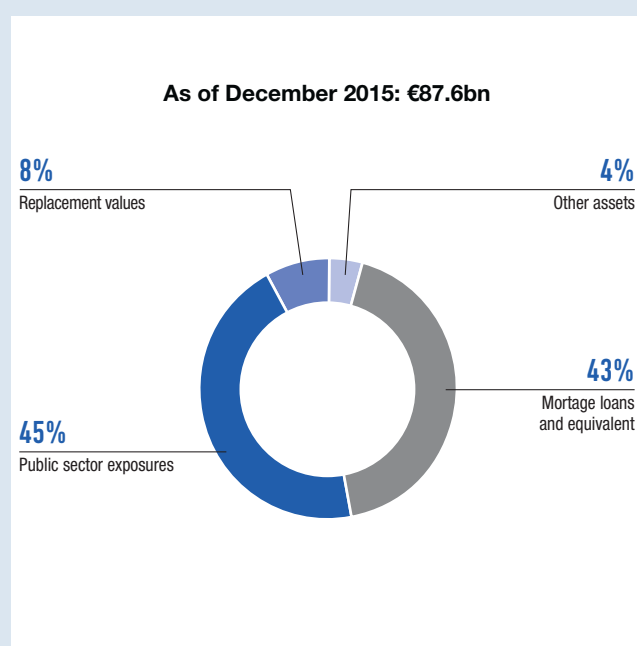
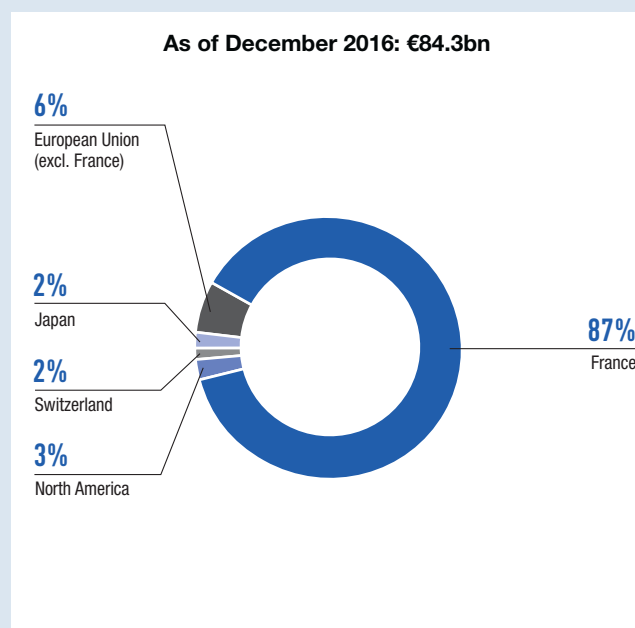
3.5%

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

### ■ By type of assets



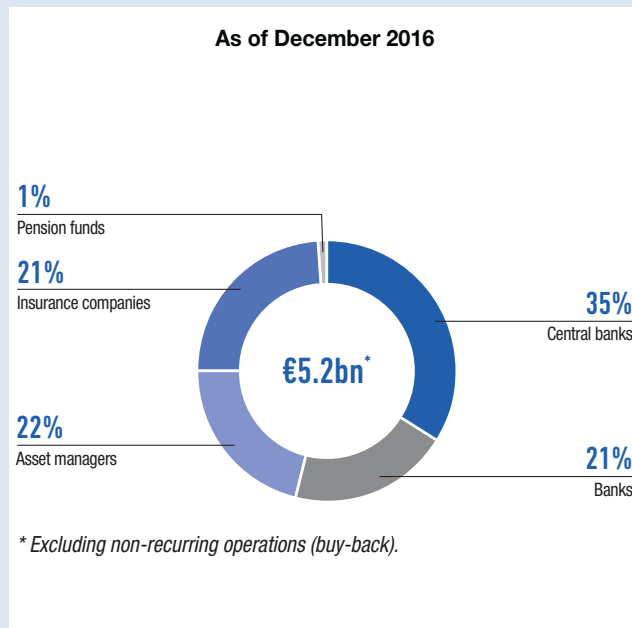
### ■ By region



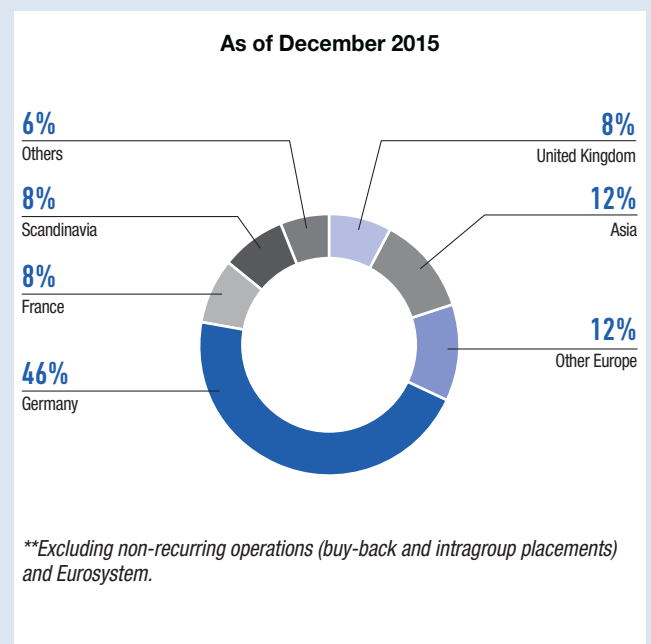
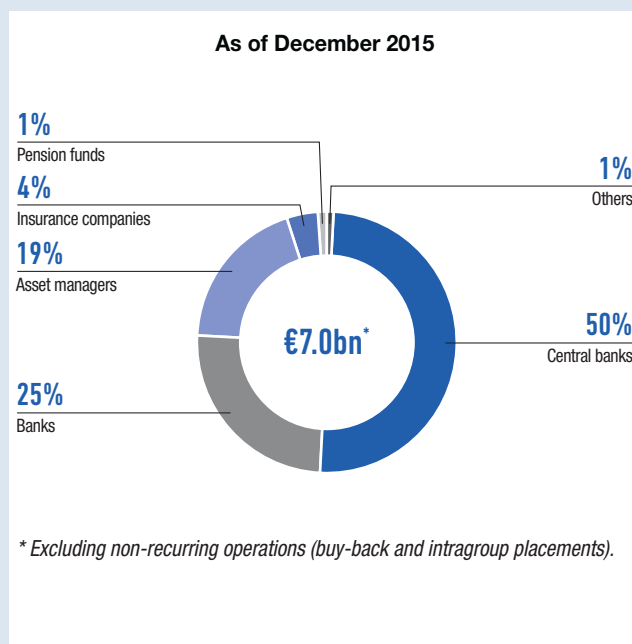
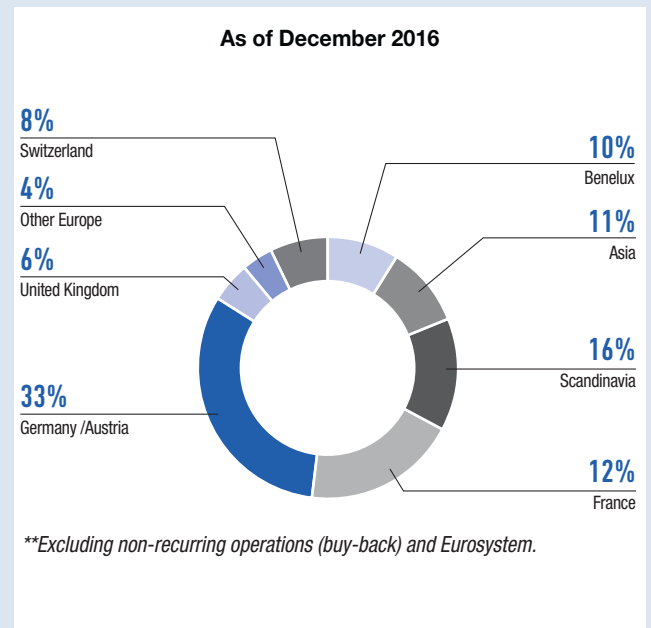
(1) For further information, please refer to chapter 6.1 of the Risk control and monitoring report.

## BREAKDOWN OF ISSUANCES

### By investor type



### By region\*\*



## 2016 HIGHLIGHTS

In 2016, Compagnie de Financement Foncier was one of the largest market participants in euros, with four benchmarks. Compagnie de Financement Foncier remains the benchmark issuer on the *obligations foncières* market.

On December 15, 2016 Compagnie de Financement Foncier received the MTN-I Award, in the category EMTN/PP Deals of the Year, for a 15-year €730m private placement. This bond issuance was placed with about ten investors from seven different countries (Finland, Norway, Switzerland, Austria, Germany, Belgium and France).

## PERFORMANCE INDICATORS

Activity	December 31, 2016	December 31, 2015
Average LTV of mortgage loans	74.9%	75.5%
Obligations foncières issued*	€5.2bn	€7.0bn
Privileged liabilities	€67bn	€69bn

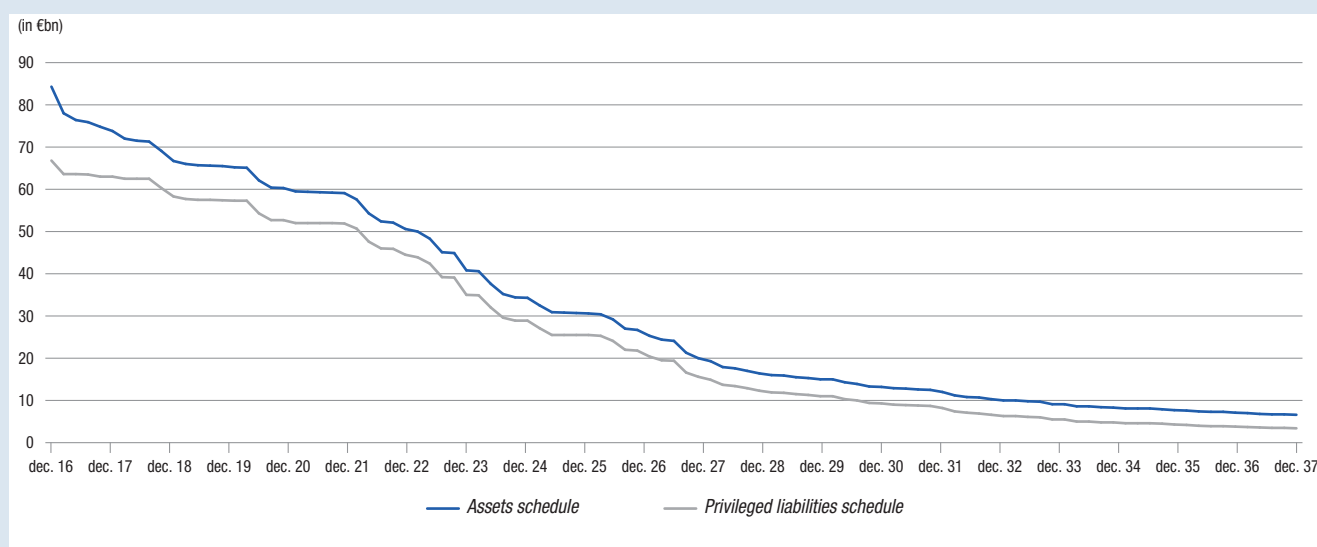
\* Excluding non-recurring operations (€0.2bn of buy-backs in 2016 and €1.4bn of buy-backs and intra-group placements in 2015).

Results	December 31, 2016	December 31, 2015
Net banking income	€359m	€364m
Net income	€94m	€132m

Solvency	December 31, 2016	December 31, 2015
Regulatory capital	€3.04bn	€3.1bn
Solvency ratio (calculated according to the standard method)	18.5%	18.7%
Common Equity Tier 1 ratio	18.5%	18.7%

Société de crédit foncier's specific ratios	December 31, 2016	December 31, 2015
Regulatory overcollateralisation ratio	117.6%	122.1%
Non-privileged resources/privileged resources ratio	18.5%	21.7%

## AMORTISATION OF ASSETS AND PRIVILEGED LIABILITIES





# Increasing 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 160 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 108,000 employees, serves a total of 31,2 million customers, 9 million of whom have decided to become cooperative shareholders. Groupe BPCE posted solid performance in 2016, with a moderated risk profile and a strong improvement in solvency. The

2016 net income attributable to equity holders of the parent increased by 7.6% to €3.4bn compared with 2015. The Common Equity Tier-1 ratio of the Group has strengthened further from 13.0% in 2015 to 14.3% in 2016. The group regulatory capital amounts to €72.3bn at December 31, 2016.

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## Synergies

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In 2016, groupe Crédit Foncier continued to develop synergies with other Group entities, in particular with regard to individual customers, local authorities and social housing business lines.

The development of synergies with BPCE entities also focused on the Group's IT systems. As a reminder, the mutualization of Crédit

Foncier's IT platform and that of Caisses d'Épargnes (MUT-SI program) launched at the end of 2012 ended successfully in mid-November 2015. The year 2016 was marked by a full exercise of this new IT organization.

<sup>(1)</sup> Market shares: 21.6% for customer savings and 20.7% for customer credits (source: Banque de France Q3-2016 – 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 new 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.

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.

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 87 issuers and 103 cover pools in 16 European 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 under a harmonised format since 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.

Compagnie de Financement Foncier complies with all the label requirements, and has therefore renewed its membership for 2017. 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 de France 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> <li>• Exposures on public entities</li> <li>• Replacement values</li> </ul>	<ul style="list-style-type: none"> <li>• Privileged resources (mainly <i>obligations foncières</i>)</li> <li>• Non-privileged resources: senior debt (unsecured debt), subordinated and related debts</li> <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 (formerly Art. L. 515-13)

##### 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.

[...]

The main regulatory developments in the period were:

- Sapin 2 law - On November 10, 2016, the Sapin 2 law was adopted. It provides in particular for the lifting of the 10% ceiling for mortgage notes and a broadening of Article L. 211-38 of the French Monetary and Financial Code;
- CRRII-CRDV: The European Parliament decided to review the components of its regulatory framework governed by the CRR-CRDIV package. In late November 2016, the European Commission published drafts of the CRRII-CRDV package. The changes announced include a preferential treatment for covered bonds, the gradual recognition of the prudential impact of IFRS 9, the transposition into domestic law of the TLAC (total loss absorbing capacity)/MREL, a review of the NSFR, recognition of the SA-CCR method (for calculating the EAD of derivatives), increased requirements for investor relations under Pillar 3 etc. This new package now goes into a European voting process which is expected to be complete by mid-2017, with an estimated effective date in January 2018.

#### SOCIÉTÉS DE CRÉDIT FONCIER

*Sociétés de crédit foncier* are credit institutions whose sole purpose is defined in Article L. 513-2 of the French Monetary and Financial Code: granting or acquiring guaranteed loans *i.e.* loans that are backed by first-rank mortgages or real property collateral conferring at least an equivalent guarantee, or exposures to public entities, and financing them by issuing *obligations foncières*. The business activities of a *société de crédit foncier* are restricted by law: they are not allowed to hold equity stakes or equity portfolios.

<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 (formerly Art. L. 515-19)

##### 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 (formerly Art. L. 515-20)

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** (formerly R. 515-7-2)

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 (order 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** (formerly R. 515-7-1)

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** (formerly Art. L. 515-27)

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 an 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 receivables 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 Resolution 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);
- liquidity, via the liquidity and observation ratios.

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 on individual basis and the regulatory overcollateralisation ratio provided to the French Prudential Supervisory and Resolution Authority (ACPR). 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** (formerly article 42 of regulation 97-02 as amended)

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

##### **Article 259** (formerly article 42 of regulation 97-02 as amended)

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** (formerly article 42 of regulation 97-02 as amended)

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** (formerly Article 43 of regulation 97-02 as amended)

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** (formerly Article 43 of regulation 97-02 as amended)

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** (formerly Article 43 of regulation 97-02 as amended)**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.

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

## 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 and 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** (formerly Art. L. 515-30)**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** (formerly Art. L. 515-31)**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.

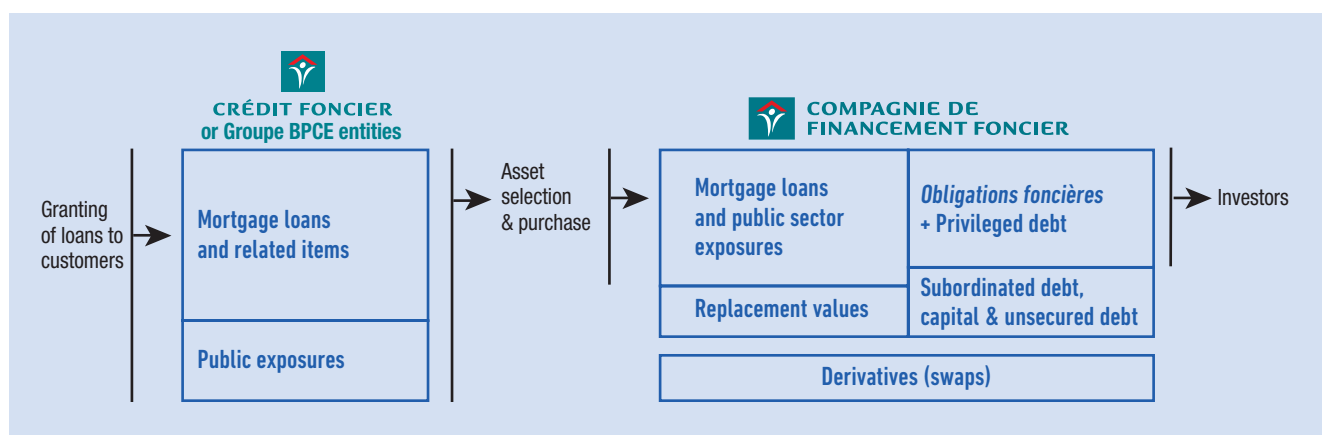
The Financial Markets Authority may also request any explanation or proof, particularly in regard to the issuer’s situation, business and results and concerning any guarantors of the financial instruments to which the transaction relates.

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. [...]



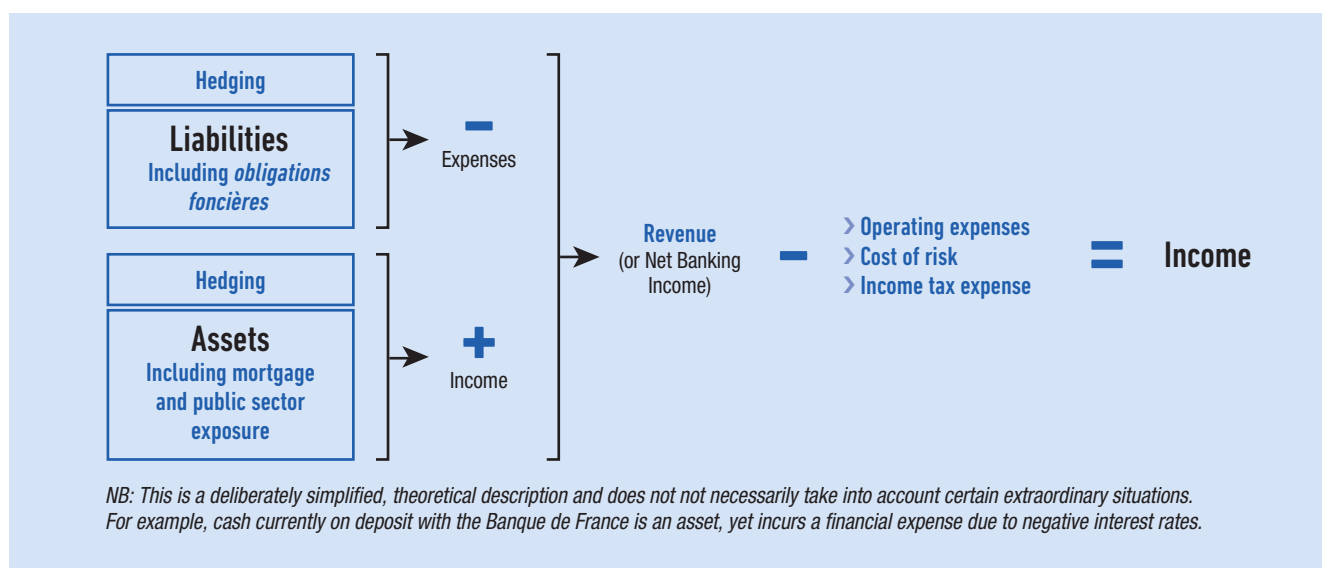
# Business model of Compagnie de Financement Foncier

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. This principle guarantees both principal and interest, with priority over all other creditors.

Given that Compagnie de Financement Foncier is a refinancing vehicle, its business 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 increasing production, Compagnie de Financement Foncier can buy or assign more receivables and so 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.

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

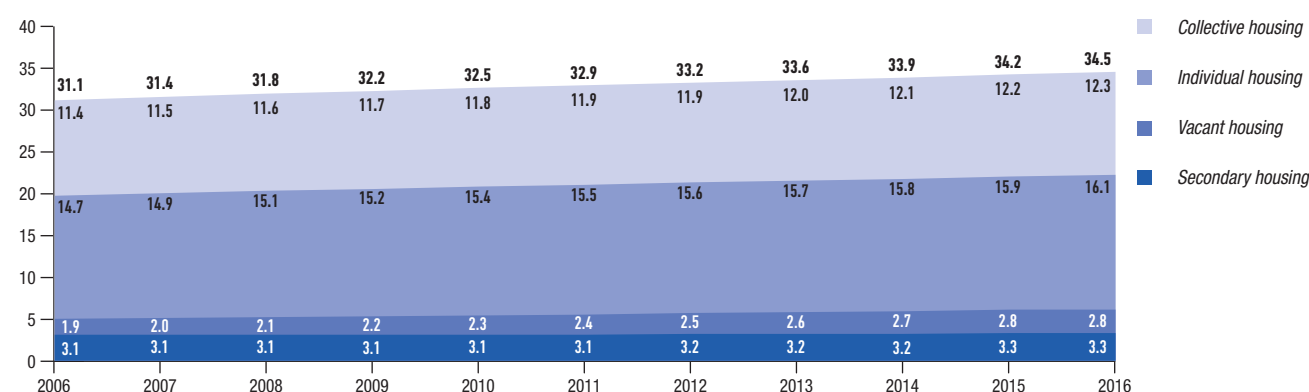
### THE FRENCH HOUSING AND HOME LOANS MARKET

#### 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 of the General Commission on sustainable development estimates that housing demand in France will average between 300,000 and 400,000 units *per annum* up to 2030 <sup>(1)</sup>.

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



Today there are 34.5 million housing units available in France, compared with 31 million in 2006, an increase of 3.4 million in ten years. Principal residences represent 82% of the housing stock, with nearly 28.4 million units in 2016. Collective housing has increased by around 0.9 million units and individual housing by 1.4 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.

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.

#### The Housing market in 2016

In the Existing housing market, prices rose for the third consecutive quarter: +1.7% for the year as compared to the third quarter of 2015. This increase was stronger for houses (+2.0%) than for apartments (+1.4%) <sup>(3)</sup>.

In Île-de-France, apartment prices have been rising faster (+2.6% for the year, actually +3.6% in Paris) than those of individual houses (+1.2%). In the provinces, the apartment prices are rising for the first time since mid-2012 (+0.3% compared to the third quarter of 2015), and house prices keep on to go up (+2.1%) <sup>(3)</sup>.

The number of existing property transactions over one year is estimated at 850,000 in 2016, up from the same period a year earlier (800,000) <sup>(4)</sup>.

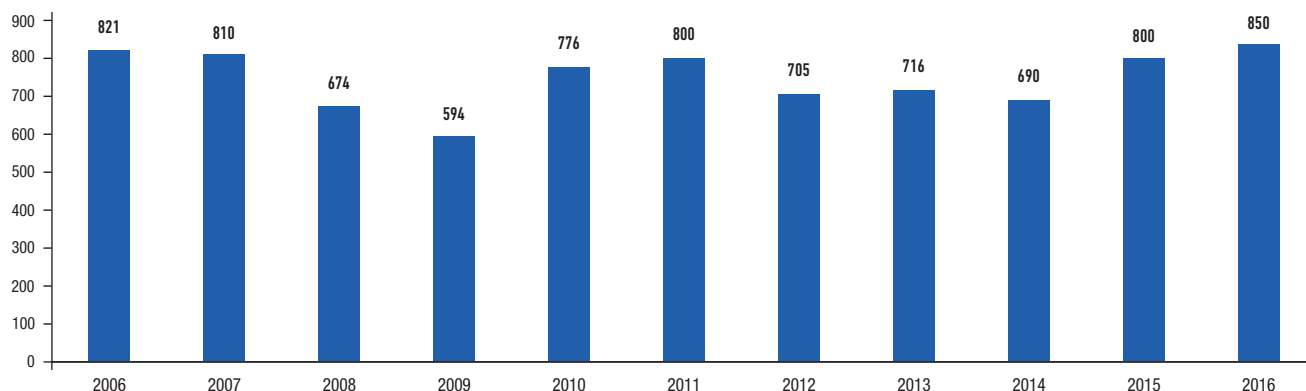
<sup>(1)</sup> General Commission for Sustainable Development) – n° 135, August 2012.

<sup>(2)</sup> INSEE - Annual estimate of 2016 housing stock.

<sup>(3)</sup> INSEE – Price indices on the existing market – Q3 2016.

<sup>(4)</sup> INSEE/CGEDD/bases notariales/Crédit Fincier Immobilier – Annual volume of transactions – February 2017.

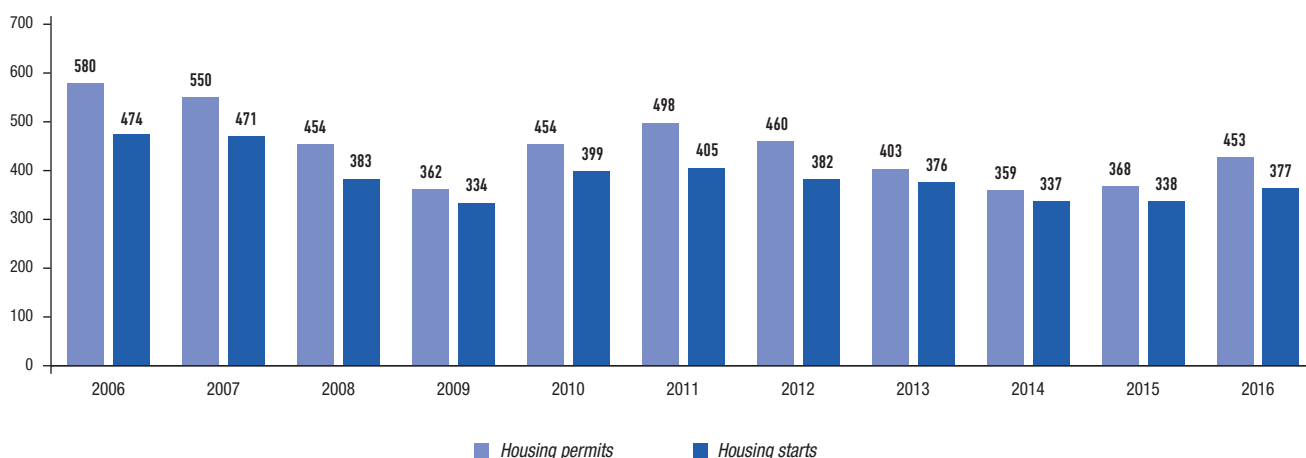
### ■ Number of transactions in existing property over a sliding 12-month period (in thousands) <sup>(1)</sup>



The New Property market experienced a net resurgence of activity. Building permits for 453 thousand new homes over a rolling 12-month period had been granted by the end of 2016. This is much greater than the 368 thousand permits recorded at the end of 2015 <sup>(2)</sup>, demonstrating an ongoing market recovery.

Likewise, housing starts rose in 2016. Housing starts over a rolling 12-month period stood at around 377 thousand at the end of 2016, compared with the 338 thousand housing starts recorded in 2015 <sup>(2)</sup>.

### ■ Number of housing authorised and started over a sliding 12-month period (in thousand of units) <sup>(2)</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

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:

- 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 the fourth quarter of 2016, this rate is 2.51% for fixed-rate loans and 2.12% for variable-rate loans <sup>(3)</sup>.

<sup>(1)</sup> INSEE/CGEDD/bases notariales/Crédit Foncier Immobilier - Annual number of transactions - February 2017.

<sup>(2)</sup> INSEE - Housing authorised and started in mainland France - November 2016.

<sup>(3)</sup> General Directorate of Public Treasury - Maximum thresholds as of Q4 2016.

- 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;
- 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 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 homebuyers and introduced public guarantees.

#### THE FRENCH MORTGAGE MARKET

A mortgage is a guarantee, *i.e.* a right granted to a creditor on a property as a protection for a debt.

If the borrower defaults on payment due, the creditor can seize the mortgaged property in order to offer it for sale and be repaid in priority on the sale price.

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.

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 homebuyers 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 96.3% of home loans outstanding. In 2015, the main features of home loans were as follows:

96.7% of home loans granted in 2015 were at a fixed rate, with an average affordability ratio of 29.4% and an average Loan To Value (LTV) of the outstanding amount of granted loans of 68.3%.

97.1% of outstanding loans were secured: mortgages or lender's liens accounting for 31.7%, credit institution sureties and financial guarantees accounting for 33.5%, insurance institution sureties and financial guarantees accounting for 22.5%, and other types of guarantees accounting for 9.4%.

The doubtful loan rate was 1.99% and the rate of provisioning for these outstanding loans stood at 29%, primarily due to the extent of the guarantees referred to above.

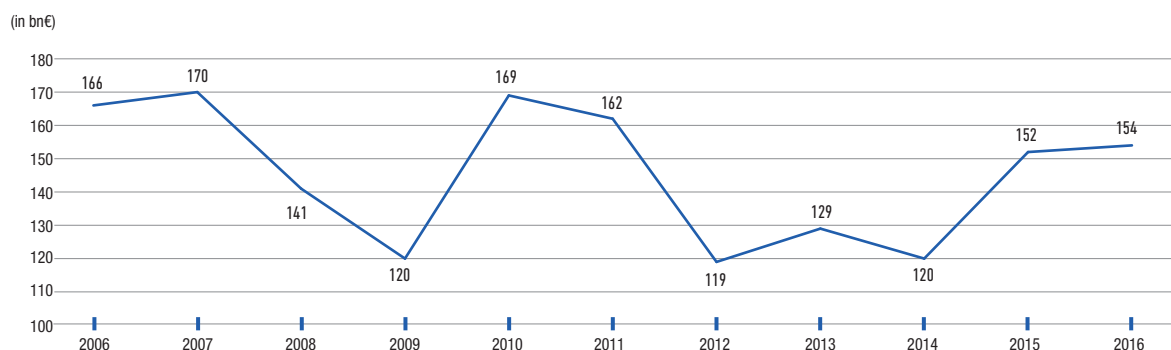
#### Real estate financing in 2016

The home loans market has been very active since the end of 2014. The overall volume of accepted loans is estimated at about €154bn in 2016 compared with €152bn the year before <sup>(1)</sup>.

In this contexte, the parent company of Compagnie de Financement Foncier, Crédit Foncier has granted €7.1bn of loans to individual customers in 2016.

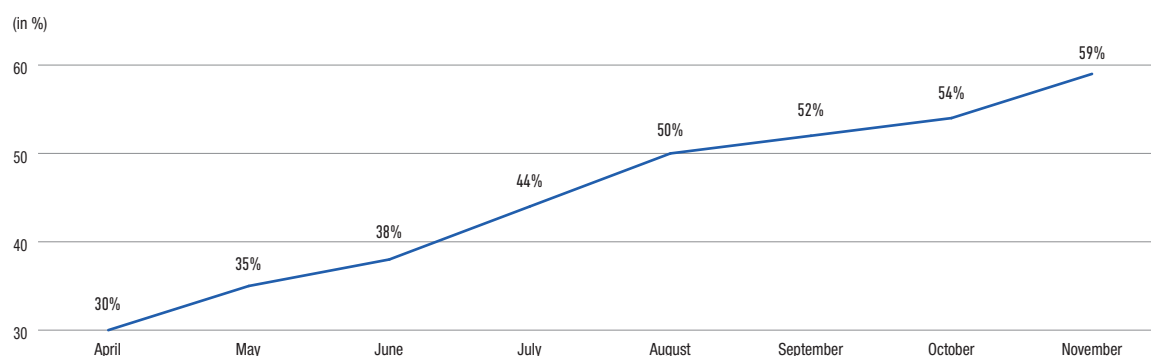
(1) Observatoire Crédit Logement CSA – Q4 2016 – Data excluding loan repurchases.

## ■ Annual production of mortgage loans (€bn) <sup>(1)</sup>

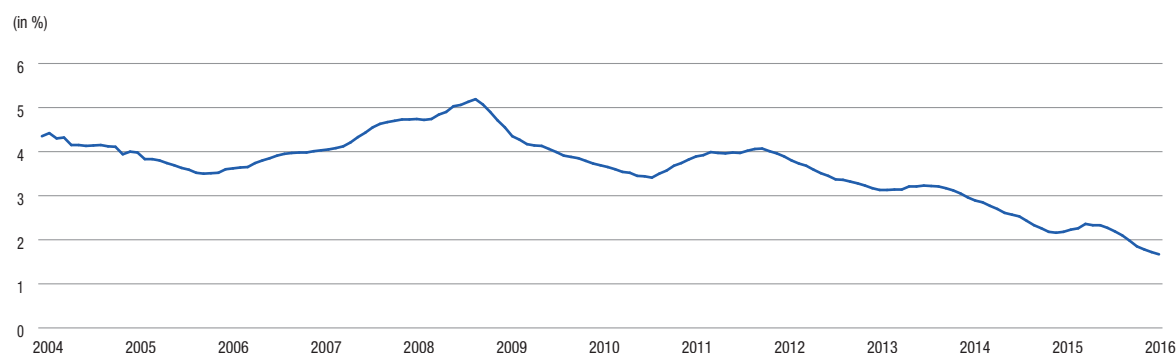


It is important to note that the loan originations shown above do not include debt renegotiations. In fact the year 2016 is the second year in a row that is marked by a continued drop in interest rates, resulting in high level of renegotiations and early repayment. The renegotiations' rate in the overall loan production as of November 2016 amounted to 59% <sup>(2)</sup>.

## ■ Renegotiations' share in the overall production of mortgage loans in 2016 <sup>(2)</sup>



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



<sup>(1)</sup> Observatoire Crédit Logement CSA – Q3 2016 – Data excluding loan repurchases.

<sup>(2)</sup> Banque de France - Customer loans outlook - November 2016.

## THE COMMERCIAL REAL ESTATE MARKET

After a 2015 with a large volume of transactions and €24bn of investment<sup>(1)</sup>, returning to the record levels of 2006-2007, the commercial real estate investment market reached €23.4bn of transactions in 2016, largely following the same trend as the previous year despite a slow first quarter.

One should keep in mind that the last quarter of 2015 was historic, with nearly €10bn of sales<sup>(1)</sup>. In 2016, demand in Île de France was particularly strong and accounted for 84% of total transaction volume, or €19.6bn in 2016, as compared with only €3.8bn in the regions<sup>(2)</sup>. In Île-de-France, Paris represents 39% of investments, with two-thirds of that in the central business district<sup>(1)</sup>.

This period thus recorded one of the highest volumes since 2007, with €15.2bn invested *versus* €14bn a year earlier. This investment volume is primarily attributable to the return of "mega-deals." Those deals, which amount more than €100m, contributed heavily to 2015 volume (62%) and continue to account, for 59%, or €7.3bn, for the period ended September 30, 2016<sup>(1)</sup>.

By type, we see that the office segment represents 75% of the amount invested and retail properties come in at 16%, while the share for logistics and business parks at 9% confirms the renewed interest of investors in this type of asset, due to increased rental demand, which is supported by e-commerce, among other things.

In this connection, Crédit Foncier, the parent company of Compagnie de Financement Foncier, holds an outstanding of €267m of mortgage loans on these types of property (services, retail and logistics) as of December 2016.

## 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>(3)</sup> and borrowings.

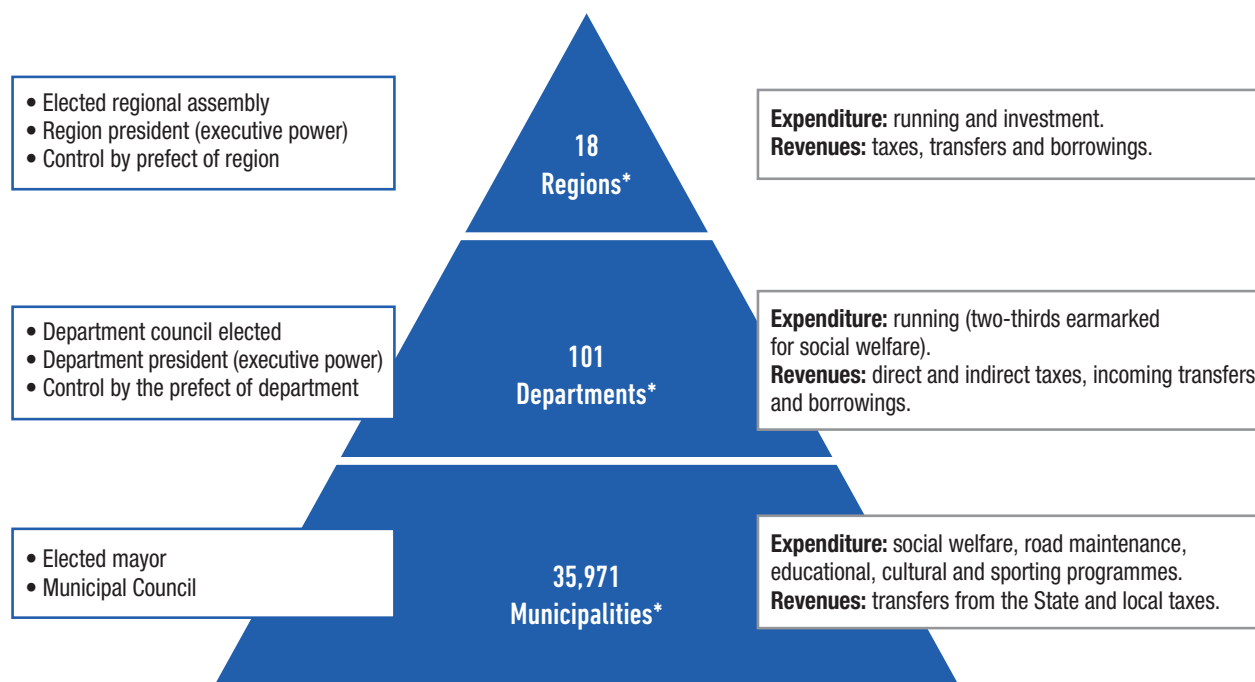
- A department is a territorial subdivision between the region and the municipality, with an elected general council headed by a president with executive powers, under the retrospective control of a departmental prefect. The department has its own budget and powers covering social action, major road 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) Immostat/Crédit Foncier Immobilier, Commercial Real Estate Market, Q3 2016.

(2) Crédit Foncier Immobilier, Estimates as of Q4 2016.

(3) 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 35,756 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 and groups together municipalities into inter-municipalities of at least 20,000 inhabitants at the 1st of January 2017 <sup>(2)</sup>.

### Public sector financing

The French legislative framework makes the public sector a highly controlled sector. The 1984 finance law <sup>(3)</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 improved economic situation in 2015 stayed that way in 2016, driven mainly by productive investment. 2016 again saw a reduction in the French State financing, all part of re-stabilizing government finances. General operating grants were thus reduced by €3.3bn in 2016, to €33.3bn.

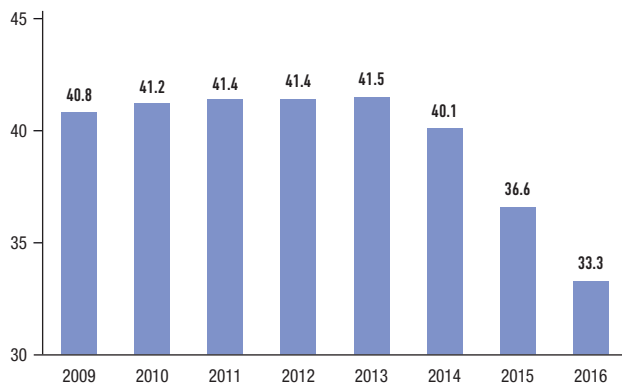
<sup>(1)</sup> INSEE, official geographic code in 2016.

<sup>(2)</sup> French government website, territorial reform (<http://www.gouvernement.fr/action/la-reforme-territoriale>).

<sup>(3)</sup> Law No. 83-1179 of December 29, 1983 on the 1984 budget.

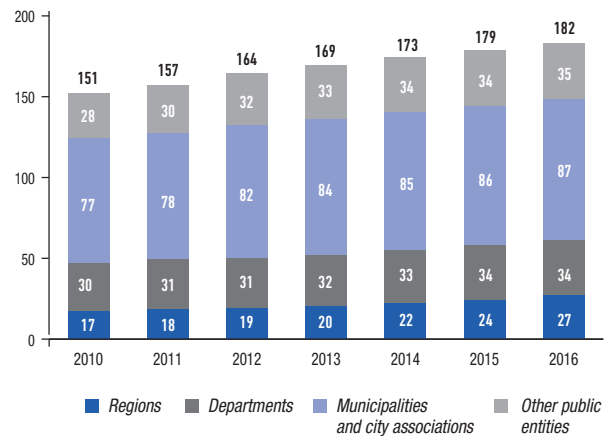


## ■ The general operating grant from the State to local authorities (in €bn) <sup>(1)</sup>

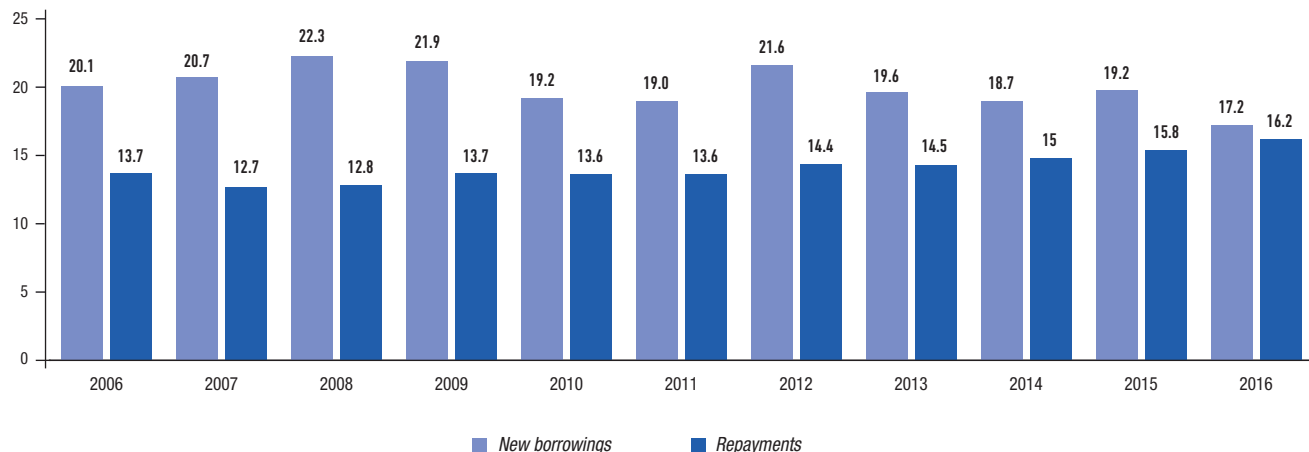


The French State allocations were down for the third year in a row. A direct result of this drop was a decrease in the gross savings and borrowings of local authorities, a trend which continued into 2016.

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



## ■ Repayments and local authorities borrowings in 2016 (in €bn)



In 2016, we saw a reduction in borrowing by municipalities in relation to the prior year (€17.2bn of new loans in 2016, compared with €19.2bn in 2015 <sup>(1)</sup>).

- 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.

## ■ 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;

#### 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.

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.

(1) Market report – Local public finance– 2016 trends and forecasts – la Banque Postale - November 2016.

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:

- 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

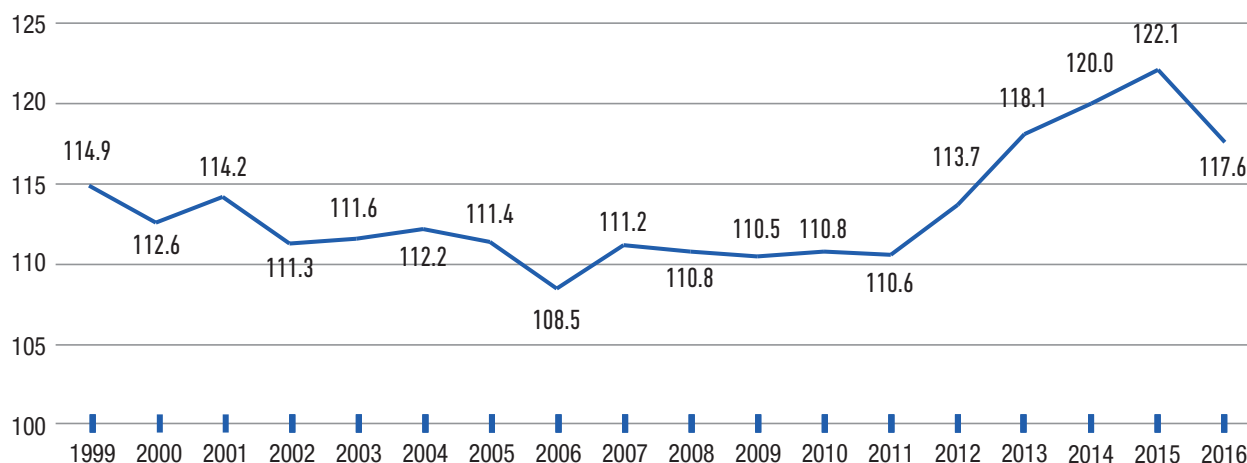
##### COMPLIANCE WITH THE REGULATORY OVERCOLLATERALISATION RATIO (COVERAGE RATIO)

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.

Since the creation of Compagnie de Financement Foncier in 1999, this regulatory ratio has always been above 108%.

### 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.

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.

<sup>(1)</sup> Regulation n° 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 n° 2002-02 of July 15, 2002 and orders of May 7, 2007 and February 23, 2011.

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

In addition to the fact that 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 (see Risk control and monitoring report, paragraphe 2.2.3).

The purchase filter was slightly widened in 2016 for retail mortgage loans (excluding the Belgian subsidiary). It was done without taking any additional risk thanks to the implementation of a termination clause : if a loan benefitting from this criteria widening becomes doubtful in the first four years following an acquisition, the disposal of this loan will be cancelled and it will be then transferred back to Crédit Foncier at par.

Concerning French Local Authorities' loans, they are purchased based on their internal rating which is determined by the Group BPCE rating system. Loans benefitting from a less advantageous ratings are eliminated. Also, starting from 2016 Crédit Foncier can assign long terme Corporate loans benefitting from a formalized first rank mortgage which dates less than one year to Compagnie de Financement Foncier. In this case a specific process with strict quality criteria and limits on outstandings is applied.

Compagnie de Financement Foncier also refinances its parent company by assigning loans and receivables that are subject to the same eligibility criteria as those applied to direct purchases. The assignment of assets is made in the form of mortgage notes on retail loans or on French Local Authorities' loans granted pursuant to the article L.211-38. All the loans and receivables assigned in the form of mortgage notes are subject to a monthly control where doubtful loans are eliminated.

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:

<sup>(1)</sup> 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.

	Standard & Poor's	Moody's	Fitch Ratings
From 0 to 59 days	ST: A1	ST: P1	ST: F1
From 60 days to 6 months	ST: A1+	ST: P1 and LT: Aa3	ST: F1 and LT: AA-
More than 6 months	LT: AAA	LT: Aaa	LT: AAA

### Limiting market counterparty risk

Crédit Foncier group's risk policy specifies permarket 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) 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%

### 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, 2016, the total assets average duration was 7.3 years and the privileged liabilities average duration was 7.6 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 groupe 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 Control and Monitoring Report.

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 Risk Control and Monitoring Report.

## Refinancing through the issuance of *obligations foncières*

### ECONOMIC AND REGULATORY ENVIRONMENT

#### SLOW ECONOMIC RECOVERY

As in the previous year, the world economy remained sluggish in 2016.

Economic growth is estimated at 3.1% in 2016 and 3.4% in 2017 <sup>(1)</sup>, revised down slightly by 0.1 points in 2016 and 2017 from the forecasts published last April. This revision was primarily due to lower-than-expected growth in the United States, as well as a worsening of prospects for European economies following the Brexit vote last June.

Although Great Britain has not yet submitted its formal withdrawal from the European Union in accordance with Article 50 of the European Treaty, which was announced for March 2017 by the British Prime Minister, Theresa May, the outlook remains uncertain. The growth rate of the British economy is of 2% in 2016 <sup>(2)</sup>. If British growth seems for the moment to be resisting the win by the “out”, with an increase of 0.5% in the third quarter <sup>(3)</sup> i.e., above the forecast of the Bank of England (+0.2% in the third quarter), the bulk of the Brexit effect is still to come, opening a period of uncertainty for international economic balance.

According to 2016 projections by the International Monetary Fund (IMF), the growth of developed countries is estimated to be off 1.6% from 2015, which showed a gain of 2.0% (+20 basis points vs 2014). Following a disappointing first half, explained mainly by weakness in business investment, the institution has revised downward its forecasts of the American economy, to 1.6% as compared to 2.6% the previous year <sup>(1)</sup>.

This slowdown in growth could also be seen in the euro zone (-30 bps to an estimated 1.7%) despite a level pace in France (1.1%), Italy (0.8%) and Spain (3.1%) <sup>(1)</sup>.

Conversely, after a five-year slowdown, and especially a 2015 marked by a collapse in raw materials prices, particularly oil, the growth of emerging economies is expected to be 4.2% in 2016 as compared with 4.0% in 2015. This recovery should be clearly felt in 2017, with an estimated growth of 4.6% <sup>(1)</sup>.

After a 2015 marked by significant recessions in Brazil (-3.8%) and Russia (-3.7%) the situation is improving, and these two countries should get back to growth as early as 2017 with rates respectively of 0.5% and 1.1%. Nonetheless, 2016 remained transitional. With -3.3%, Brazil remains in recession, though the factors seem to be fading; and in Russia, after having suffered economic sanctions and an oil price shock, the economy shows signs of stabilization (-0.8%) <sup>(1)</sup>.

Uncertainties remain as to Chinese growth, expected to be 6.6% in 2016 compared with 6.9% the previous year <sup>(1)</sup>, forcing the local

authorities to intervene, in particular by facilitated access to credit, the flip side of that being a surge in household and business debt.

Accordingly, there remains some risk of a worsening economic environment or of a resumption of slow and prolonged growth. The developed countries are still faced with the challenge of reducing their public debt, and the financial markets remain affected by an environment of very low rates and increased geopolitical tensions (volatility of markets, tensions in the Middle East), as well as by the strengthening of regulatory constraints.

#### EUROPEAN MONETARY POLICY

In light of a slowed down economy in the developed countries in 2015 and of persistent inflation, the central banks kept their accommodating monetary policies broadly unchanged in 2016.

In this context, the ECB maintained its principal interest rate at zero as well as its policy of quantitative easing. This decision was particularly motivated by the fact that the Bank wishes to avoid an increase in risk in the wake of the British referendum <sup>(4)</sup>. Accordingly, massive purchases of debt securities, mainly public, will continue until March 2017 at a pace of €80bn, then be limited to €60bn per month as of April 2017.

Thus, in 2016 the ECB purchased €829bn of assets, including €60bn of covered bonds.

#### HARMONIZATION OF COVERED BONDS LEGAL FRAMEWORK

At the end of 2016, after several attempts to create a pan-European framework for covered bonds, the EBA proposed recommendations on how to harmonize the covered bonds framework in the European Union.

In this context, the EBA, commissioned by the European Systemic Risk Board (ESRB), presented proposals to strengthen the framework of covered bonds in the European Union and to ensure that only financial instruments that comply with structural standards, credit risk and harmonized prudential standards may be called covered bonds. Thus, based on the results of an in-depth analysis of regulation and the market, and taking into account national frameworks, the EBA proposed a specific framework entirely based on a “three-step approach” to harmonize covered bonds in the European Union:

- development of a framework of covered bonds;
- modification of the CRR concerning the treatment of the privileged risk weighting;
- convergence of national frameworks, on a voluntary basis, encouraged through non-binding instruments.

(1) International Monetary Fund, *Global economic outlook*, October 2016.

(2) Bank of England, *Press release* as of February 2, 2017.

(3) Office for national statistics, *publication* du 27 octobre 2016 (<http://ons.gov.uk/>)

(4) Banque Centrale Européenne, *Décision du Conseil des Gouverneurs* du 8 décembre 2016.

## THE COVERED BONDS MARKET

The issuance volume of euro benchmark covered bonds reached €124.5bn in 2016<sup>(1)</sup>, showing a contraction of 13% compared to the previous year. 2016 saw an active first-half with €92.3bn issued, a level comparable to the record volume of €97.5bn set in the first half of 2011<sup>(1)</sup>.

The trend subsequently slowed down in the summer, due primarily to the participation of the issuers in the TLTRO programs and to the uncertainties related to the Brexit vote. Under these circumstances, the issuance volume amounted to €31bn in the second half of the year<sup>(1)</sup>.

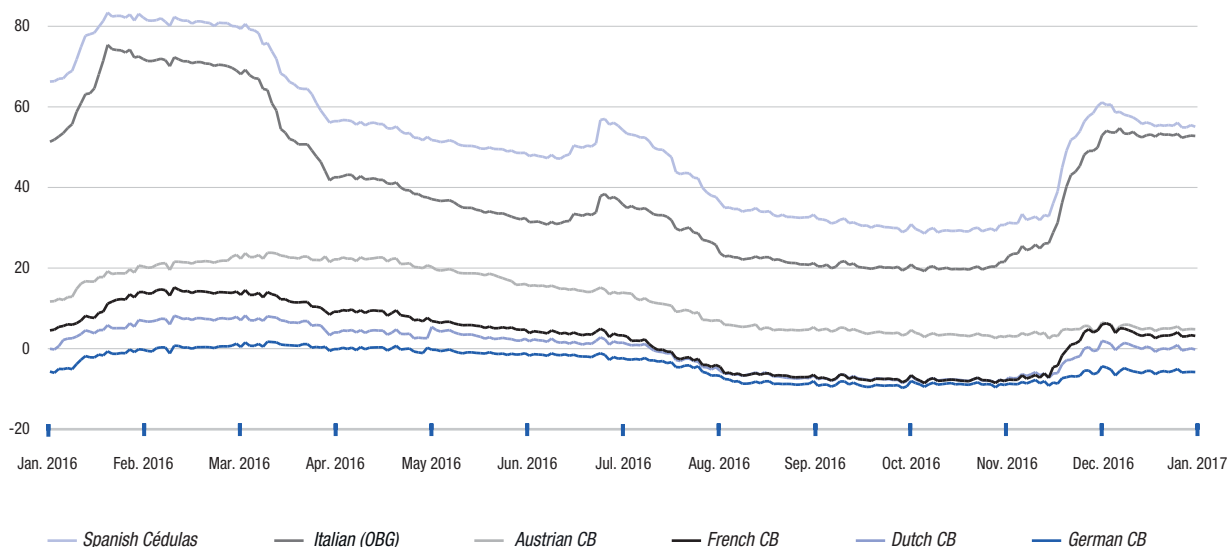
Covered bond market was largely influenced by the mortgage-backed bonds in 2016. 87% of bonds were backed by mortgages and 13% by public sector loans and mixed guarantees (which were the issuances of Compagnie de Financement Foncier).

The German *Pfandbriefe* dominated the market (20%), followed by France (16%), Spain and Canada (10% each), Norway (7%), Sweden (6%), followed closely by Italy (5%) and the United Kingdom (5%).

Offering higher spreads and positive yields, the long maturities (ten years and over) have attracted investors and issuers, whereas the swaps curve in euros was negative out to seven years. Maturities ten years and more represented nearly 26% of the volume issued in 2016, compared with 18% the previous year, at the expense of maturities up to five years, which represented 20% compared with 32% in 2015. However, the return to positive territory by the 5-year and 7-year euro swaps curve could alter this trend.

As in the previous year, the *spreads* of secured obligations have been particularly influenced by the European Central Bank's asset purchase programs (Asset-Backed Securities Purchase Program, Covered Bonds Purchase Program and Public Sector Purchase Program), which have been extended until March 31, 2017.

### 2016 covered bond spreads developments major segments<sup>(2)</sup>



## COMPAGNIE DE FINANCEMENT FONCIER BOND ISSUANCES IN 2016

Compagnie de Financement Foncier's 2016 activity was €5.2bn, excluding buy-backs. *Obligations foncières* were largely placed with institutional investors (75% are in the form of public issuances). As regards private placements, they total €1.2bn in 2016, which represents 25% of total issuances (vs. €0.6bn the year before).

On the public primary market, Compagnie de Financement Foncier issued four euro benchmark issuances, representing an overall volume of €4bn. In the first quarter, a €1bn issuance was raised with a maturity of ten years, followed by a second €1bn issuance at six years. In April, an €1bn 8-year maturity issuance was placed. Finally, in the third quarter, Compagnie de Financement Foncier issued €1bn with a ten-year maturity and once again demonstrated, in 2016, the strength of its reputation and the resilience of its creditworthiness on

investment markets. These issuances were conducted at historically low spreads allowing to reduce the cost of liabilities. The long term average maturity made it possible to take advantage of excellent refinancing terms and to match the new loan production.

Private placements were successful, with €1.2bn of issuances (excluding buybacks amounting to €0.2 bn) on an average maturity of 19.2 years and made it possible to improve refinancing costs while maintaining spreads lower than the secondary levels and raising funds mostly over the long part of the curve.

On December 15, 2016 Compagnie de Financement Foncier received the MTN-I Award, in the category EMTN/PP Deals of the Year, for a 15-year €730m private placement. This bond issuance was placed with about ten investors from seven different countries (Finland, Norway, Switzerland, Austria, Germany, Belgium and France).

(1) Natixis, Covered Bond Outlook 2017.

(2) Natixis, Covered Bond weekly, 11 janvier 2017.



This distinction, awarded by capital markets professionals, is a testimony to the ability of Compagnie de Financement Foncier to carry out the most complex operations, tailored for each investor, in a restricted environment.

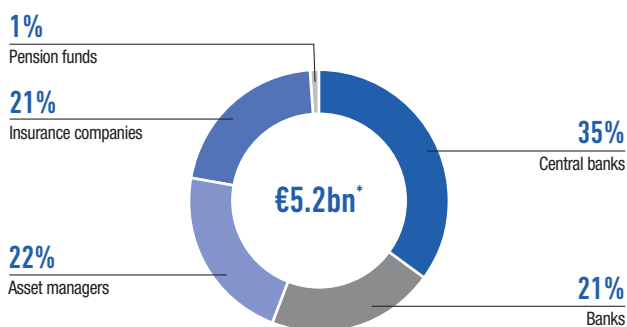
Compagnie de Financement Foncier has a broad and very active investor base, as evidenced by the high levels of oversubscription on its various public issuances in 2016. French and German investors represented the majority of subscribers of Compagnie de Financement Foncier's *obligations foncières* with respectively 12% and 33% of the volumes issued in 2016 (excluding non-recurring

transactions and Eurosystem investments). It should be pointed out the growing share of Scandinavian investors which represented 16% as compared with 8% in 2015.

While the acceleration of the secured bonds purchase program conducted by the European Central Bank contributed to the increase in its own share in the volume of Compagnie de Financement Foncier issuances in 2015, the year 2016 balanced out the breakdown of investors by type. The central banks' exposure was reduced to 35% as compared to 50% last year, largely in favor of insurers, whose share rose from 4% to 21% in 2016.

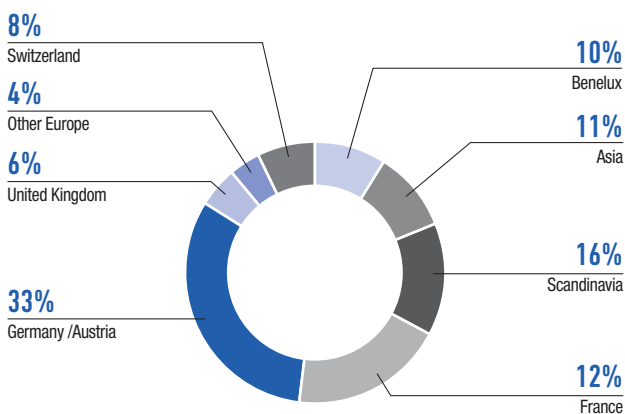
## ■ Breakdown of Compagnie de Financement Foncier's *obligations foncières* issued in 2016

### ■ By investor type



\*Excluding non-recurring operations (buy-back).

### ■ By region \*\*



\*\*Excluding non-recurring operations (buy-back) and Eurosystem.

## ■ MANAGEMENT OF DERIVATIVES

As part of its financial management policy, which provides for a reduction of its derivatives portfolio, intragroup derivatives compression transactions were carried out in 2016, between Compagnie de Financement Foncier and Crédit Foncier, for a total outstanding of €2.1bn. As regards adjustment transactions, an outstanding €1.1bn of swaps between Compagnie de Financement Foncier and Crédit Foncier was also canceled.

In applying European regulation EMIR (European Market and Infrastructure Regulation) at the end of 2016, 222 swaps were cleared (at LCH) <sup>(1)</sup> for a total amount of €34.2bn.

## ■ METHODOLOGIES OF THE RATING AGENCIES

After the wave of changes in Covered Bond methodologies in 2015, following the adoption of the new Bank Recovery and Resolution Directive (BRRD), the rating agencies have mainly proceeded to their new criteria implementation in 2016.

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 counterparty - bank (for the deposits and swaps), sponsor or servicer.

(1) LCH Clearnet Ltd.

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 METHODOLOGY

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

The first step consists in determining the Reference Rating Level (RRL). The 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 Level Rating (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 that are applicable to covered bond issuers were changed during the second half of 2016 and will be applied 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. The difference between the covered bond rating and the sovereign rating may be reduced as a result and the required overcollateralization may be affected by the newly introduced stress tests.

### MOODY'S METHODOLOGY

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 this default 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 METHODOLOGY

The starting point of the Scope methodology is the sponsor 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's 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 provide already a minimum credit quality for the pool. The 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.







# Financial report

## 2016 MANAGEMENT REPORT

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# 2016 Management report

Compagnie de Financement Foncier's business remained strong in 2016 despite the continuing strains in the economy (prolonged period of low interest rates, rising geopolitical tensions and stricter regulation).

In accordance with groupe Crédit Foncier strategic guidelines, Compagnie de Financement Foncier's activity remained focused on refinancing real estate loans granted by its parent company, continuing to reduce its international exposures and optimizing its balance sheet size in preparation for new regulations applicable to credit institutions.

Compagnie de Financement Foncier issued €5.4bn of *obligations foncières* in 2016, which, like all of its privileged debts rated AAA/Aaa/AAA. Thus, rating agencies acknowledge the security provided by the *société de crédit foncier*'s status and the additional commitments taken by the Company regarding financial management and risk monitoring.

At December 31, 2016, Compagnie de Financement Foncier had a total balance sheet of €84.3bn and net income of €93.7m.

## 1. Main operations of the financial year

### ACQUISITIONS AND DISPOSALS

Compagnie de Financement Foncier continued its business activity in 2016 in keeping with groupe Crédit Foncier's strategic guidelines, in synergy with Groupe BPCE.

During 2016, Compagnie de Financement Foncier acquired €6.7bn in loans from Crédit Foncier including related receivables, plus €2.6m in unreleased loans.

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 pool of receivables, Compagnie de Financement Foncier has for several years arranged credit lines with its parent company, Crédit Foncier, amounting to €10.3bn at December 31, 2016, and with certain Caisses d'Épargne or Banques Populaires banks, amounting to €0.2bn. The same facility was also granted to BPCE SA, amounting to €8.9bn at end-2016 excluding related receivables. Total loans granted under these facilities were collateralized for €19.6bn.

Outstanding mortgage notes acquired by Compagnie de Financement Foncier from Crédit Foncier totaled €7.3bn at December 31, 2016 (collateralized for €7.8bn), up €1.6bn from the end of 2015.

Replacement values of Compagnie de Financement Foncier, amounted to €6.8bn. In addition to working cash balances, replacement values essentially comprise loans granted under Article L. 211-38 of the French Monetary and Financial Code.

Turning to funding activities, Compagnie de Financement Foncier issued €5.4bn of *obligations foncières* in 2016, 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). No securities were pledged as collateral to the European Central Bank in 2016.

The groupe Crédit Foncier continued to reduce its international exposure in 2016, in accordance with its strategic plan launched in 2011. In total, outstandings of €97.4m (foreign currencies converted at source value) were sold by Compagnie de Financement Foncier in 2016. These disposals, together with the unwinding of the associated hedging swaps, generated net capital losses of nearly zero in 2016, compared with a loss of -€4m before taxes in 2015 on the disposals' amount of €1.6bn. Those results appear in the income statement under "Gains or losses on long-term investments".

### OFF-BALANCE SHEET OPTIMIZATION TRANSACTIONS

In order to meet the twofold objective of (i) reducing off-balance sheet commitments to minimize the amount of capital allocated to derivatives, and (ii) limiting counterparty exposures, Compagnie de Financement Foncier conducts transactions to optimize its interest rate derivative portfolio on a regular basis.

In 2016, an optimization transaction was conducted internally with Crédit Foncier for a notional amount of €2.1bn and a net termination balance of €10.5m. Furthermore, Compagnie de Financement Foncier canceled several interest rate hedging swaps in 2016, for a total of €3.9bn, resulting in the receipt of balances totaling €109.9m (spread over the remaining term of the underlying assets).

In addition, several swap transactions with external counterparties were assigned to Natixis SA, leading to the receipt of compensation in the amount of €7.7m.

## EARLY REPAYMENTS

Given the low interest rate environment, the average rate of early repayment for loans to individuals remains high at 13.1% of outstanding loans in 2016. The outflows of assets amounted to €4.3bn.

The impact of these early repayments consisted mainly of:

- accelerated amortization of acquisition premiums/discounts for a total of €140m in full-year 2016;
- collection of €83m in prepayment penalties, in excess of the amount budgeted, one-third of which was transferred to Crédit Foncier for services rendered (charge booked under general operating expenses).

## FUNDING AND CASH MANAGEMENT

In parallel, Compagnie de Financement Foncier issued a gross amount of €5.4bn in *obligations foncières*, broken down as follows:

- €5.2bn in new issuances on the market, of which €1.2bn were private placements;
- €0.2bn of debt restructuring operations (buyback of old lines and their replacement with securities having longer maturities).

All issuances in 2016 were denominated in euros. Placement shows that German investors were the most active, followed by investors from France, Scandinavia, the Benelux and Asia. The granularity and diversity of the investor base, with more than 25% outside the eurozone, meant a reduction in Eurosystem allocations.

There were four benchmark public issues in 2016:

- €1bn 10-year maturity in January;
- €1bn 6-year maturity in March;
- €1bn 8-year maturity in April;
- €1bn 10-year maturity in September.

The covered bond issuances as well as cash flows generated by a high level of early repayments made it possible to ensure an important volume of acquisitions throughout the year.

# 2. Changes in assets

Assets (in €K)	12/31/2016	12/31/2015
Cash and amounts due from central banks	2,400,000	5,360,083
Treasury notes and similar securities	3,455,424	3,606,541
Loans and receivables due from credit institutions repayable on demand	20,827,904	21,092,317
• Demand	244,151	478,256
• Term	20,583,753	20,614,061
Due from customers	42,237,163	43,026,282
Bonds and other fixed-income securities	12,724,987	11,246,613
Equity investments and other long-term investments*	0	4
Intangible assets and property, plant and equipment	0	0
Other assets	8,175	59,306
Accrued accounts	2,694,997	3,187,163
<b>TOTAL ASSETS</b>	<b>84,348,650</b>	<b>87,578,310</b>

\* Participation certificates within the "deposit guarantee system" in 2015.

Compagnie de Financement Foncier's balance sheet total is down by 3.7% year-on-year to €84.3bn.

In 2016, for the second year in a row, Compagnie de Financement Foncier saw a high level of early repayments, as a result of lower interest rates.

## CUSTOMER RECEIVABLES AND THE IMPACT OF THE EARLY REPAYMENTS

Overall, home loans to private individuals, classified under "Loans and receivables" and under "Bonds and other fixed-income securities" through mortgage notes, are up by €1.8bn.

(in €m)	12/31/2016	12/31/2015	Change
Non-commercial mortgage loans (see Note 2)	34,064	33,873	+191
Mortgage notes (see Note 3)	7,321	5,750	+1,571
<b>TOTAL</b>	<b>41,385</b>	<b>39,623</b>	<b>+1,762</b>

The loan trend breaks down as follows :

- an increase related to the acquisition of €6.7bn in loans in 2016.
- combined downward impact of:
  - the high volume of early repayments during the fiscal year (outstanding loans fell by €4.3bn);
  - amortization of outstandings (outstandings down by €2.2bn).

Other loans to customers, including loans to French local authorities and direct exposures to social landlords, are down €1.0bn following the amortization of the receivables.

Finally for the first time, Compagnie de Financement Foncier subscribed to mortgage notes issued by Crédit Foncier and secured by private company real estate receivables. These loans to Crédit Foncier are collateralized by loans selected according to a dedicated process and based on stringent quality criteria. In case of an incident with one of the loans posted as collateral, the latter will be immediately excluded from the guarantee pool and replaced by another loan. The exposure to this type of assets is and will remain limited in terms of the total balance sheet of Compagnie de Financement Foncier.

## SECURITIES PORTFOLIO AND IMPACT OF INTERNATIONAL ASSET DISPOSALS

Compagnie de Financement Foncier's securities portfolio, excluding Mortgage notes, was down €0.2bn with respect to December 31, 2015. This change stems from disposals valued at €0.1bn in the market (as part of the policy of reducing exposure to the international market), contractual repayments and currency differences on the portion of the portfolio denominated in foreign currencies (USD and yen), exposures hedged against exchange rate risk.

## GROUP FUNDING AND ASSIGNMENT OF RECEIVABLES

As part of its business activities, Compagnie de Financement Foncier also offers to Crédit Foncier and to the other Groupe BPCE entities funding options through loans backed by the loans' assignment.

These loans are classified as term loans and receivables from credit institutions. The amount outstanding on these loans remained relatively stable in 2016 at €19.4bn at December 31, 2016. This amount breaks down as follows:

- €10.3bn in loans to Crédit Foncier, the vast majority of which are guaranteed by exposures to French local authorities;
- €2.5bn in loans to other Groupe BPCE entities, also guaranteed by exposures to French local authorities;
- €6.6bn in loans to BPCE as replacement values, guaranteed by a portfolio of receivables.

The total amount of guarantees received to cover these loans was €19.4bn at December 31, 2016.

## OTHER ASSETS AND ACCRUAL ACCOUNTS

Other assets amounted to €8.2m at the end of 2016 compared with €59.3m at December 31, 2015. This change arises essentially from the fact that there was no tax consolidation receivable at December 31, 2016, as it was paid during the first half of the year (according to the tax consolidation agreement between Compagnie de Financement Foncier, Crédit Foncier and BPCE).

The balance of accrual accounts was €2.7bn at December 31, 2016, compared with €3.2bn at December 31, 2015, primarily due to the decrease in the balances of swaps to be amortized (-€0.1bn) and the lower accrued interest on swaps (-€0.1bn), to be seen in the context of the off-balance sheet optimization operations referred to above.

### 3. Changes in liabilities

Liabilities (in k€)	12/31/2016	12/31/2015
<b>Amount due to central banks</b>	<b>0</b>	<b>0</b>
<b>Due to credit institutions</b>	<b>8,778,050</b>	<b>9,852,497</b>
• Demand	355	12,176
• Term	8,777,695	9,840,321
<b>Due from customers</b>	<b>0</b>	<b>408</b>
• Demand	0	408
<b>Debt securities</b>	<b>67,573,795</b>	<b>69,123,576</b>
• Interbank market instruments and negotiable debt securities	151,243	151,326
• Bonds (obligations foncières)	67,422,552	68,972,251
<b>Other liabilities</b>	<b>2,261,259</b>	<b>2,981,454</b>
<b>Accrued accounts</b>	<b>2,514,616</b>	<b>2,370,553</b>
<b>Provisions</b>	<b>20,435</b>	<b>16,129</b>
<b>Subordinated debts</b>	<b>0</b>	<b>0</b>
<b>Reserve for general banking risks</b>	<b>20,000</b>	<b>20,000</b>
<b>Equity excluding reserve for general banking risks</b>	<b>3,180,495</b>	<b>3,213,693</b>
• Subscribed capital	2,537,460	2,537,460
• Additional paid-in capital	343,002	343,002
• Reserves	114,468	107,843
• Regulated provisions and investment subsidies	0	0
• Retained earnings	91,889	92,901
• Income to be allocated	0	0
• Net income for the period	93,676	132,486
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>84,348,650</b>	<b>87,578,310</b>

Amounts due to credit institutions decreased by €1.1bn. This fall is attributable to a €1.4bn decrease in term deposits and loans from Group entities. This development is due to the short-term cash management.

The reduction was also partially offset by the €0.3bn increase in repurchase agreements with Crédit Foncier.

Debt securities were down €1.5bn in 2016, due to the decrease in *obligations foncières* outstanding. This decrease breaks down as follows:

- €5.2bn increase due to net issuances made on the market in 2016;
- decrease related to contractual redemptions and amortizations.

Other liabilities declined by €0.7bn, essentially reflecting the decrease in deposits received in the context of collateralization transactions (-€0.7bn).

Accrual accounts were up €0.1bn in the year, primarily due to netting currency adjustment accounts for the reduction in the balances of swaps received to be amortized (-€0.2bn).

Provisions amounted to €20m at December 31, 2016, up €4m compared to December 31, 2015, mainly due to the €3m increase in collective provisions for outstanding performing loans.

Shareholders' equity edged down very slightly to €3.2bn over the same period last year.

## 4. Analysis of the income statement

Income statement (in €k)	12/31/2016	12/31/2015
<b>Net banking income</b>	<b>359,457</b>	<b>363,646</b>
General operating expenses	- 127,689	- 123,155
<b>Gross operating income</b>	<b>231,768</b>	<b>240,491</b>
Cost of risk	- 27,078	- 14,753
<b>Operating income</b>	<b>204,690</b>	<b>225,738</b>
Gains or losses on long-term investments	- 48	- 4,032
<b>Income before tax</b>	<b>204,642</b>	<b>221,706</b>
Income tax	- 110,965	- 89,220
<b>NET INCOME</b>	<b>93,676</b>	<b>132,486</b>

### NET BANKING INCOME

Net banking income came out at €359.5m for the 2016 fiscal year, compared with €363.6m for the prior year, impacted by the significant volume of early repayments.

The Net interest margin (NIM) was impacted by the accelerated amortization of premiums and discounts on acquired loans (-€140m in 2016 versus -€145m in 2015). The Net interest margin thus accounts for €279m in 2016, up by 9% compared to the previous year, primarily as a result of revising the cost table in September 2015, which had the effect of improving Compagnie de Financement Foncier's margins on acquisitions of loans to Individuals.

However, net fees and commissions fell to €80.9m from €107.5m, including €83m in prepayment penalties (compared with €109.7m in the prior year; the early repayment rate on loans to Individuals was 13.1% in 2016, down from 14.8% in 2015).

The volume of early repayments, being still high due to a low rate environment, was lower than in 2015, which explains the reduction in the prepayment penalties (€83m in 2016), concentrated for the majority in home loans to Individuals.

Finally, the results from trading book transactions (-€0.5m) reflects the absence of significant transactions in 2016.

### GROSS OPERATING INCOME

Operating expenses were up in 2016, from €123.2m to €127.7m, mainly due to:

- payment for private sector Crédit Foncier services were up by €2.7m compared to 2015;
- prepayment penalties collected, one-third of which, or €25.9m, were transferred to Crédit Foncier, compared with €32.6m in 2015, to be seen in relation to the lower volume of early repayments;
- taking account of the contribution to the central body that has been re-invoiced since 2016 to Compagnie de Financement Foncier in proportion to its share in the amount of €4.5m;
- the €4m increase in taxes, essentially attributable to the increase in the contribution to the Single Resolution Fund.

It should also be noted that there was a reduction in payroll costs following the decision of Compagnie de Financement Foncier's Board of Directors on February 9, 2016 to no longer grant remuneration to the executive bodies (€0.2m in 2015).

Thus, gross operating income was €231.8m at December 31, 2016, compared with €240.5m in 2015.

### COST OF RISK

Restated for 2015 for the impacts of Heta Asset Resolution AG, the cost of risk was stable in 2016 at €27m.

To recap, the cost of risk in 2015 included a €12.2m reversal of a provision following the sale of securities of the Austrian bank HETA Asset Resolution.

The cost of risk remains under control given the size of the outstandings held and mainly relates to the allowance for doubtful outstanding loans to Individuals.



## GAINS ON FIXED ASSETS

In addition to operating income, it is necessary to include gains or losses on asset disposals, primarily consisting of international exposures.

Since 2011, depending on market conditions, Compagnie de Financement Foncier has gradually reduced its international exposure, as permitted by regulatory requirements. 2016 saw a far smaller amount of disposals (€0.1bn), which had no impact on income, in contrast to 2015 when disposals amounted to €1.6bn and generated a loss of €4m.

## INCOME TAX

The 2017 Budget Act (*Loi de Finance*) passed by the French National Assembly and applicable as of January 1, 2017, gradually lowers the income tax rate according to the revenue posted by the Company. In Compagnie de Financement Foncier's case, the rate will lower gradually from 34.43% to 28.92%. This will affect the

Company starting from December 31, 2016, to the extent that it books deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized at the rate of 34.43%, while the reversal rate that will apply in future years will be 28.92%.

The new calculation of the tax base and of related deferred tax assets and liabilities, by maturity, has accelerated the transfer of a portion of tax assets to expenses. This portion, having an impact on the net income for the year amounts close to €34.5m.

Deferred tax expense amounted to €94.1m in 2016.

Income tax on total income for 2016 amounted to €111m, compared with €89.2m at December 31, 2015.

## NET INCOME

Compagnie de Financement Foncier's net income for 2016 totaled €93.7m, compared with €132.5m in 2015.

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

## LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS REPAYABLE ON DEMAND

No loan or receivable due from credit institutions was reclassified as doubtful in 2016. Out of the €20.8bn in loans and receivables due from credit institutions, €19.4bn constitute 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 associated with the quality of the receivables posted as collateral greatly limits the risk associated with this exposure.

## LOANS AND RECEIVABLES DUE FROM CUSTOMERS

Gross loans and receivables due from customers amounted to €42.2bn at December 31, 2016, compared with €43.0bn at December 31, 2015.

Doubtful loans and receivables, which rose by €100m in the period, remained almost exclusively concentrated (more than 99%) in home loans. At the same time, impairment recorded for doubtful loans to private individuals rose from €89m to €106m year-on-year, and remained almost exclusively concentrated in home loans. Impairments remained very low relative to the total outstanding.

Moreover, out of the €34.1bn in home loans, €17bn were backed by a SGFGAS guarantee in addition to a mortgage guarantee, and €12.3bn were backed solely by a mortgage guarantee.

## AVAILABLE-FOR-SALE SECURITIES

Outstanding available-for-sale securities amounted to €7.3bn at December 31, 2016, exclusively consisting of mortgage notes backed by guarantees amounting to €7.8bn. None of these securities were reclassified as doubtful or impaired in 2016.

## HELD-TO-MATURITY SECURITIES

Amounts outstanding in held-to-maturity securities amounted to €8.9bn at December 31, 2016. None of these securities were reclassified as doubtful or impaired in 2016.

Amounts outstanding in net book value (excluding accrued interest and after premiums or discounts) were spread between Italy (27%), Japan (24%), the United States (23%), France (10%), Canada (7%), Spain (4%), Poland (3%) and other non-significant countries (around 1%).

## 6. 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 that are inherent in any hedging transaction. Transactions initiated in foreign currencies are swapped into euro on 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 euro. Macro-hedging swaps are entered into when acquiring loan portfolios, micro-hedging swaps are made for all single transactions. Similarly, the debt issued by Compagnie de Financement Foncier is micro swapped at the outset to transform it into variable rate liabilities in euro.

Interest rate positions are also reviewed each quarter and macro-hedging transactions are entered into if the position deteriorates to a point that might result in non-compliance with the strict limits 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 the 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, 2016, the amount of deposits received was €2.0bn.

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 2016, Compagnie de Financement Foncier continued to enter into new hedging contracts along with its acquisition, issuance and ALM activities. At the same time, the Company continued to restructure its derivatives portfolio with, in particular, the compression of €2.1bn in outstanding swaps with Crédit Foncier.

Lastly, at December 31, 2016, the amount outstanding in micro-and macro-hedging instruments consisted of €83bn, of which

€61bn were interest rate swaps and €21,5bn were currency swaps. In 2015, they were €82bn, of which €59bn were interest rate swaps and €24bn were currency swaps.

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

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

The historically low level of interest rates on home loans continued in 2016 and once again led many borrowers to renegotiate or pay off their loans early. Older generations of loans, granted at higher interest rates, were the most affected.

In 2016, early repayment rate on the total amount of loans to individuals was 13.1% compared with 14.8% in 2015.

Compagnie de Financement Foncier's interest rate risk is monitored through the calculation of interest rate mismatches within the very narrow range defined by a period of observation. In case of overrun of one of these limits, the situation is resolved through macro-hedging adjustments. In 2016, limits were respected.

### LIQUIDITY RISK

Its very prudent liquidity management policy continued in 2016, with Compagnie de Financement Foncier still committed to maintaining sufficient available cash flow to meet the contractual maturities on all of its privileged debt, for one year, without recourse to new resources.

At December 31, 2016, Compagnie de Financement Foncier had available cash of €2.6bn, including €2.4bn on current accounts mainly deposited with Banque de France ; and €6.6bn granted to BPCE with a maturity of less than two months, fully guaranteed by a loans portfolio.

Furthermore, Compagnie de Financement Foncier has a large volume of assets that are eligible for the ECB's refinancing operations.

Compagnie de Financement Foncier's liquidity ratio, known as the "LCR" (Liquidity Coverage Ratio), required since October 1, 2015 following the transposition of the applicable regulations of the CRD IV directive into law, has always been above 100% since that date.

## 7. Regulatory and prudential information

Compagnie de Financement Foncier publishes a risk control and monitoring report where 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.

## 8. Other disclosures

### SUPPLIER PAYMENT TERMS

Compagnie de Financement Foncier complies with the regulation related to supplier payment terms, in accordance with the Law on the Modernization of the Economy (LME) dated August 4, 2008 which states that invoices shall be paid within 45 days end of the month or 60 days from the issuance of the invoice.

Most of the Compagnie de Financement Foncier's management is subcontracted and invoiced by Crédit Foncier. The other trade payables at December 31, 2016 do not represent significant amounts and are usually all due within less than 30 days.

### INFORMATION ON THE SUBSIDIARIES AND EQUITY INVESTMENTS

N/A: as a *société de crédit foncier*, Compagnie de Financement Foncier cannot legally hold equity investments, even as a minority interest.

### EMPLOYEE PARTICIPATION IN THE SHARE CAPITAL

N/A : Compagnie de Financement Foncier has no employees.

## 9. Outlook

In 2017, Compagnie de Financement Foncier intends to continue its development, while respecting the strategic directions of Crédit Foncier and Groupe BPCE :

- rigorous selection of acquisitions and active management of its assets in order to maintain assets' high quality ;

- continued funding of Crédit Foncier or other Groupe BPCE entities, by purchases and mobilizations of loan portfolio, in terms of both mortgage-backed securities and exposures on public entities ;
- optimization of financial risk hedging.

## 10. Social and environmental information

Compagnie de Financement Foncier is subject to the Grenelle II law which requires companies to publish and audit social, environmental and societal information on 43 specific themes. Compagnie de Financement Foncier's management is entrusted to Crédit Foncier's services via a corpus of outsourcing conventions and service contracts.

Compagnie de Financement Foncier has neither premises nor its own resources and depends entirely on Crédit Foncier's assets.

This implies that social and environmental issues are totally under the control of its parent company and are provided in the latter's management report. No specific CSR information is available in Compagnie de Financement Foncier's Registration document.

All social, environmental and societal information for groupe Crédit Foncier can be found in Crédit Foncier's 2016 Registration document, in the section Corporate Social Responsibility (CSR) <sup>(1)</sup>.

(1) The complete Crédit Foncier 2016 Registration document, including the CSR section, is available at [www.creditfoncier.com](http://www.creditfoncier.com) under the heading "2016 Finance/Registration documents".

## Notes to the management report

### APPENDIX 1. INFORMATION ON CORPORATE OFFICERS

For the year ending December 31, 2016, pursuant to Article L. 225-102-1 of the French Commercial Code, the list below shows the total remuneration as well as all benefits paid by the Company to each of the corporate officers during the year.

Information about remuneration received is in euros and limited to the following scope: Crédit Foncier, subsidiaries of Crédit Foncier and BPCE as the controlling company. The remuneration paid in 2016 by Compagnie de Financement Foncier to executives and corporate officers amounted to €14,127 excluding social security charges.

#### SUMMARY OF REMUNERATION, SHARES AND OPTIONS OF EACH EXECUTIVE CORPORATE OFFICER (in euros)

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

	2015	2016
Annual remuneration due during the year (outlined in table below)	570,872	581,157
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>570,872</b>	<b>581,157</b>

Including €8,333 for the Corporate Office of Compagnie de Financement Foncier.

##### Sandrine GUÉRIN, Deputy Chief Executive Officer, Director

	2015	2016
Annual remuneration due during the year (outlined in table below)	337,941	1,716,129
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>337,941</b>	<b>1,716,129</b>

Including €5,794 for the Corporate Office of Compagnie de Financement Foncier.

On February 9, 2016 the Board of Directors was informed of the resignation of Ms Sandrine Guérin from her term as Deputy Chief Executive Officer and Director effective as of February 8, 2016.

On the same date, following the proposal of the Chief Executive Officer, the Board of Directors appointed Mr Olivier Avis as a Deputy Chief Executive Officer until the Annual General Shareholders' Meeting called to approve the financial statements for the 2018 fiscal year.

##### Olivier AVIS, Deputy Chief Executive Officer

	2015	2016
Annual remuneration due during the year (outlined in table below)	n/a	272,618
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>272,618</b>

n/a: Not applicable

## SUMMARY OF REMUNERATION, SHARES AND OPTIONS OF EACH EXECUTIVE CORPORATE OFFICER (in euros)

**Amounts due 2015:** Total of all remuneration granted on a *pro rata temporis* basis in respect of duties performed in 2015, regardless of the date of payment.

**Amounts paid 2015:** all remuneration actually paid and received in 2015 in respect of duties performed during 2015 and potentially during the previous years in the case of installment payments.

**Amounts due 2016:** Total of all 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.

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

	2015		2016	
	Total due	Total paid	Total due	Total paid
Fixed pay	354,648	354,648	353,856	353,856
Variable pay	171,000	126,824 <sup>(1)</sup>	180,000	165,153 <sup>(2)</sup>
Banco Primus remuneration	20,000	20,000	20,000	20,000
Exceptional remuneration	3,543	3,543	3,551	3,551
Supplemental retirement plan	16,329	16,329	17,606	17,606
Attendance fees	-	-	-	-
Benefits in kind	5,352	5,352	6,144	6,144
<b>TOTAL</b>	<b>570,872</b>	<b>526,696</b>	<b>581,157</b>	<b>566,310</b>

(1) Amount paid in 2015 to 50% of the variable portion for the year 2014, €82,800 and 50% for deferred portions over 3 years of the variable portion fraction for the fiscal year 2012, €20,355 which after applying indexation coefficient amounted to €19,938 and for the fiscal year 2013, €22,500 which after applying indexation coefficient amounted to €24,086.

(2) The amount of the variable portion paid in 2016 in respect of 50% of the variable portion for the year 2015 (i.e., €85,500) and 50% of the variable portion deferred over 3 years for the year 2012 (i.e., €20,355 which after applying an indexation coefficient amounted to €22,173) , for the year 2013 (i.e., €22,500 which after applying indexation coefficient amounted to €26,786) and for the year 2014 (i.e.€27,600 which after applying an indexation coefficient amounted to 30,694).

## ■ Sandrine GUÉRIN, Deputy Chief Executive Officer, Director

	2015		2016	
	Total due	Total paid	Total due	Total paid
Fixed pay	297,344	297,344	85,714	85,714
Variable pay	0	195,843 <sup>(1)</sup>	-	0
Exceptional remuneration	-	-	-	-
Indemnity payment	-	-	1,570,667	1,570,667
Incentives and profit-sharing	19,266	19,266	3,158	3,158
Supplemental retirement plan	16,581	16,581	55,204	55,204
Attendance fees	-	-	-	-
Benefits in kind	4,750	4,750	1,387	1,387
<b>TOTAL</b>	<b>337,941</b>	<b>533,784</b>	<b>1,716,129</b>	<b>1,716,129</b>

(1) The amount of the variable portion paid in 2015 to 50% of the variable portion for the year 2014, €126,371 and 50% of deferred portions over 3 years of the variable portion fraction for the fiscal year 2012, €33,554 which after applying indexation coefficient amounted to €32,866 and for the financial year 2013, €34,195 which after applying indexation coefficient amounted to €36,606.

## ■ Olivier AVIS, Deputy Chief Executive Officer

	2015		2016	
	Total due	Total paid	Total due	Total paid
Fixed pay			166,629	166,629
Variable pay			96,000	23,750
Exceptional remuneration			-	-
Incentives and profit-sharing			2,239	2,239
Supplemental retirement plan			6,070	6,070
Attendance fees			-	-
Benefits in kind			1,680	1,680
<b>TOTAL</b>	<b>N/A</b>	<b>N/A</b>	<b>272,618</b>	<b>200,368</b>

n/a: Not applicable

## FIXED PAY

Base salary 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 9 February 2016 took decision that starting from the 1<sup>st</sup> February 2016 there would be no remuneration paid to the Chief Executive Officer and the Deputy Chief Executive Officer in respect of their social mandates. Consequently, since the 1<sup>st</sup> February 2016, the 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 the Chief Executive Officer is set by the Crédit Foncier Board of Directors as proposed by the Remuneration Committee and can equal as much as 50% of his fixed pay. The criteria for the variable portion 2016 are based on qualitative and quantitative indicators of the group Crédit Foncier (Financial performance for 25%, operational performance for 25% and commercial performance for 25%) as well as on an indicator from the Groupe BPCE (Group results for 25%).

At the start of every year, the Remuneration Committee draws up the criteria for setting the variable pay within the rules laid out by the Groupe BPCE.

The variable pay of the Deputy Chief Executive Officer is entirely paid by Crédit Foncier and may represent 65% of his fixed pay. For

2016, it is based on qualitative and quantitative indicators of Crédit Foncier.

The amounts paid during year N represent the amounts earned in the year N-1 and from the previous years in case of deferred payment.

## EXCEPTIONAL REMUNERATION

The balance represents incentives and profit sharing plans; amounts of which paid during year N represent the amounts earned in the year N-1.

## ATTENDANCE FEES

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

In light of an instruction given by BPCE dated December 17, 2010, the attendance fees due to the BPCE representatives are paid to BPCE and not to the relevant natural person. Since January 1, 2012, the same applies for the representatives of Crédit Foncier; 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 earned in the year N-1.

(in euros)	For 2015	For 2016
Mr Bruno DELETRÉ	7,500 <sup>(1)</sup>	7,500 <sup>(1)</sup>
Mr Thierry DUFOUR	3,750 <sup>(1)</sup>	3,750 <sup>(1)</sup>
Ms Sandrine GUÉRIN	3,750 <sup>(1)</sup>	0 <sup>(1)</sup>
Mr Benoît CATEL	-	3,000 <sup>(1)</sup>
Crédit Foncier (represented by Mr Éric FILLIAT)	6,750 <sup>(1)</sup>	6,000 <sup>(1)</sup>
BPCE (represented by Mr Olivier IRISSON)	4,500 <sup>(2)</sup>	3,250 <sup>(2)</sup>
Mr Cédric MIGNON	1,500 <sup>(2)</sup>	1,500 <sup>(2)</sup>
Ms Christine FABRESSE	4,000	5,000
Mr Dominique GARNIER	5,250	5,500
Mr Pascal CHABOT	4,250	4,500
Mr Jean CHEVAL <sup>(3)</sup>	0	0
Mr Francis DELACRE	3,750	3,750

(1) Attendance fees paid to Crédit Foncier.

(2) Attendance fees paid to BPCE.

(3) No attendance fees paid according to Natixis rules.

## BENEFITS IN KIND

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

They do not receive share purchase or subscription options 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 when executives give up their corporate offices (Chairman and members of the Management Board, the Chief Executive Officer and Deputy Chief Executive Officer) of companies whose shares are traded on a regulated market. In particular, this law subjects the offering 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. Should his term of office not be renewed when it expires, or be revoked or disapproved (unrelated to misconduct) and entail definitive departure from the 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. If he has earned at least 30% of the variable portion, he will receive 50% of this compensation.

The gross amount of the 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, in its meeting of July 28, 2015, added to these provisions the following clause: "in case of non-renewal of office to maturity, revocation or withdrawal of approval unrelated to a fault which leads to a final release of Groupe BPCE, compensation will only be paid if the Company has a net profit on core businesses excluding spread issuer and non-recurring items".

## SUMMARY OF REMUNERATION, SHARES AND OPTIONS OF EACH NON-EXECUTIVE DIRECTOR (in euros)

### NON-EXECUTIVE DIRECTORS FROM CRÉDIT FONCIER DE FRANCE

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

	2015		2016	
	Total due	Total paid	Total due	Total paid
Fixed pay	462,920	462,920	462,920	462,920
Variable pay	357,200	264,611 <sup>(1)</sup>	332,910	344,641 <sup>(2)</sup>
Exceptional remuneration	-	-	-	-
Supplemental retirement plan	24,513	24,513	27,078	27,078
Attendance fees	-	-	-	-
Benefits in kind	7,080	7,080	7,080	7,080
<b>TOTAL</b>	<b>851,713</b>	<b>759,124</b>	<b>829,988</b>	<b>841,719</b>

(1) The amount of the variable portion paid in 2015 to 50% of the variable portion for the year 2014, €172,960 and 50% for deferred portions over 3 years of the variable portion fraction for the fiscal year 2012, €42,202 which after applying indexation coefficient amounted to €41,337 and for the fiscal year 2013, €47,000 which after applying indexation coefficient amounted to €50,314.

(2) The amount of the variable portion paid in 2016 in respect of 50% of the variable portion for the year 2015 (i.e., €178,600 and 50% of the variable portion deferred over 3 years for the year 2012 (i.e., €42,202 which after applying an indexation coefficient amounted to €45,971), for the year 2013 (i.e., €47,000 which after applying indexation coefficient amounted to €55,954) and for the year 2014 (i.e., €57,653 which after applying an indexation coefficient amounted to €64,116).

#### ■ Éric FILLIAT, Permanent Representative of Crédit Foncier de France

	2015		2016	
	Total due	Total paid	Total due	Total paid
Fixed pay	203,425	203,425	203,425	203,425
Variable pay	96,600	93,575	95,000	96,600
Banco Primus remuneration	20,000	20,000	20,000	20,000
Exceptional remuneration	4,006	4,006	4,097	4,097
Incentives and profit-sharing	19,266	19,266	2,842	2,842
Supplemental retirement plan	10,158	10,158	10,267	10,267
Attendance fees	-	-	-	-
Benefits in kind	4,050	4,050	4,200	4,200
<b>TOTAL</b>	<b>357,505</b>	<b>354,480</b>	<b>339,830</b>	<b>341,431</b>

## NON-EXECUTIVE DIRECTORS FROM BPCE

### ■ Olivier IRISSON, Permanent representative of BPCE

	2015		2016	
	Total due	Total paid	Total due	Total paid
Fixed pay	250,000	250,000	270,000	270,000
Variable pay	95,000	99,112	98,995	95,000
Exceptional remuneration	18,790	16,627 <sup>(1)</sup>	-	18,790 <sup>(2)</sup>
Attendance fees	-	-	-	-
Benefits in kind	598	598	929	929
<b>TOTAL</b>	<b>364,388</b>	<b>366,337</b>	<b>369,924</b>	<b>384,719</b>

(1) Amount corresponding to the 2014 gross incentives paid in 2015.

(2) Amount corresponding to the 2015 gross incentives paid in 2016.

### ■ Cédric MIGNON

	2015		2016	
	Total due	Total paid	Total due	Total paid
Fixed pay	220,000	220,000	230,000	230,000
Variable pay	97,999	95,400	98,003	97,999
Exceptional remuneration	18,790	16,627 <sup>(1)</sup>	-	18,790 <sup>(2)</sup>
Attendance fees	-	-	-	-
Benefits in kind	6,133	6,133	6,271	6,271
<b>TOTAL</b>	<b>342,922</b>	<b>338,160</b>	<b>334,274</b>	<b>353,060</b>

(1) Amount corresponding to the 2014 gross incentives paid in 2015.

(2) Amount corresponding to the 2015 gross incentives paid in 2016.

## NON-EXECUTIVE DIRECTORS FROM CAISSES D'ÉPARGNE

### ■ Christine FABRESSE

	2015		2016	
	Total due	Total paid	Total due	Total paid
Attendance fees <sup>(1)</sup>	10,000	13,250	12,500	10,000
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>10,000</b>	<b>13,250</b>	<b>12,500</b>	<b>10,000</b>

(1) Total attendance fees amount of group Crédit Foncier.

n/a: not applicable to the person concerned.

■ **Pascal CHABOT**

	2015		2016	
	Total due	Total paid	Total due	Total paid
Attendance fees	4,250	2,250	4,500	4,250
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>4,250</b>	<b>2,250</b>	<b>4,500</b>	<b>4,250</b>

n/a: not applicable to the person concerned.

■ **NON-EXECUTIVE DIRECTORS FROM BANQUES POPULAIRES**■ **Dominique GARNIER**

	2015		2016	
	Total due	Total paid	Total due	Total paid
Attendance fees <sup>(1)</sup>	16,750	14,750	21,000	16,750
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>16,750</b>	<b>14,750</b>	<b>21,000</b>	<b>16,750</b>

(1) Total attendance fees amount of group Crédit Foncier.

n/a: not applicable to the person concerned.

■ **Francis DELACRE**

	2015		2016	
	Total paid	Total paid	Total due	Total paid
Attendance fees	3,750	3,750	3,750	3,750
Other remuneration	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>3,750</b>	<b>3,750</b>	<b>3,750</b>	<b>3,750</b>

n/a: not applicable to the person concerned.

## NON-EXECUTIVE DIRECTORS FROM NATIXIS

### ■ Jean CHEVAL

	2015		2016	
	Total due	Total paid	Total due	Total paid
Attendance fees <sup>(1)</sup>	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>

(1) According to Natixis rules, no attendance fees are paid.  
n/a: not applicable to the person concerned.

	Job contract		Supplementary pension plan		Indemnities or advantages due or likely to be due resulting from a termination or change in position		Indemnity relative to a non-compete clause	
	Yes	No	Yes	No	Yes	No	Yes	No
<b>Executive corporate officers</b>								
Mr Thierry DUFOUR, Chief Executive Officer								
Start of term: 12/14/2007		X		X	X			X
Director								
Start of term: 12/18/1998								
Mr Olivier AVIS								
Deputy Chief Executive Officer		X		X		X		X
Start of term: 02/09/2016								

## OTHER INFORMATION ON REMUNERATION AND STOCK OPTION OR STOCK PURCHASE PLANS

At December 31, 2016, Compagnie de Financement Foncier did not have its own employees, with the exception of its corporate officers. As such, there was no incentive scheme or profit-sharing plan in the Company. In addition, there were no stock option or stock purchase plans as of December 31, 2016.

## CORPORATE OFFICERS OR FUNCTIONS OF THE EXECUTIVE MANAGEMENT MEMBERS

**Mr Thierry DUFOUR****Date of birth:**

07/23/1959

**Nationality:**

French

**Appointment date:**

14/12/2007

**Address:**4, quai de Bercy –  
94220 Charenton-le-Pont**■ Biography**

Thierry Dufour, graduate of the École Nationale de la Statistique et de l'Administration Économique (ENSAE) and holder of a master's degree in mathematics from Université Paris-Dauphine, began his career at BNP as Head of corporate funding in the Finance Division. In 1985, he joined the Finance Division at the Caisse des dépôts (CDC) first as Head of bond trading and then as Head of primary dealer activity, CDC's proprietary trading and special State accounts.

In 1991, he joined Crédit Foncier in the Financial Operations department of which he became the Director in 1996, the same year he joined the Executive Committee.

In 1999 he led the privatization of Crédit Foncier. Also in 1999, he participated in the modernization of the legal framework for *obligations foncières* and created Compagnie de Financement Foncier, a subsidiary of Crédit Foncier, where he is currently the Chief Executive Officer. He also lobbies on behalf of covered bonds for various organizations.

- Director
- Chief Executive Officer

**■ Companies, offices and positions**

BANCO PRIMUS – SA (PORTUGAL)

Chairman of the Board of Directors

COMPAGNIE DE FINANCEMENT FONCIER – SA

Chief Executive Officer – Director

CRÉDIT FONCIER DE FRANCE – SA

Deputy Chief Executive Officer

FONCIER PROJECT SOLUTIONS (Saudi Arabia)

Director

LOCINDUS – SA

Chairman of the Board of Director

VAUBAN MOBILISATION GARANTIES (VMG) – SACS

Permanent representative of Crédit Foncier, Member of the Supervisory Board

## Mr Olivier AVIS

**Date of birth:**

11/11/1978

**Nationality:**

French

**Appointment date:**

02/09/2016

**Address:**

4, quai de Bercy –  
94220 Charenton-le-Pont

• **Deputy Chief Executive Officer**

## ■ Biography

Olivier Avis is a graduate of the École Supérieure de Commerce de Toulouse. He began his career at HSBC Asset Management Europe as an assistant manager.

He joined Groupe BPCE in 2002 as an Inspector and then as a Project leader in the General Inspection Division.

In 2009 he was Special Advisor reporting to Executive Management.

In 2014 Credit Foncier de France named him Director of Strategy and Quality. In 2016 he was appointed to the post of Director of Financial Operations and Deputy Chief Executive Officer of Compagnie de Financement Foncier.

## ■ Companies, offices and positions

COMPAGNIE DE FINANCEMENT FONCIER – SA  
Deputy Chief Executive Officer (since 02/09/2016)

FONCIER TITRISATION – SA  
Chairman of the Board of Directors (since 06/13/2016)

VMG – SACS  
Chairman of the Management Board (since 02/11/2016)

## CORPORATE OFFICERS OR FUNCTIONS OF THE BOARD OF DIRECTORS

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

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

**Mr Bruno DELETRÉ****Date of birth:**

04/30/1961

**Nationality:**

French

**Appointment date:**

12/18/2013

**Address:**4, quai de Bercy –  
94220 Charenton-le-Pont**■ Biography**

Bruno Deletré, alumnus of the École Polytechnique and of the École Nationale d'Administration (ENA), started his career in 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, structured financing, accounting and management control.

He left the Dexia group in July 2008 to take on a mission of financial supervision assigned 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.

**• Chairman of the Board of Directors****■ Companies, offices and positions**

COMPAGNIE DE FINANCEMENT FONCIER – SA

Chairman of the Board of Directors, Chairman of the Appointments Committee

COVERED BOND MORTGAGE COUNCIL (BELGIUM)

Chairman (until 12/31/2016)

CRÉDIT FONCIER DE FRANCE – SA

Chief Executive Officer

CRÉDIT FONCIER IMMOBILIER – SA

Chairman of the Board of Directors, Chairman of the Appointment and Remuneration Committee

CRÉDIT LOGEMENT – SA

Permanent representative of Crédit Foncier, Director

ENFI – SAS

Chairman

FÉDÉRATION HYPOTHÉCAIRE EUROPÉENNE (BELGIUM)

Chairman

IT-CE – GIE

Permanent representative of Crédit Foncier, Member of the Supervisory Board

LA MONDIALE PARTENAIRE – SA

Permanent representative of Crédit Foncier, Director (until 01/26/2016)

SOCFIM – SACS

Chairman of the Supervisory Board, Chairman of the Remuneration Committee



## Mr Thierry DUFOUR

**Date of birth:**

07/23/1959

**Nationality:**

French

**Appointment date:**

12/18/1998

**Address:**

4, quai de Bercy –  
94220 Charenton-le-Pont

## ■ Biography

Thierry Dufour, graduate of the École Nationale de la Statistique et de l'Administration Économique (ENSAE) and holder of a master's degree in mathematics from Université Paris-Dauphine, began his career at BNP as Head of corporate funding in the Finance Division. In 1985, he joined the Finance Division at the Caisse des dépôts (CDC) first as Head of bond trading and then as Head of primary dealer activity, CDC's proprietary trading and special State accounts.

In 1991, he joined Crédit Foncier in the Financial Operations department of which he became the Director in 1996, the same year he joined the Executive Committee.

In 1999 he led the privatization of Crédit Foncier. Also in 1999, he participated in the modernization of the legal framework for *obligations foncières* and created Compagnie de Financement Foncier, a subsidiary of Crédit Foncier, where he is currently the Chief Executive Officer. He also lobbies on behalf of covered bonds for various organizations.

- **Director**
- **Chief Executive Officer**

## ■ Companies, offices and positions

BANCO PRIMUS – SA (PORTUGAL)

Chairman of the Board of Directors

COMPAGNIE DE FINANCEMENT FONCIER – SA

Chief Executive Officer – Director

CRÉDIT FONCIER DE FRANCE – SA

Deputy Chief Executive Officer

FONCIER PROJECT SOLUTIONS (Saudi Arabia)

Director

LOCINDUS – SA

Chairman of the Board of Director

VAUBAN MOBILISATION GARANTIES (VMG) – SACS

Permanent representative of Crédit Foncier, Member of the Supervisory Board

**Mr Benoît CATEL****Date of birth:**

07/31/1962

**Nationality:**

French

**Appointment date:**

02/09/2016

**Address:**4, quai de Bercy –  
94220 Charenton-le-Pont**■ Biography**

Benoît Catel is a graduate of the École Supérieure de Commerce de Lille, the 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 positions in accounting and finance, before moving to GMF Bank in 1992 as Head of Accounting.

He joined Groupe Caisse d'Épargne in 1994 at the Caisse d'Épargne Ile-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. Since 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 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 as Chief Executive Officer of Volksbank Romania (Groupe BPCE) from 2012 to April 2015.

**• Director****■ Companies, offices and positions**

COMPAGNIE DE FINANCEMENT FONCIER – SA

Director (since 02/9/2016)

CRÉDIT FONCIER DE FRANCE – SA

Deputy Chief Executive Officer

CRÉDIT FONCIER IMMOBILIER – SA

Director, Member of the Appointment and Remuneration Committee (since 03/22/2016)

GCE FONCIER COINVEST – SAS

Chief Executive Officer

LA MONDIALE PARTENAIRE – SA

Permanent representative of Crédit Foncier, Director (since 01/26/2016)

SOCFIM – SACS

Member of the Supervisory Board

## Crédit Foncier de France SA

### Address:

4, quai de Bercy –  
94220 Charenton-le-Pont

### • Director

### ■ Companies, offices and positions

ARTHURIMMO.COM – SA Director (until 06/28/2016)	GRAMAT-BALARD – SAS Chairman
BTP CAPITAL INVESTISSEMENT – SA Director	H&T CONSEIL – SA Director
CFCO – SAS Chairman	IT-CE – GIE Member of the Supervisory Board
CFG – COMPTOIR FINANCIER DE GARANTIE – SA Director	LA MONDIALE PARTENAIRE – SA Director
COFIMAB – SAS Chairman	LOCINDUS – SA Director
COMPAGNIE DE FINANCEMENT FONCIER – SA Director, Chairman of the Audit Committee, Chairman of the Riks Committee	SAF ENVIRONNEMENT – SA Director
CONSORTIUM DES PROFESSIONNELS DE L'IMMOBILIER – SAS Director (since 04/13/2016)	SCAFR – TERRES D'EUROPE – SACS Member of the Supervisory Board
CRÉDIT FINANCIER LILLOIS – SA Director	SEM YVELINES AMENAGEMENT – SEM Director
CRÉDIT LOGEMENT – SA Director	SGFGAS – SA Director
ECOLOCALE – GIE Director	SIA HABITAT – SACS Member of the Supervisory Board
ECUFONCIER – SCA Managing Partner, Sponsor	SIPARI – SAS Chairman
EUROPEAN DATAWAREHOUSE – Gmbh (Allemagne) Member of the Supervisory Board	SOCFIM – SACS Member of the Supervisory Board
FONCIER FOREIGN 2008 – SAS Chairman	SOFIPAR LOGEMENT – SNC Managing Partner
FONCIER PARTICIPATIONS – SAS Chairman	SOFONEG – SNC Managing Partner
FONCIER TITRISATION – SA Director	VENDÔME INVESTISSEMENTS – SAS Chairman
FONCIÈRE D'ÉVREUX – SAS Chairman	VMG – SACS Member of the Supervisory Board

**Mr Éric FILLIAT****Date of birth:**

06/15/1966

**Nationality:**

French

**Appointment date:**

12/18/2013

**Address:**4, quai de Bercy –  
94220 Charenton-le-Pont**■ Biography**

Éric Filliat, who holds a degree in accounting and finance of the École Supérieure de Commerce in 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 Head of Regulation and Accounting of the Group in November 2007. Between 2010 and 2012, he was Head of Accounting for Groupe BPCE.

Since May 2012, Éric Filliat has been Chief of Financial Management, Finance Division at Crédit Foncier.

- **Permanent representative of Crédit Foncier**

- **Director**

**■ Companies, offices and positions**

BANCO PRIMUS – SA (PORTUGAL)

Director, Member of the Audit Committee

BPCE ACHATS – GIE

Director (until 06/16/2016)

COMPAGNIE DE FINANCEMENT FONCIER – SA

Permanent representative of Crédit Foncier, Director, Chairman of the Audit Committee, Chairman of the Risks Committee

CRÉDIT FONCIER DE FRANCE – SA

Deputy Chief Executive Officer, Member of the General Management Committee, Member of the Executive Board

CRÉDIT FONCIER IMMOBILIER – SA

Director, Member of the Appointment and Remuneration Committee (until 03/22/2016)

FONCIER PARTICIPATIONS – SAS

Permanent representative of Crédit Foncier, Chairman

FONCIER TITRISATION – SA

Permanent representative of Foncier Participations, Director

MFCG – SAS

Permanent representative of CFCE, Chairman

SOCFIM – SACS

Member of the Supervisory Board

VMG – SACS

Vice-Chairman of the Supervisory Board

## DIRECTORS FROM BPCE, SINGLE SHAREHOLDER OF CRÉDIT FONCIER

### BPCE SA

### ■ Companies, offices and positions

#### Address:

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

#### • Director

ADONIS – SAS Chairman	BERRA 3 – SAS Chairman
ALBIANT-IT – SA Director	BERRA 4 – SAS Chairman
ALLIANCE ENTREPRENDRE – SAS Member of the Supervisory Board	BERRA 5 – SAS Chairman
ALPHA DEMETER Director	BP COVERED BONDS Member of the Supervisory Board
AMATA Chairman	BP CRÉATION – FCP Chairman
ANDROMÈDE – SAS Chairman	BPCE IARD – SACS Member of the Supervisory Board
ANUBIS – SNC Manager	BPCE IMMOBILIER EXPLOITATION – SA Chairman of the Supervisory Board
ASSOCIATION DES BANQUES POPULAIRES POUR LA CRÉATION D'ENTREPRISE Director	BPCE INTERNATIONAL Director
ASSURANCE BP IARD – SA Director	BPCE SERVICES – SA Director
ATALANTE Chairman	BPCE SFH – SA Director
AXELTIS EX NGAMP4 - NGAM PARTICIPATIONS 4 Director	BPCE TRADE – SA Director
BANQUE DES ANTILLES FRANÇAISES BDAF Director	BPCE VIE Director
BANQUE PALATINE – SA Director	CAPE 1158 GIE Director
BANQUE PRIVÉE 1818 – SA Director	CAPE 1159 GIE Director
BASAK 1 – SASU Chairman	CB INVESTISSEMENT – SA Director
BASAK 2 – SASU Chairman	CE HOLDING PARTICIPATIONS Director
BASAK 3 – SASU Chairman	CE SYNDICATION RISQUE – SACS Chairman of the Supervisory Board
BASAK 4 – SASU Chairman	CHIMERE – SAS Chairman
BEHANZIN – SA Chairman	CILOGER – SACS Member of the Supervisory Board
BERRA 1 – SAS Chairman	CILOGER HABITAT – SACS Member of the Supervisory Board
BERRA 2 – SAS Chairman	CILOGER HABITAT 3 – SACS Member of the Supervisory Board (until 06/21/2016)
	CIRRA – SA Director

## BPCE SA

## ■ Sociétés, Mandats et fonctions

CLICK AND TRUST – SA Director	GCE SNL 07 (EX CGE COVERED BONDS – SA) Director (until 05/28/2016)
COFACE – SA Director	HABITAT EN RÉGION SERVICES – SAS Director
COFIMAGE 17 – SA Director	INFORMATIQUE BANQUE POPULAIRE – SA Director
COFIMAGE 18 – SA Director	INGEPAR – SA Director
COFIMAGE 22 – SA Director	IPHIS Chairman
COFIMAGE 24 – SA Director	IXION Chairman
COFIMAGE 27 – SA Director	LAMIA Chairman
COMPAGNIE DE FINANCEMENT FONCIER – SA Director	LBPAM OBLI REVENUS SICAV – SA Director
CORONIS Chairman	LE LIVRET BOURSE INVESTISSEMENT SICAV Director
CRÉDIT FONCIER DE FRANCE – SA Director	LE LIVRET PORTEFEUILLE SICAV Director
CRÉDIT LOGEMENT – SA Director	LES ÉDITIONS DE L'ÉPARGNE – SA Director
CREON Chairman	LINOS – SAS Chairman
CRH – CAISSE DE REFINANCEMENT DE L'HABITAT – SA Director	LOTUS 1 – SA Chairman
DORIS Chairman	LOTUS 2 Chairman
DRENNEC – GIE Director	LOTUS 3 Chairman
DV HOLDING – SACS Member of the Supervisory Board	MAISON FRANCE CONFORT (MFC) – SA Director
ECOLOCALE – GIE Director	MEDEE Chairman
ECUFONCIER – SCA Managing Partner, Sponsor	MENELIK – SAS Chairman
ÉCUREUIL CRÉDIT – GIE Director	MENES – SNC Manager
ÉCUREUIL VIE DÉVELOPPEMENT – SA Director	MIHOS – SASU Chairman
ELECTRE Chairman	MUGE 1 Chairman
FAG – FRANCE ACTIVE GARANTIE – SA Director	MUGE 2 – SA Chairman
FLORE Chairman	MUGE 3 – SA Chairman
GCE MOBILIZ – SA Director	MURACEF Director
GCE PARTICIPATIONS – SA Chairman	NATIXIS – SA Director

## BPCE SA

## ■ Sociétés, Mandats et fonctions

NATIXIS ALTAIR IT SHARED SERVICES – SA Director	PANDA 8 – SASU Chairman
NATIXIS ASSURANCES – SA Director	PANDA 9 – SASU Chairman
NATIXIS CONSUMER FINANCE – SA Director	PELIAS Chairman
NATIXIS EURO AGGREGATE SICAV – SA Director	PERCY – SAS Chairman
NATIXIS FINANCEMENT – SA Director	PERLE 1 – SAS Chairman
NATIXIS GLOBAL ASSET MANAGEMENT – SA Director	PERLE 2 – SAS Chairman
NATIXIS IMPACT NORD SUD DÉVELOPPEMENT SICAV Director	PERLE 3 – SAS Chairman
NATIXIS INTERÉPARGNE – SA Director	PERLE 4 – SAS Chairman
NATIXIS LEASE – SA Director	PETREL 1 – SNC Manager
NATIXIS PAIEMENTS SOLUTION – SA Director	PETREL 2 – SNC Manager
NOTOS Chairman	PRIAM Chairman
ORESTE Chairman	PROCILIA Director
ORION Chairman	RAMSES – SASU Chairman
OTOS Chairman	REMUS – SAS Chairman
PADRILLE Chairman	SALITIS – SASU Chairman
PALES – SAS Chairman	SATIS – SASU Chairman
PANDA 1 – SASU Chairman	SE MAB (EX M.A BANQUE) – SACS Member of the Supervisory Board
PANDA 10 – SASU Chairman	SEA 1 GIE Director
PANDA 2 – SASU Chairman	SEDAR – SAS Chairman
PANDA 3 – SASU Chairman	SEPAMAIL.EU – SA Director
PANDA 4 – SASU Chairman	SER2S – SAS Member
PANDA 5 – SASU Chairman	SETH – SASU Chairman
PANDA 6 – SASU Chairman	SGFGAS – SA Director
PANDA 7 – SASU Chairman	SIAMON – SASU Chairman
	SIFA – SA Director
	SILENE Chairman



**BPCE SA****■ Sociétés, Mandats et fonctions**

SOCRAM BANQUE – SA Director	TARAH RAJ Chairman
STET Member of the Supervisory Board	TENES Chairman
SURASSUR – SA Director	TREVIGNON GIE Director
T2S AFRICA – SA (CAMEROON) Director	TURBO SA – SA Director
T2S MED – SA (TUNISIA) Director	TURGEON Chairman
T2S OUTRE-MER – SAS Director	VESTA Chairman
T2S PACIFIQUE GIE Director	VIGEO – SA Director
TADORNE AVIATION GIE Director	VISA EUROPE LTD – PLC (UNITED KINGDOM) Director
TAFARI – SAS Chairman	

**Mr Olivier IRISSON****Date of birth:**

05/10/1969

**Nationality:**

French

**Appointment date :**

03/25/2014

**Address:**50, avenue Pierre-Mendès-France  
75013 Paris**■ Biography**

Olivier Irissou, a graduate of Université Paris-Dauphine (with a specialization in Finance and Finance control), holds a post-graduate degree in Strategy, Planning and Control and a PhD in Business Administration. He began his career at Cetelem (BNP Paribas group) in 1994 before joining PricewaterhouseCoopers (PwC) in 2000 as a manager in the Financial Risk Management department. Between 2002 and 2010, he worked at Société Générale as Head of Credit Risk Modeling, and Head of the Capital and Risk Measurement Systems department, before being appointed Head of the Global Risk Analysis department in 2009. In June 2010, he joined BPCE as Deputy Director of Group Risk Management. Olivier Irissou is Chief Financial Officer in the BPCE Finance department. He is also a Member of the Executive Committee, which he joined on November 1, 2013.

**• Permanent representative of BPCE****■ Companies, offices and positions**

BANQUES POPULAIRES COVERED BONDS – SACS Director
BPCE SFH – SA Chairman of the Board of Directors
COMPAGNIE DE FINANCEMENT FONCIER – SA Permanent representative of BPCE, Director
GIE BPCE SERVICES FINANCIERS Director
SNL 07 (EX GCE COVERED BONDS – SA) Director (until 05/28/2016)

## Mr Cédric MIGNON

### Date of birth:

01/05/1970

### Nationality:

French

### Appointment date:

03/25/2014

### Address:

50, avenue Pierre-Mendès-France  
75013 Paris

## ■ Biography

Cédric Mignon, a graduate of the 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 the ALM Unit, 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 department, at the 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 department, holding the positions of Head of the Regional Development Bank and Head of Communication, Reputation 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.

### • Director

## ■ Companies, offices and positions

ASSOCIATION CE ÉPARGNE  
Director

AXENTIA – SA  
Director

BANQUE PRIVÉE 1818 – SA  
Director

BPCE ASSURANCES – SA  
Permanent representative of BPCE,  
Director (until 07/07/2016)

CAISSE D'ÉPARGNE CAPITAL  
Member of the Supervisory Board

COMPAGNIE DE FINANCEMENT  
FONCIER – SA  
Director

ERILIA – SA  
Permanent representative of SAS  
ERIXEL, Director Cat.1

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  
Permanent representative of BPCE,  
Director

HABITAT EN RÉGION SERVICES – SAS  
Chairman of the Board

LOGIREM – SACS  
Permanent representative of "Habitat en  
région services", Member of the  
Supervisory Board

NATIXIS CONSUMER FINANCE – SA  
Director

NATIXIS FINANCEMENT – SA  
Director

NATIXIS GLOBAL ASSET  
MANAGEMENT – SA  
Permanent representative of BPCE,  
Director

NATIXIS LEASE – SA  
Permanent representative of BPCE,  
Director

SAS ERIXEL  
Chairman of the Board of Directors

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

SOFARI  
Permanent representative of BPCE,  
Director

## DIRECTORS FROM CAISSE D'ÉPARGNE

**Mr Pascal CHABOT****Date of birth:**

05/27/1959

**Nationality:**

French

**Appointment date :**

03/25/2014

**Address:**26-28, rue Neuve Tolbiac  
75633 Paris Cedex 13**■ Biography**

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

**• Director****■ Companies, offices 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 DÉVELOPPEMENT

Member of the Supervisory Board

COMITÉ FÉDÉRATION BANCAIRE FRANCAISE ÎLE-DE-FRANCE – ASSOCIATION

Vice-Chairman

COMPAGNIE DE FINANCEMENT FONCIER – SA

Director

GIE CAISSE D'ÉPARGNE SYNDICATION RISQUES

Permanent representative of CEIDF, Member of the Supervisory Board

IMMOBILIÈRE 3F

Permanent representative of CEIDF, Member of the Board of Directors  
(since 04/26/2016)

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

**Date of birth:**

05/24/1964

**Nationality:**

French

**Appointment date:**

03/25/2014

**Address:**

254, rue Michel Teule – ZAC d'Alco –  
BP 7330 – 34184 Montpellier Cedex 4

• **Director**

## ■ Biography

A graduate of the École Supérieure de Commerce de Montpellier, Christine Fabresse began her career in the sales structure 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 the Caisses d'Épargne. Since 2009, she has been Head of Retail Banking for the Caisse d'Épargne. In April 2011, she was appointed Head of Development for the Caisse d'Épargne within the Commercial Banking and Insurance business line of BPCE.

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

## ■ Companies, offices and positions

CAISSE D'ÉPARGNE LANGUEDOC-ROUSSILLON – SACS

Chairman 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

ERILIA-SA

Director (since 06/03/2016)

FÉDÉRATION NATIONALE DES CAISSES D'ÉPARGNE – ASSOCIATION

Director

GIE – BPCE-IT

Permanent representative of CEP LR, Director

GIE IT-CE

Permanent representative of CEP Languedoc-Roussillon, Member of the Supervisory Board

## DIRECTORS FROM BANQUES POPULAIRE

## Mr Francis DELACRE

**Date of birth:**

03/19/1961

**Nationality:**

French

**Appointment date:**

03/25/2014

**Address:**847, avenue de la République –  
59700 Marcq-en-Bareuil

## ■ Biography

Francis Delacre began his career at Caisse d'Épargne Rhône Alpes Lyon in 1982. Between 2005 and 2009, he was Head of Commercial Banking ALM at Caisse Nationale des Caisses d'Épargne and later Head of the Financial Coordination and Customer ALM Department Divisions at BPCE from 2009 to 2010. In 2010, Francis Delacre joined Banque Populaire du Nord as Chief Finance Officer before becoming Chief Financial and Loan Officer since September 2013.

## • Director

## ■ Companies, offices and positions

BANQUE POPULAIRE DU NORD

Chief finance

BP DÉVELOPPEMENT – SA

Director

COMPAGNIE DE FINANCEMENT FONCIER – SA

Director

FONDS REGIONAL DE GARANTIE DE LA REGION NORD PAS DE CALAIS – SA

Director, Chairman of the Audit Committee (since 06/09/2016)

GIE BPCE SERVICES FINANCIERS 96

Director

NATIXIS INSTITUTION JOUR

Director

## Mr Dominique GARNIER

**Date of birth:**

06/20/1961

**Nationality:**

French

**Appointment date:**

03/25/2014

**Address:**

10, quai des Queyries –  
33072 Bordeaux Cedex

## ■ Biography

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 Credit 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 for the Banque Fédérale des Banques Populaires. He was named as Coordination Director of the commercial bank during the foundation of BPCE and joined 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.

### • Director

## ■ Companies, offices 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

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 Risks Committee

FONDATION D'ENTREPRISE BANQUE POPULAIRE

Director (since 06/14/2016)

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

QUEST CROISSANCE GESTION – SA

Permanent representative of BPACA, Director

QUEST CROISSANCE SCR – SA

Permanent representative of BPACA, Director

SOCAMA AQUITAINE CENTRE ATLANTIQUE – SCM (FROM THE  
MERGER/ABSORPTION OF SOCAMI CA AND SOCAMI SO ON 04/26/2016)

Permanent representative of BPACA, Director

## DIRECTOR FROM NATIXIS

## Mr Jean CHEVAL

**Date of birth:**

06/10/1949

**Nationality:**

French

**First appointed:**

03/25/2014

**Address:**30, avenue Pierre-Mendes-France –  
75013 Paris

## ■ Biography

Jean Cheval is a graduate from the École Centrale de Paris, 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 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.

Since October 2012, Jean Cheval has worked as Chief Finance and Risk Officer, and is a Member of the Executive Management Committee of Natixis.

## • Director

## ■ Companies, offices and positions

COFACE – COMPAGNIE

Permanent representative of Natixis, Director

COMPAGNIE DE FINANCEMENT FONCIER – SA

Director

EFG HERMES HOLDING (EGYPTE)

Representative of DF (EFG3) Limited (since 09/30/2016)

FONDATION D'ENTREPRISE POUR LA RECHERCHE QUANTITATIVE

Director

HOLDING D'INFRASTRUCTURES DES MÉTIERS DE L'ENVIRONNEMENT

Member of the Supervisory Board

NATIXIS ASSET MANAGEMENT – SA

Permanent representative of Natixis, Director

NATIXIS GLOBAL ASSET MANAGEMENT – SA

Permanent representative of Natixis, Director

NATIXIS IMMO DEVELOPPEMENT

Chairman of the Board of Directors

NATIXIS MOSCOU (RUSSIE)

Member of the Supervisory Board

NATIXIS PFANDBRIEFBANK – AG (ALLEMAGNE)

Member of the Supervisory Board



## APPENDIX 2. TABLE OF DELEGATIONS

### ■ Delegation of authority

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

## Report by the Statutory Auditor, appointed as independent third party, on the consolidated human resources, environmental and social information included in the management report

*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>, 2016

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 31st, 2016 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 2017 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 54 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 10th, 2017

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)

# Financial statements

## BALANCE SHEET *(in thousands of euros)*

ASSETS	Notes	12/31/2016	12/31/2015	12/31/2014
Cash and amounts due from central banks		2,400,000	5,360,083	1,200,069
Treasury bills and equivalent	3	3,455,424	3,606,541	3,175,674
Loans and receivables due from credit institutions	1	20,827,904	21,092,317	20,790,892
• Demand		244,151	478,256	346,995
• Term		20,583,753	20,614,061	20,443,897
Customers transactions	2	42,237,163	43,026,282	44,963,602
• Other facilities granted to customers		42,237,163	43,026,282	44,963,602
Bonds and other fixed-income securities	3	12,724,987	11,246,613	13,604,518
Equity interests and other long term investments*		0	4	0
Intangible assets and property, plant and equipment		0	0	0
Other assets	4	8,175	59,306	92,195
Accrual accounts	5	2,694,997	3,187,163	4,122,040
<b>TOTAL ASSETS</b>		<b>84,348,650</b>	<b>87,578,310</b>	<b>87,948,990</b>
* Participation certificates within the "deposit guarantee system".				
LIABILITIES	Notes	12/31/2016	12/31/2015	12/31/2014
Central banks		0	0	0
Amounts due to credit institutions	6	8,778,050	9,852,497	5,034,721
• Demand		355	12,176	3,621
• Term		8,777,695	9,840,321	5,031,100
Amounts due to customers	7	0	408	19,967
• Demand		0	408	19,967
Debt securities	8	67,573,795	69,123,576	71,288,157
• Interbank market instruments and negotiable debt securities		151,243	151,326	152,882
• Bonds (obligations foncières)		67,422,552	68,972,251	71,135,275
Other liabilities	9	2,261,259	2,981,454	3,610,586
Accrual accounts	10	2,514,616	2,370,553	2,693,545
Provisions	11	20,435	16,129	26,334
Subordinated debt	12	0	0	3,450,258
Fund for general banking risks		20,000	20,000	20,000
Equity excluding fund for general banking risks	13	3,180,495	3,213,693	1,805,423
• Subscribed capital		2,537,460	2,537,460	1,187,460
• Additional paid-in capital		343,002	343,002	343,002
• Reserves		114,468	107,843	103,626
• Regulated provisions and investment subsidies		0	0	0
• Retained earnings		91,889	92,901	87,007
• Income to be allocated		0	0	0
• Net income for the period	17	93,676	132,486	84,328
<b>TOTAL LIABILITIES</b>		<b>84,348,650</b>	<b>87,578,310</b>	<b>87,948,990</b>

## OFF-BALANCE SHEET (in thousands of euros)

	Notes	12/31/2016	12/31/2015	12/31/2014
<b>TOTAL COMMITMENTS GIVEN</b>				
Financing commitments		868,607	1,412,588	3,377,829
• Commitments given to credit institutions	14	0	0	0
• Commitments given to customers	14	789,502	855,965	1,704,582
• Other securities pledged as collateral	14	79,104	556,624	1,673,247
Guarantee commitments		0	0	0
• Commitments given to credit institutions	14	0	0	0
• Commitments given to customers	14	0	0	0
Commitments on securities		0	0	0
• Other commitments given	14	0	0	0
<b>TOTAL COMMITMENTS RECEIVED</b>				
Financing commitments		31,032,177	29,096,967	31,028,705
• Commitments received from credit institutions	15	3,658,292	3,489,828	4,468,030
• Other securities received as collateral from the group	15	27,373,885	25,607,139	26,560,675
Guarantee commitments		39,103,926	39,558,343	41,677,302
• Commitments received from credit institutions	15	6,983,537	5,865,858	5,482,474
• Commitments received from customers	15	32,120,388	33,692,484	36,194,828
Commitments on securities		0	0	0
<b>TOTAL RECIPROCAL COMMITMENTS</b>				
• Sale and purchase of foreign currencies	16	21,488,125	23,920,454	27,186,282
• Other financial instruments	16	62,999,652	60,765,652	59,637,169

## INCOME STATEMENT *(in thousands of euros)*

	Notes	12/31/2016	12/31/2015	12/31/2014
Interest and similar income	17	2,850,600	3,128,590	3,446,672
Interest and similar expenses	17	-2,571,615	-2,872,698	-3,119,359
<b>Net interest margin</b>		<b>278,984</b>	<b>255,891</b>	<b>327,313</b>
Fees and commissions income	18	82,972	109,711	45,555
Fees and commissions expenses	18	-2,047	-2,195	-4,225
Net gains or losses on trading books transactions	19	-456	213	-10,341
Other banking income	20	7	77	1,307
Other banking expenses	20	-4	-51	-57
<b>Net banking income</b>		<b>359,457</b>	<b>363,646</b>	<b>359,551</b>
Payroll costs	21	-60	-217	-233
Taxes	21	-23,033	-19,194	-15,080
External services and other expenses	21	-104,596	-103,744	-90,052
Amortisation		0	0	0
<b>Total operating expenses</b>		<b>-127,689</b>	<b>-123,155</b>	<b>-105,366</b>
<b>Gross operating income</b>		<b>231,768</b>	<b>240,491</b>	<b>254,185</b>
Cost of risk <sup>(1)</sup>	22	-27,078	-14,753	-127,816
<b>Operating income</b>		<b>204,690</b>	<b>225,738</b>	<b>126,369</b>
Gains or losses on long-term investments	23	-48	-4,032	1,362
<b>Income before tax</b>		<b>204,642</b>	<b>221,706</b>	<b>127,731</b>
Non-recurring income		0	0	0
Income tax	24	-110,965	-89,220	-43,403
<b>NET INCOME</b>		<b>93,676</b>	<b>132,486</b>	<b>84,328</b>
Earnings per share <sup>(2)</sup> <i>(in euros)</i>		0,59	1,34	1,14
Diluted earnings per share <i>(in euros)</i>		0,59	1,34	1,14

(1) Cost of risk excluding the impact of the HETA securities in 2014 and 2015

-27,078

-26,954

-23,816

(2) 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 annual 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 the Act No. 2013-544 of June 27, 2013 on credit institutions and financing companies, in force starting from January 1, 2014, which transposes into French legislation the European regulation (CRR) and directive (CRD IV). As such, it must comply with the Regulation No. 99-10 of the French Banking and Financial Regulation Committee (*Comité de la réglementation bancaire et financière* or *CRBF*) as amended, which specifically 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 Groupe 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's default.

### 2. SIGNIFICANT EVENTS OF 2016

#### 2.1. CURRENT ACTIVITY

During 2016, Compagnie de Financement Foncier acquired €6,655.7m in loans from Crédit Foncier including related receivables, plus €2.6m in unreleased loans recognized as "Financing commitments given".

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 €10,303m at December 31, 2016, and with certain Caisse d'Épargne or Banque Populaire banks, amounting to €203.9m. The same facility was also granted to BPCE SA, amounting to €8,920m at December 31, 2016 excluding related receivables. These loans were collateralized for €19,612m.

Outstanding mortgage notes acquired from Crédit Foncier amounted to €7,321.3m at December 31, 2016 (collateralized for €7,762.3m on the day of operation). This figure is up by €1,571m compared to December 31, 2015.

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 €6,844m. 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 €5,366m of *obligations foncières* in 2016, 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). No securities are currently pledged to the European Central Bank as collateral.

#### 2.2. SECURITIES DISPOSALS ON MARKET

Within the framework of its 2011 strategic plan, the Group continued to reduce its international exposure in 2016, but to a lesser degree than before.

In total, outstandings of €97.4m (the value of securities in foreign currency converted at source value) were accordingly sold. These disposals, together with the unwinding of the associated hedging swaps generated net capital losses of nearly zero in 2016, compared to -€4m before taxes in 2015. Those results appear in the income statement at "Gains or losses on long-term investments".

#### 2.3. OFF-BALANCE SHEET OPTIMIZATION OPERATIONS

In order to meet the twofold objective of reducing off-balance sheet commitments, in order to minimize the amount of capital allocated to derivatives, and limiting counterparty exposures, Compagnie de Financement Foncier has performed several interest rate derivative optimization transactions.

During the year 2016, only one optimization operation of a notional amount of €2.1bn was carried out, internally with Crédit Foncier. It generated a net closing swap balance of €10.5m. Several interest rate hedge swaps were canceled in 2016, with a notional amount of €3.9bn. Compagnie de Financement Foncier received net closing swap balance of €109.9m.

All of these net termination payments, as well as the unamortized balance at the termination date of the initial termination payments, were deferred and reported to the income statement according to the maturity of the underlying assets under "Interest and similar income" or "Interest and similar expenses".

In addition, several swap transactions with external counterparties were assigned to Natixis SA. The fees received, of €7.7m were recognized in "Interest and similar income".

#### 2.4. EARLY REPAYMENTS

Given the context of low interest rates, the average rate of early repayment noted for loans to individuals remains high: 13.1% of outstanding loans in 2016 and 14.9% in 2015. The outflows of corresponding assets amounted to €4,300m.

This had several effects on net banking income:

- an accelerated amortization of acquisition premiums/discounts, of which the impact is estimated at -€140m over the entire year;
- the collection of early repayment penalties for a gain of €83m. As a reminder, according to the agreement on services rendered by Crédit Foncier, one third of these penalties are transferred to the latter. This expense is recognized in operating expenses.

## 2.5. COST OF RISK

The cost of risk amounts to -€27m, stable compared with the cost of risk for the year 2015, excluding HETA (for more information, please refer to the Note 22). It should be noted that the year 2015 was marked by the methodological changes in the calculation of individual and collective provisions. These changes, due to an Information System migration in the fourth quarter of 2015, had an aim to align the methodologies used with those of Groupe BPCE.

## 2.6. DEFERRED INCOME TAX

The 2017 Budget Act (*Loi de Finance*) passed by the French National Assembly and applicable as of January 1, 2017, gradually lowers the income tax rate from 34.43% to 28.92% according to the revenue posted by the company. It will affect Compagnie de Financement Foncier starting from December 31, 2016, to the extent that it books deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized at the rate of 34.43%, while the reversal rate that will apply in future years will be 28.92%.

As a result of recalculating the tax base and related deferred tax assets and liabilities, according to maturity, a portion of deferred tax assets will be transferred to expenses sooner, for an amount close to €34.5m, which weighs on net income for the year.

## 3. POST BALANCE SHEET EVENTS

No subsequent event liable to have a significant impact on the financial statements at December 31, 2016 occurred between the reporting date and February 8, 2017, 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 the Regulation No. 2014-07 of the French accounting standards authority (*Autorité des Normes Comptables* – ANC).

### 4.2. CHANGES IN ACCOUNTING METHODS

No changes in accounting methods impacted the 2016 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 policies over time;
- independence of fiscal years;

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

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



Premiums and discounts on receivables acquired 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 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 15 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 the 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) especially 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 guarantees 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 available yet, 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 homogenous groups in terms of sensitivity to changes in the risk on the basis of the Group's internal rating-base 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 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.

Securities transactions are subject to the accounting Regulation No. 2014-07 of the French accounting standards authority 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 the 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, 2016 other than mortgage notes issued by its parent company.

#### 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 available for sale 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 ANC 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, the Regulation No. 2014-07 of the ANC (French accounting standards authority) incorporates the provisions of notice No. 2008-19 of December 8, 2008 governing the reclassification 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" 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 "Held to maturity securities" 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 "Held to maturity securities" as "Debt securities held to maturity" in 2016, 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. Reserve for general banking risks

This fund is intended to cover risks inherent to the entity's business activities, pursuant to the requirements of Article 3 of CRBF (French Banking and Financial Regulation Committee) Regulation No. 90-02.

#### 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 Regulations 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 statement on a *prorata* 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.

Gain 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 capital 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 capital 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 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 else 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, 2016, 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.

Commissions and fees 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 on-going 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 expenses liabilities and changes in tax reserves.

Compagnie de Financement Foncier underwent a tax audit in FY2012, FY2013 and FY2014. The settlement, reached in 2016, caused a €0.4m tax expense to be recognized.

Compagnie de Financement Foncier is included in BPCE's tax consolidation group, in Crédit Foncier 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, 2016, Compagnie de Financement Foncier has not recognized any tax receivables.

#### 4.3.10. Contribution to banking resolution mechanisms

Conditions of setting-up the guarantee fund of deposits and resolutions were changed by a decree of October 27, 2015. In 2016, French Prudential Supervision and Resolution Authority (ACPR), in its decision 2016-C-51 of October 10, 2016, defined a calculation method by contributions' stock applied for the mechanism of deposits. All the contributions for the mechanism of deposits, securities and guarantees paid either in the form of repayable deposits, certificates associations or associated certificates, amounts for €4k.

The directive 2014/59/UE called BBRD (Bank Recovery and Resolution Directive) which establishes a framework for recovery and resolution for credit institutions and investments firms and the European regulation (MRU) implemented a resolution fund from 2015. In 2016, the fund became the Single Resolution Fund (FRU) between the States members of Single Resolution Mechanism (MSU). FRU is a funding arrangement of the resolution made available to Single Resolution Council (CRU). It may call on this fund in the context of the implementation of resolution procedures.

In 2016, pursuant to delegated regulation 2015/63 and implementing regulation 2015/81 supplementing BRRD Directive about ex ante contributions concerning the funding mechanism of the resolution, Single Resolution Council defined contributions of the year. In 2016, the amount of contributions received into the Fund represented €9,9m including €8,4m recognized as expenses and €1,5m 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 was €3,9m.

## 5. OTHER DISCLOSURES

### 5.1. CONSOLIDATION

According to Article 4111-1 of Regulation No. 2014-07 of the French accounting standards authority (ANC), pursuant to § 1000 in fine of the Regulation No. 99-07 of the Regulatory Accounting Committee, Compagnie de Financement Foncier does not provide consolidated financial statements.

Compagnie de Financement Foncier's separate financial statements are integrated into groupe Crédit Foncier and Groupe BPCE's consolidated financial statements.

### 5.2. REMUNERATION AND ADVANCES

Remuneration paid in 2016 to management bodies amounted to €15k excluding social security charges.

### 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 the 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, allowing access to banking information.

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

At December 31, 2016, Compagnie de Financement Foncier had no activities or offices in non-cooperative countries.



## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS OF COMPAGNIE DE FINANCEMENT FONCIER

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

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Demand loans to credit institutions</b>	<b>244,151</b>	<b>478,256</b>	<b>346,995</b>
Current accounts with overdrafts	28,398	106,284	240,691
Overnight loans			
Unallocated items	215,753	371,972	106,304
Related receivables			
<b>Term loans to credit institutions</b>	<b>20,583,753</b>	<b>20,614,061</b>	<b>20,443,897</b>
Term accounts and loans	1,121,802	1,145,553	1,186,995
Loans guaranteed under L. 211-38*	19,426,941	19,431,385	19,210,340
Securities bought under repurchase agreements			
Subordinated loans and participating loans			
Related receivables	35,010	37,123	46,563
<b>Doubtful loans and receivables</b>			
<b>GROSS AMOUNT OF LOANS AND RECEIVABLES</b>	<b>20,827,904</b>	<b>21,092,317</b>	<b>20,790,892</b>
Impairment of doubtful loans			
<b>Impairment of doubtful loans</b>			
<b>NET AMOUNT OF LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS</b>	<b>20,827,904</b>	<b>21,092,317</b>	<b>20,790,892</b>
<b>BREAKDOWN OF TERM ACCOUNTS (GROUP/NON-GROUP)</b>			
Term accounts and loans			
• of which Group transactions			460
• of which non-Group transactions	1,121,802	1,145,553	1,186,535
Loans guaranteed by securities received under repurchase agreements			
• of which Group transactions	19,426,941	19,431,385	19,210,340
• of which non-Group transactions			
Related receivables			
• of which Group transactions	12,865	14,401	21,213
• of which non-Group transactions	22,145	22,722	25,349
<b>Group loans</b>	<b>19,439,806</b>	<b>19,445,786</b>	<b>19,232,013</b>
<b>Non-Group loans</b>	<b>1,143,947</b>	<b>1,168,275</b>	<b>1,211,884</b>
<b>TOTAL</b>	<b>20,583,753</b>	<b>20,614,061</b>	<b>20,443,897</b>
<b>BREAKDOWN OF DEMAND ACCOUNTS (GROUP/NON-GROUP)</b>			
Demand accounts and loans			
• of which Group transactions	28,242	91,006	236,626
• of which non-Group transactions	155	15,278	4,065
Related receivables			
• of which Group transactions			
• of which non-Group transactions			
Unallocated items			
• of which Group transactions (at Crédit Foncier's scope)	215,734	369,019	106,292
• of which non-Group transactions	20	2,953	12
<b>Group loans</b>	<b>243,976</b>	<b>460,025</b>	<b>342,918</b>
<b>Non-Group loans</b>	<b>175</b>	<b>18,230</b>	<b>4,077</b>
<b>TOTAL</b>	<b>244,151</b>	<b>478,256</b>	<b>346,995</b>



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

	12/31/2016			12/31/2015	12/31/2014
<i>(in thousands of euros)</i>	Gross amount	Write-downs	Net amount	Net amount	Net amount
<b>TERM LOANS</b>					
Refinancing of subsidised residential property					40
Refinancing of unsubsidised residential property					272
Public entities	1,143,947		1,143,947	1,168,275	1,211,572
Other loans to credit institutions*	19,439,806		19,439,806	19,445,786	19,232,013
Doubtful term loans					
<b>NET AMOUNT OF TERM LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS</b>	<b>20,583,753</b>		<b>20,583,753</b>	<b>20,614,061</b>	<b>20,443,897</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	10,303,000		10,303,000	10,290,500	10,052,840
Loans guaranteed by local authority receivables pursuant to L. 211-38, with BPCE, Caisses d'Épargne and Banques Populaires	2,523,941		2,523,941	2,540,885	2,557,500
Related and other receivables	12,865		12,865	14,401	21,673
<b>TOTAL</b>	<b>19,439,806</b>		<b>19,439,806</b>	<b>19,445,786</b>	<b>19,232,013</b>

## NOTE 2. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

(in thousands of euros)	Performing loans			Doubtful loans			Write-downs			Net amounts		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/2015	12/31/2014	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Current accounts with overdrafts												
Facilities granted to customers	40,925,204	41,796,656	43,831,883	1,417,841	1,318,127	1,191,009	105,882	88,502	59,291	42,237,163	43,026,282	44,963,602
Loans to financial customers												
Export credits												
Short-term credit facilities <sup>(1)</sup>	1,063,370	1,381,042	1,774,422							1,063,370	1,381,042	1,774,422
Equipment loans <sup>(2)</sup>	6,973,638	7,624,600	8,258,705	-31	41	13,924	34	534	241	6,973,573	7,624,107	8,272,388
Home loans	32,755,152	32,646,649	33,618,998	1,414,809	1,314,744	1,173,446	105,822	87,939	58,989	34,064,139	33,873,455	34,733,455
Other customer loans	4,010	4,586	18,008	35	39	226	26	28	62	4,020	4,598	18,172
Unallocated items	106	951	14							106	951	14
Related receivables	128,927	138,827	161,737	3,028	3,302	3,413				131,955	142,130	165,150
<b>TOTAL <sup>(3)</sup></b>	<b>40,925,204</b>	<b>41,796,656</b>	<b>43,831,883</b>	<b>1,417,841</b>	<b>1,318,127</b>	<b>1,191,009</b>	<b>105,882</b>	<b>88,502</b>	<b>59,291</b>	<b>42,237,163</b>	<b>43,026,282</b>	<b>44,963,602</b>

Restructured loans amounted to €467m at December 31, 2016, of which €130m 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 €1,056m at December 31, 2016, versus €1,305m at December 31, 2015.

(2) Equipment loans are loans to local authorities.

(3) Customer loans eligible for refinancing with the Central Bank amounted to €3,8bn at December 31, 2016 in outstanding capital. This amount represents €2.6bn after haircut and overcollateralisation constraints.

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

<i>(in thousands of euros)</i>	12/31/2014	Increases	Reversals	12/31/2015	Increases	Reversals	12/31/2016
<b>IMPAIRMENT OF ASSETS</b>							
Customer loans and due from credit institutions*	59,291	52,740	-23,529	88,501	53,297	- 28,352	113,446
<b>PROVISIONS RECOGNISED AS LIABILITIES</b>							
Customer loans and due from credit institutions and provisions on securities	15,674	1,026	-571	16,129	3,284	- 36	19,377
<b>TOTAL</b>	<b>74,965</b>	<b>53,766</b>	<b>-24,100</b>	<b>104,630</b>	<b>56,581</b>	<b>- 28,388</b>	<b>132,823</b>

\* Loan impairment is measured at discounted value in accordance with the regulation n°2014-07 of the French Accounting Standards Authority.

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

<i>(in thousands of euros)</i>	12/31/2014	Reclassifi- cation	Additions	Amorti- sation	12/31/2015	Reclassifi- cation	Additions	Amorti- sation	12/31/2016
<b>DUE FROM CREDIT INSTITUTIONS</b>									
Premiums	58,081			-10,492	47,589			-10,414	37,175
Discounts									
<b>Net</b>	<b>58,081</b>			<b>-10,492</b>	<b>47,589</b>			<b>-10,414</b>	<b>37,175</b>
<b>CUSTOMER LOANS</b>									
<b>Performing loans and receivables</b>									
Premiums	1,193,623	-11,805	647,678	-389,895	1,439,601	- 17,705	558,044	- 380,596	1,599,344
Discounts	-1,063,509	8,690	-109,627	144,599	-1,019,847	11,304	- 42,023	116,544	-934,022
<b>Doubtful loans and receivables</b>									
Premiums	22,094	11,758		-4,760	29,092	17,705		- 11,638	35,159
Discounts	-25,632	-8,643		4,481	-29,794	- 11,276		12,597	-28,473
<b>Net</b>	<b>126,576</b>		<b>538,051</b>	<b>-245,575</b>	<b>419,052</b>	<b>28</b>	<b>516,021</b>	<b>- 263,093</b>	<b>672,008</b>
<b>TOTAL</b>	<b>184,657</b>	<b>0</b>	<b>538,051</b>	<b>-256,067</b>	<b>466,641</b>	<b>28</b>	<b>516,021</b>	<b>-273,507</b>	<b>709,183</b>

## NOTE 2 B. BREAKDOWN OF OUTSTANDING CUSTOMER LOANS

(in thousands of euros)	12/31/2016			12/31/2015	12/31/2014
	Gross	Impairment	Net	Net	Net
<b>French mortgages</b>	<b>30,991,320</b>		<b>30,991,711</b>	<b>30,500,103</b>	<b>31,218,822</b>
<b>Public sector</b>	<b>9,844,176</b>		<b>9,844,176</b>	<b>11,215,120</b>	<b>12,559,175</b>
French public sector	8,151,775		8,151,775	9,471,135	10,824,354
• Social housing	1,496,506		1,496,506	1,844,464	2,152,617
• French local authorities (FLA)	6,650,719		6,650,719	7,626,671	8,671,737
• Sovereign France	4,550		4,550		
Public-Private Partnership (PPP)	639,912		639,912	648,471	648,799
International public sector	1,052,489		1,052,489	1,095,514	1,086,022
• International public financing	1,052,489		1,052,489	1,095,514	1,086,022
• International Sovereign					
<b>Commercial mortgage exposures</b>	<b>89,708</b>		<b>89,708</b>	<b>42,936</b>	<b>25,617</b>
<b>Other</b>				<b>38,497</b>	<b>28,269</b>
<b>Sub-total performing customer loans</b>	<b>40,925,204</b>		<b>40,925,204</b>	<b>41,796,656</b>	<b>43,831,882</b>
<b>Doubtful loans</b>	<b>1,417,841</b>	<b>105,882</b>	<b>1,311,959</b>	<b>1,229,625</b>	<b>1,131,718</b>
<b>TOTAL CUSTOMER LOANS</b>	<b>42,343,045</b>	<b>105,882</b>	<b>42,237,163</b>	<b>43,026,281</b>	<b>44,963,601</b>

The exposures are drawn up in line with the breakdown presented in the table "Exposure analysis to credit risk". Consequently, the outstandings on December 31, 2014 and on December 31, 2015 are calculated on a pro forma basis.

Loans outstanding in the unsubsidised sector includes €16.97bn in loans guaranteed by SGFGAS.

## NOTE 2 C. BREAKDOWN OF OUTSTANDING DOUBTFUL LOANS

At 12/31/2016 (in thousands of euros)	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 n°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 12/31/15 (in thousands of euros)	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 n°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 12/31/14 (in thousands of euros)	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Impairment	Net	Gross	Impairment	Net
<b>French mortgages</b>	<b>1,080,053</b>	<b>58,021</b>	<b>1,022,032</b>	<b>289,620</b>	<b>45,182</b>	<b>244,438</b>
<b>Public sector</b>	<b>31,900</b>	<b>354</b>	<b>31,546</b>	<b>781</b>	<b>92</b>	<b>689</b>
French public sector	31,900	354	31,546	781	92	689
• Social housing	13,968	127	13,841	781	92	689
• French local authorities (FLA)	17,932	227	17,705			
• Sovereign France						
Public-Private Partnership (PPP)						
International public sector						
• International public financing						
• International Sovereign						
<b>Commercial mortgage exposures</b>	<b>79,056</b>	<b>916</b>	<b>78,140</b>	<b>2,448</b>	<b>804</b>	<b>1,644</b>
<b>Sub-total doubtful customer loans</b>	<b>1,191,009</b>	<b>59,291</b>	<b>1,131,718</b>	<b>292,849</b>	<b>46,078</b>	<b>246,771</b>

Doubtful loans outstanding in the unsubsidised sector includes €512.7m in loans guaranteed by SGFGAS.

In accordance with the regulation n°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.

The 2014 credit exposures are drawn up in line with the breakdown presented in the table "Exposure analysis to credit risk". The amounts are calculated on a pro forma basis.

## NOTE 3. AVAILABLE FOR SALE AND HELD TO MATURITY SECURITIES

(in thousands of euros)	12/31/2016			12/31/2015			12/31/2014		
	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*		3,410,338	3,410,338		3,560,531	3,560,531	44	3,116,314	3,116,358
Related receivables		45,085	45,085		46,011	46,011	1	59,315	59,316
<b>Subtotal</b>		<b>3,455,424</b>	<b>3,455,424</b>		<b>3,606,541</b>	<b>3,606,541</b>	<b>45</b>	<b>3,175,629</b>	<b>3,175,674</b>
Bonds*		5,334,220	5,334,220		5,423,512	5,423,512		6,053,694	6,053,694
Interbank market instruments (mortgage notes)*	7,321,281		7,321,281	5,749,962		5,749,962	7,317,500		7,317,500
Negotiable debt securities									
Securitisation units*									
Related receivables	3,537	65,950	69,487	5,252	67,887	73,139	5,943	68,762	74,705
<b>Subtotal</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>	<b>7,323,443</b>	<b>6,122,456</b>	<b>13,445,899</b>
Doubtful loans and securities including related receivables								263,067	263,067
<b>GROSS AMOUNTS</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>	<b>7,323,488</b>	<b>9,561,152</b>	<b>16,884,640</b>
Impairment on fixed-income securities								-104,448	-104,448
<b>NET AMOUNTS</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>	<b>7,323,488</b>	<b>9,456,704</b>	<b>16,780,192</b>

\* Of which:

	12/31/2016	12/31/2015	12/31/2014
Listed securities	8,292,594	8,507,563	8,847,391
Unlisted securities	7,773,244	6,226,430	7,899,500
<b>TOTAL</b>	<b>16,065,838</b>	<b>14,733,993</b>	<b>16,746,891</b>

Listed securities are normally available securities denominated in euro that are eligible for the ECB operations, as well as listed securities in other currencies.  
Non listed securities are essentially represented by mortgage notes subscribed by Crédit Foncier.

Under the regulation n°2014-07 of the French national accounting standards authority, the aggregate fair value of the investment portfolio amounts to €10,001.4m at December 31, 2016, excluding related receivables.

Unrealised capital gains on Held-to-maturity securities before swaps amounted to €1,526.4m at December 31, 2016. At December 31, 2015, unrealised capital gains on Held-to-maturity securities before swaps amounted to €1,462.3m.

Unrealised capital losses on Held-to-maturity securities before swaps amounted to €274.4m at December 31, 2016. At December 31, 2015, unrealised capital losses on Held-to-maturity securities before swaps amounted to €261.2m.

The Company did not reclassify any securities to the "Held-to-maturity securities" portfolio either during the 2016 financial year or in previous years.

## NOTE 3 A. SOVEREIGN RISK

At December 31, 2016, the net exposures of the Compagnie de Financement Foncier sovereign risk in these countries are:

Investment securities (in millions of euros)	At December 31, 2016			At December 31, 2015			At December 31, 2014		
	Carrying amount	Market value	Value after swap*	Carrying amount	Market value	Value after swap*	Carrying amount	Market value	Value after swap*
Cyprus							50,0	49.1	49.1
Hungary							35,0	37.5	37.5
Ireland							135,0	174.7	154.8
Italy	2,305.4	2,734.5	1,786.3	2,327.9	2,794.4	1,956.9	1,585.1	2,021.1	1,472.3
Poland	373.6	417.1	248.4	351.7	381.9	252.3	317.4	342.1	222.4
Slovenia							198.4	222.0	208.2
<b>TOTAL</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>	<b>2,320.9</b>	<b>2,846.5</b>	<b>2,057.7</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, 2016 are presented below:

	Residual maturity				
	3 years	5 years	6 years	> 8 years and < 10 years	> 10 years
Italy	69.8			292.0	1,735.7
Poland				171.0	202.6
Slovenia					
<b>TOTAL</b>	<b>69.8</b>	<b>0,00</b>	<b>0,00</b>	<b>463.0</b>	<b>1,938.3</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 thousands of euros)	Gross 12/31/14	Acquisitions	Disposals/Redemptions*	Reclassifications	Change in premiums/discounts	Currency differences	Gross 12/31/15	Acquisitions	Disposals/Redemptions*	Reclassifications	Change in premiums/discounts	Currency differences	Gross 12/31/16
Held to maturity securities	9,429,347	1,352,077	-2,286,213		-7,422	496,254	8,984,043		- 111,081		-271,547	143,142	8,744,558
<b>TOTAL</b>	<b>9,429,347</b>	<b>1,352,077</b>	<b>-2,286,213</b>		<b>-7,422</b>	<b>496,254</b>	<b>8,984,043</b>		<b>- 111,081</b>		<b>-271,547</b>	<b>143,142</b>	<b>8,744,558</b>
Related receivables	131,805				-17,908		113,897				-2,862		111,035
<b>TOTAL</b>	<b>9,561,152</b>	<b>1,352,077</b>	<b>-2,286,213</b>	<b>0</b>	<b>-25,330</b>	<b>496,254</b>	<b>9,097,940</b>		<b>- 111,081</b>		<b>-274,408</b>	<b>143,142</b>	<b>8,855,593</b>

\* Disposals were conducted in accordance with the possibilities offered by the regulation n°2014-07 of the French national accounting standards authority, Article No. 2341-2, especially in case of regulatory constraints.

## NOTE 4. OTHER ASSETS

(in thousands of euros)	12/31/2016	12/31/2015	12/31/2014
<b>Options bought</b>			<b>174</b>
<b>Securities settlement accounts</b>	<b>1,083</b>		
<b>Other receivables</b>	<b>7,092</b>	<b>59,306</b>	<b>92,021</b>
Deposits on collateralisation transactions			
Other deposits and guarantees <sup>(1)</sup>	3,946	2,478	22
Tax consolidation receivables <sup>(2)</sup>		48,551	90,119
Other non-trade receivables	3,146	8,277	1,880
<b>Special bonus account</b>			
<b>TOTAL</b>	<b>8,175</b>	<b>59,306</b>	<b>92,195</b>

(1) As of December 31, 2016, this item includes mainly the guarantee deposits of €3,944k for 2015 and 2016 set up in the framework of the Single Resolution Fund.

(2) The receivable posted at December 31, 2015 is the subsidy due from Crédit Foncier, and is equal to the potential corporate tax saving, due to the tax loss recorded, in accordance with the tax consolidation agreement binding Compagnie de Financement Foncier, BPCE and Crédit Foncier (Article 2). This receivable was settled during the first half of 2016.



## NOTE 5. ACCRUAL ACCOUNTS – ASSETS

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Collection accounts</b>			
<b>Deferred expenses</b>	<b>210,323</b>	<b>244,236</b>	<b>270,991</b>
Issue and redemption premiums on fixed income securities	210,323	244,236	270,991
Other deferred expenses			
<b>Prepaid expenses</b>	<b>1,465,050</b>	<b>1,612,521</b>	<b>1,801,096</b>
Termination balances of paid swaps to be amortised	1,465,050	1,610,243	1,801,096
Other prepaid expenses		2,278	
<b>Accrued income</b>	<b>565,218</b>	<b>669,351</b>	<b>877,749</b>
Accrued interest on swaps	565,192	668,509	875,223
Other accrued income	26	842	2,527
<b>Other accrual accounts – assets</b>	<b>454,405</b>	<b>661,055</b>	<b>1,172,204</b>
Cash in domiciliation	-3,274	87,638	244,189
Deferred tax assets <sup>(1)</sup>	444,814	538,918	676,689
Currency adjustment accounts <sup>(2)</sup>			21,628
Other accrued income <sup>(3)</sup>	12,866	34,499	229,698
<b>TOTAL</b>	<b>2,694,997</b>	<b>3,187,163</b>	<b>4,122,040</b>

(1) Deferred tax assets mainly consist of temporary differences and do not involve any uncertainty about their use. The main types of deferred taxes are as follows:

Swaps termination balance	397,352	508,564	626,285
Provisions including customer credit risk provisions	15,304	15,535	12,263
Other temporary differences	32,152	14,819	38,141

(2) This item restores the balance between assets and liabilities following the recognition in the income statement of gains or losses arising from the valuation of off-balance sheet transactions in foreign currency. A similar item can be found in Note 10.

(3) Of which borrowers (payments to be applied to loan accounts) and release of loan funds on behalf of Crédit Foncier: €4,773k at December 31, 2016 compared to €28,774k at December 31, 2015.

## NOTE 6. AMOUNTS DUE TO CREDIT INSTITUTIONS

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Due to credit institutions – on demand <sup>(1)</sup></b>	<b>355</b>	<b>12,176</b>	<b>3,621</b>
Current accounts of credit institutions		11,808	
Demand loans to credit institutions			
Other amounts due to credit institutions	355	368	3,621
Related payables			
<b>Due to credit institutions – at maturity <sup>(2)</sup></b>	<b>8,777,695</b>	<b>9,840,321</b>	<b>5,031,100</b>
Term deposits and loans <sup>(3)</sup>	5,148,342	6,509,044	3,025,424
Values sold under repurchase agreements			
Securities sold under repurchase agreements	3,628,236	3,317,707	1,991,918
Related payables	1,117	13,570	13,758
<b>TOTAL</b>	<b>8,778,050</b>	<b>9,852,497</b>	<b>5,034,721</b>
<b>(1) Details on due to credit institutions – on demand (Group/non-Group)</b>	<b>355</b>	<b>12,176</b>	<b>3,621</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	3,621
• Other amounts due to credit institutions	355	12,117	3,621
<b>(2) Details on due to credit institutions – at maturity (Group/non-Group)</b>	<b>8,777,695</b>	<b>9,840,321</b>	<b>5,031,100</b>
Of which Group	8,777,695	9,838,514	5,023,668
• Due and accounts at maturity <sup>(3)</sup>	5,149,459	6,520,806	3,031,509
• Securities sold under repurchase agreements	3,628,236	3,317,707	1,992,159
Of which non-Group		1,808	7,432
• Due and accounts at maturity		1,037	
• Banque de France refinancing (Overall collateral management pool – 3G pool)			
• Other term loans		770	7,223
• Values sold under repurchase agreements			
• Related payables			209
<b>Due to Group credit institutions</b>	<b>8,777,695</b>	<b>9,838,573</b>	<b>5,023,668</b>
<b>Due to non-Group credit institutions</b>	<b>355</b>	<b>13,925</b>	<b>11,053</b>
<b>TOTAL</b>	<b>8,778,050</b>	<b>9,852,497</b>	<b>5,034,721</b>

(3) Following the repayment of redeemable super subordinated notes in 2015, Crédit Foncier has set up a current account advance totaling €2,100m. It is agreed between the two parties that the above mentioned current account advance is subordinated to all privileged and non-privileged resources of Compagnie de Financement Foncier according to the provisions of Article 4: "Current account advance is a general, direct, unconditional, subordinated and unsecured commitment". Its repayment is possible only given the full repayment on the due date of all privileged and non-privileged creditors and on the due date fixed for current account advance's repayment.

The interest on the present current account advance is calculated at 3-month Euribor plus 2.5%. Nevertheless, the rate cannot exceed the rate fixed by an Article 39 1 3° of the French General Tax Code.

The interest is paid quarterly at the end of every calendar quarter. The accrued interest is capitalized according to the provisions of the Article 1154 of the French Civil Code.

## NOTE 7. AMOUNTS DUE TO CUSTOMERS

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Current accounts</b>			
<b>Other demand and term deposits</b>		408	19,967
Other amounts due		408	19,967
Other term loans to customers			
Term accounts in credit			
Related payables			
<b>TOTAL</b>	<b>0</b>	<b>408</b>	<b>19,967</b>

## NOTE 8. DEBT SECURITIES

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
Negotiable debt securities	150,000	150,000	150,000
Related payables	1,243	1,326	2,882
<b>Negotiable debt securities and related payables</b>	<b>151,243</b>	<b>151,326</b>	<b>152,882</b>
<i>Obligations foncières</i>	66,437,242	67,860,404	69,427,903
Related payables	985,310	1,111,847	1,707,372
<b>Obligations foncières and related payables</b>	<b>67,422,552</b>	<b>68,972,251</b>	<b>71,135,275</b>
<b>TOTAL</b>	<b>67,573,795</b>	<b>69,123,576</b>	<b>71,288,157</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

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Options sold</b>			
<b>Other payables</b>	<b>2,218,043</b>	<b>2,932,629</b>	<b>3,539,352</b>
Deposits on collateralisation transactions	2,021,034	2,755,396	3,470,733
Margin calls on repurchase agreements			
Trade payables	65,438		
Tax consolidation liabilities <sup>(1)</sup>	215		
Other fiscal and social debts	1,652	11	14
Other payables accounts	58,199	119,663	28,495
Special bonus account	71,505	57,559	40,110
<b>Allocated public funds <sup>(2)</sup></b>	<b>43,216</b>	<b>48,825</b>	<b>71,234</b>
<b>TOTAL</b>	<b>2,261,259</b>	<b>2,981,454</b>	<b>3,610,586</b>

(1) Corporate tax due to Crédit Foncier (tax consolidation)

215

(2) Of which subsidised sector

32,847

34,250

51,053

## NOTE 10. ACCRUAL ACCOUNTS – LIABILITIES

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Collection accounts</b>	<b>52</b>	<b>919</b>	<b>48</b>
<b>Unearned income</b>	<b>1,619,769</b>	<b>1,896,151</b>	<b>2,277,552</b>
Subsidies on loans for low-income families and former interest-free loans	56,053	76,350	106,009
Balances of swaps received to be amortised	1,478,964	1,711,211	2,068,454
Other unearned income	84,752	108,590	103,089
<b>Accrued expenses</b>	<b>208,820</b>	<b>244,708</b>	<b>290,330</b>
Accrued interest on derivatives (swaps)	203,529	224,976	277,835
Other accrued expenses	5,291	19,732	12,495
<b>Other accrual accounts</b>	<b>685,974</b>	<b>228,774</b>	<b>125,616</b>
Currency adjustment accounts*	609,832	127,273	
Other items	76,142	101,501	125,615
<b>TOTAL</b>	<b>2,514,616</b>	<b>2,370,553</b>	<b>2,693,544</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 thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Provisions for counterparty risks</b>	<b>19,377</b>	<b>16,129</b>	<b>15,674</b>
Provisions for potential risks on performing loans	19,377	16,129	15,674
Sectoral provisions			
<b>Provisions for litigation</b>			
Tax litigation			
Other litigation			
<b>Other provisions</b>	<b>1,058</b>		<b>10,660</b>
Other provisions*	1,058		10,660
<b>TOTAL</b>	<b>20,435</b>	<b>16,129</b>	<b>26,334</b>

\* A provision made during the first half of 2016 and related to an estimate of an accelerated amortization of several termination balances.

Changes in the period <i>(in thousands of euros)</i>	Changes in 2016					12/31/2016
	12/31/2015	Additions	Reversals		Other changes	
			Used	Not used		
Provisions for counterparty risks	16,129	3,284		-36		19,377
Provisions for counterparty risks on performing loans	16,129	3,284		-36		19,377
Sectoral provisions						
Provisions for litigation						
Tax litigation						
Other litigation						
Other provisions		1,058				1,058
Other provisions		1,058				1,058
TOTAL	16.129	4.342	0	-36	0	20.435

## NOTE 12. SUBORDINATED DEBT

(in thousands of euros)	12/31/2016	12/31/2015	12/31/2014
Redeemable subordinated notes <sup>(1)</sup>			2,100,000
Perpetual super-subordinated notes <sup>(2)</sup>			1,350,000
Related payables			258
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>3,450,258</b>

(1) Compagnie de Financement Foncier issued redeemable subordinated notes: one note of €100m was issued on December 30, 2003; the other was issued on December 28, 2007 and accounted for €2,000m. These fully assimilated notes with a maturity as of 2043 were fully subscribed by Crédit Foncier and their outstanding amounted to €2,100m. In accordance with Articles 2.6.2 of the contracts governing these notes, Compagnie de Financement Foncier repaid €2,100m on September 15, 2015.

In return, Crédit Foncier has simultaneously set up a current account advance with an equivalent amount.

(2) On December 30, 2011, Compagnie de Financement Foncier issued a perpetual super subordinated note of €1,350,000k, which was fully subscribed by Crédit Foncier. The prospectus provided the possibility of a full repayment on the first option date as defined in the first paragraph of the prospectus. The date concerned was December 30, 2016. Not having any constraints from the part of the French Prudential Supervisory and Resolution Authority (ACPR), the Company repaid the entirety of super-subordinated notes on September 15, 2015. Simultaneously, a capital increase of €1,350,000k was carried out on September 15, 2015, which was fully subscribed by Crédit Foncier, its parent company.

## Additional information

(in thousands of euros)	Issuance currency	Issuance date	Maturity date	Interest rate
<b>SUBORDINATED DEBT</b>				
Floating-rate subordinated debt				
• Redeemable subordinated notes "RSN"	EUR	12/30/03	12/30/43	Euribor 3M+0.5%
• Perpetual super-subordinated notes	EUR	12/30/11		EONIA +2.5%

## NOTE 13. CHANGES IN EQUITY

(in thousands of euros)	Opening balance at 01/01/2015		Changes in capital and reserves		Balance at 12/31/2015		Changes in capital and reserves		Balance at 12/31/2016
			Dividends paid in shares	Other			Dividends paid in shares	Other	
Share capital*	1,187,460			1,350,000	2,537,460				2,537,460
Share premiums*	343,002				343,002				343,002
Reserves									
Legal reserve	48,109	4,217			52,326	6,625			58,951
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	87,007	5,894			92,901	-1,011			91,889
<b>Net equity before net income for the year</b>	<b>1,721,095</b>				<b>3,081,207</b>				<b>3,086,820</b>
Net income for the year before distributions	84,328	-84,328			132,486	-132,486			93,676
<b>Equity after net income for the year</b>	<b>1,805,423</b>				<b>3,213,693</b>				<b>3,180,495</b>
Dividends paid		74,216				126,873			

(in thousands of euros)	Opening balance at 01/01/2015		Changes in provisions		Balance at 12/31/2015		Changes in provisions		Balance at 12/31/2016
			Additions	Reversals			Additions	Reversals	
Special revaluation provision									
Other regulated provisions									
Regulated provisions									
Equity before distributions	<b>1,805,423</b>				<b>3,213,693</b>				<b>3 180 495</b>

(in thousands of euros)	Opening balance at 01/01/2015		Changes in FRBG		Balance at 12/31/2015		Changes in FRBG		Balance at 12/31/2016
			Additions	Reversals			Additions	Reversals	
Reserve for general banking risks	20,000				20,000				20 000
<b>TOTAL</b>	<b>1,825,423</b>				<b>3,233,693</b>				<b>3 200 495</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 13. A PROPOSED ALLOCATION OF INCOME

<i>(in thousands of euros)</i>	12/31/2016	
<b>SOURCES</b>		
Retained earnings		91,889
Net income for the year		198,676
Deposit on dividends		
Transfer from reserves		
<b>ALLOCATION</b>		
Allocation to reserves	4,684	
• Legal reserve		
• Special long-term capital gains reserves		
• Other reserves		
Dividends	93,569	
Other distributions		
Retained earnings	87,313	
<b>TOTAL</b>	<b>185,566</b>	<b>185,565</b>

## NOTE 14. COMMITMENTS GIVEN

	12/31/2016		12/31/2015		12/31/2014	
(in thousands of euros)	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>785,179</b>	<b>4,323</b>	<b>756,263</b>	<b>99,702</b>	<b>236,697</b>	<b>1,467,886</b>
<b>Subsidised sector</b>						
<b>Non-Group commitments</b>						
• Credit institutions						
• Customers						
<b>Unsubsidised sector</b>	<b>785,179</b>	<b>4,323</b>	<b>756,263</b>	<b>99,702</b>	<b>236,697</b>	<b>1,467,886</b>
<b>Non-Group commitments</b>	<b>785,179</b>	<b>4,323</b>	<b>756,263</b>	<b>99,702</b>	<b>236,697</b>	<b>1,467,886</b>
• Customers <sup>(1)</sup>	785,179	4,323	756,263	99,702	236,697	1,467,886
<b>Group commitments</b>						
• Credit institutions						
<b>Guarantee commitments</b>	<b>79,104</b>		<b>556,624</b>		<b>1,673,247</b>	
<b>Non-Group commitments</b>	<b>79,104</b>		<b>556,624</b>		<b>1,673,247</b>	
Other values used as collateral <sup>(2)</sup>	79,104		556,624		1,673,247	
<b>Commitments on securities</b>						
Other commitments given						
<b>TOTAL <sup>(3)</sup></b>	<b>868,607</b>		<b>1,412,588</b>		<b>3,377,829</b>	

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

(in thousands of euros)	12/31/2016	12/31/2015	12/31/2014
Permanent credit lines (outstanding transferred from Ixis CIB)	689,729	756,263	517,842
State housing savings accounts ( <i>primes d'épargne logement</i> )	95,450	100,000	949,532

(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 thousands of euros)	12/31/2016	12/31/2014	12/31/2013
Securities			
Receivables	79,104	556,624	1,673,247

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 thousands of euros)	12/31/2016	12/31/2015	12/31/2014
Doubtful commitments	422	830	511



## NOTE 15. COMMITMENTS RECEIVED

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Financing commitments</b>	<b>31,032,177</b>	<b>29,096,967</b>	<b>31,028,705</b>
<b>Non-Group commitments</b>	<b>258,292</b>	<b>489,828</b>	<b>1,468,030</b>
Credit institutions <sup>(1)</sup>	258,292	489,828	1,468,030
<b>Group commitments</b>	<b>30,773,885</b>	<b>28,607,139</b>	<b>29,560,675</b>
Repurchase guarantee			
Credit institutions <sup>(2)</sup>	3,400,000	3,000,000	3,000,000
Other assets received as collateral from the Group <sup>(3)</sup>	27,373,885	25,607,139	26,560,675
<b>Guarantee commitments</b>	<b>39,103,926</b>	<b>39,558,343</b>	<b>41,677,302</b>
<b>Non-Group commitments</b>	<b>36,576,008</b>	<b>39,086,007</b>	<b>38,985,196</b>
Credit institutions and similar institutions <sup>(4)</sup>	4,527,003	5,393,523	2,792,312
Customers <sup>(5)</sup>	32,049,005	33,692,484	36,192,884
<b>Group commitments <sup>(6)</sup></b>	<b>2,527,918</b>	<b>472,335</b>	<b>2,692,106</b>
Credit institutions and similar items	2,456,535	472,335	2,690,162
Customers	71,383		1,944
<b>Commitments on securities</b>			
Other securities to be received			
<b>TOTAL COMMITMENTS RECEIVED</b>	<b>70,136,102</b>	<b>68,655,309</b>	<b>72,706,007</b>

(1) Non-Group financing commitments refer to the commitment received from the Banque de France in the framework of the pool of Gestion Globale des Garanties, including an amount of €53.3m at December 31, 2016, compared with €489.8m at December 31, 2015.

(2) Credit line of €3bn and €0.4bn entered into by Compagnie de Financement Foncier and BPCE with Crédit Foncier 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.

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
• Guarantees received from Crédit Foncier for loans to French local authorities (L. 211-38)	10,412,727	10,348,612	10,082,140
• Guarantees received from BPCE SA as replacement values (L. 211-38 Short-term guaranteed notes)	6,656,400	6,655,400	6,600,000
• Guarantees received from Caisses d'Épargne and Banques Populaires for loans to French local authorities (L. 211-38)	2,542,445	2,555,844	2,560,013
• Guarantees received from Crédit Foncier for mortgage notes	7,762,299	6,047,283	7,318,522

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
(4) Mainly includes:			
• Guarantees received from Crédit Logement rated Aa3/A+	2,728,231	1,712,796	872,813
• Guarantees received from Crésérfi	6,412	324,625	357,075
• Security enhancement guarantees received from insurance companies	1,631,601	1,671,073	1,562,424

(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:

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
• Government guarantees on loans, mainly to the subsidised sector	173,655	241,191	404,081
• Guarantees from the SFGAS on FGAS-eligible loans and covered by the government	16,966,939	16,603,041	15,994,297
• Mortgage guarantees for mortgage loans that are only covered by this guarantee	12,340,130	13,642,321	15,566,209
• Guarantees given by local authorities and other organisations	1,607,601	2,213,582	2,124,901
• Security enhancement guarantees given by governments	960,680	992,349	2,103,396

(6) At December 31, 2016, guarantee commitments on securities received from BPCE amounted to €800m and guarantee commitments on securities and loans and receivables received from Crédit Foncier accounted for €41.8m.

## NOTE 16. COMMITMENTS ON FORWARDS AND OPTIONS CONTRACTS

<i>(in thousands of euros)</i>	12/31/2016		12/31/2015		12/31/2014	
	Euros	Other currencies <sup>(1)</sup>	Euros	Other currencies <sup>(1)</sup>	Euros	Other currencies <sup>(1)</sup>
<b>OVER-THE-COUNTER MARKETS</b>						
<b>Options (nominal amounts)</b>	1,882,745	0	2,191,843	0	2,450,387	0
<b>Hedging transactions (purchases)</b>						
• Interest rate instruments	1,882,745		2,191,843		2,450,387	
• Foreign exchange instruments						
• Other instruments						
<b>Other options</b>						
<b>Options (fair value)</b>	8,619	0	13,183	0	16,497	0
<b>Forward transactions (nominal amounts)</b>	70,325,602	12,279,430	68,864,424	13,629,839	69,607,600	14,765,464
<b>Hedging transactions</b>						
• Interest rate instruments	60,790,418	326,490	58,208,844	364,965	56,846,843	339,939
• Foreign exchange instruments <sup>(2)</sup>	9,535,184	11,952,940	10,655,581	13,264,874	12,760,757	14,425,525
• Other instruments						
<b>Other transactions</b>						
<b>Forward transactions (fair value) <sup>(3)</sup></b>	1,798,965	-3,477,545	1,598,783	159,816	755,769	1,712,622
<b>Forward and conditional transactions</b>	72,208,347	12,279,430	71,056,267	13,629,839	72,057,987	14,765,464
<b>TOTAL (NOMINAL AMOUNTS)</b>	<b>84,487,777</b>		<b>84,686,107</b>		<b>86,823,451</b>	
<b>TOTAL (FAIR VALUE)</b>	<b>-1,669,961</b>		<b>1,771,782</b>		<b>2,484,888</b>	

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

(1) Notional amounts in euros at the reporting date.

(2) These items are financial micro-hedging currency swaps. They represent foreign exchange forward position; the inverse position, spot currency transactions, is included in the balance sheet assets (cf. note 26).

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

## NOTE 17. INTEREST AND SIMILAR INCOME AND EXPENSES

	12/31/2016			12/31/2015	12/31/2014
<i>(in thousands of euros)</i>	Income	Expenses	Net	Net	Net
<b>Interbank transactions</b>	<b>190,138</b>	<b>-79,164</b>	<b>110,974</b>	<b>81,897</b>	<b>69,395</b>
Interest on Central Bank accounts		-7,590	-7,590	-4,159	-1,986
Interest on current accounts		-174	-174	1	398
Interest on forwards	33,353	-68,376	-35,023	-25,647	-11,949
Interest on subordinated loans					
Interest on receivables guaranteed (replacement values)	156,785		156,785	124,282	105,635
Interest on securities received/sold under repurchase agreements		8,211	8,211	1,476	-237
Financing and guarantee commitments					
Other interest income and expenses					-715
Hedging transactions ( <i>netting</i> )		-11,235	-11,235	-14,055	-21,750
Hedged losses on receivables					
Non-hedged losses on receivables					
Net changes in provisions					
<b>Customers transactions</b>	<b>1,062,277</b>	<b>-162,496</b>	<b>899,781</b>	<b>1,171,279</b>	<b>1,313,200</b>
Interest on demand deposits, term deposits and regulated savings accounts					
Interest on loans to customers	940,175		940,175	1,096,671	1,298,457
Interest on subordinated loans					
Interest on non-performing loans	46,980		46,980	44,854	41,299
Amortisation of additional loans fees (CRC Regulation 2009-03)	-419		-419	-608	-639
Interest on ABS cash collateral					
Other interest income and expenses	74,547	-526	74,021	-6,076	-23,701
Income on financing and guarantee commitments	1		1	21	55
Hedging transactions ( <i>netting</i> )		-160,832	-160,832	39,251	-510
Hedged losses on receivables		-278	-278	-735	-444
Non-hedged losses on receivables		-861	-861	-10	
Net changes in provisions <sup>(2)</sup>	993		993	-2,089	-1,317
<b>Finance lease transactions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Securities portfolio transactions</b>	<b>1,561,214</b>	<b>-2,038,994</b>	<b>-477,780</b>	<b>-607,978</b>	<b>-656,383</b>
Interest on investment securities	108,487		108,487	70,301	111,959
Spreading of discounts/premiums on investment securities					-437
Interest on held-to-maturity securities	381,251		381,251	376,410	351,554
Amortisation of discounts/premiums on held-to-maturity securities	-36,493		-36,493	-13,275	-3,317
Interest on medium-term notes (BMTN) issued		-1 560	-1 560	-2,003	-3,545
Interest on certificates of deposits issued					
Interest on mortgage notes issued					
Interest and expenses on bond issuances		-2,037,434	-2,037,434	-2,360,207	-2,608,904
Interest on doubtful securities					
Hedging transactions ( <i>netting</i> ) <sup>(1)</sup>	1,107,969		1,107,969	1,312,639	1,496,754
Losses on non-recoverable receivables				-2,951	
Net changes of provisions <sup>(1)</sup>				11,108	-448

(in thousands of euros)	12/31/2016			12/31/2015	12/31/2014
	Income	Expenses	Net	Net	Net
<b>Subordinated debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-30,910</b>	<b>-50,453</b>
Payables on subordinated term securities				-30,910	-50,453
Payables on subordinated debt – credit institutions					
Payables on subordinated debt – customers					
<b>Other interest and similar income and expenses</b>	<b>36,971</b>	<b>-290,961</b>	<b>-253,990</b>	<b>-358,397</b>	<b>-348,446</b>
Income on debt securities	36,971		36,971	42,317	27,376
Fees on credit derivatives					
Commitments received/given on securities		-8,416	-8,416	-3,688	-5,984
Other interest income and expenses					365
Macro-hedging transactions ( <i>netting</i> )		-281,486	-281,486	-397,025	-370,203
Net changes of provisions		-1,058	-1,058		
<b>TOTAL INTEREST AND SIMILAR INCOME AND EXPENSES</b>	<b>2,850,600</b>	<b>-2,571,615</b>	<b>278,984</b>	<b>255,891</b>	<b>327,313</b>

(1) On 2015, the netting of hedging transactions includes a terminated swap amortisation expense of €10.7m in respect of the HETA securities sold. This expense is covered by the reversal of a provision of the same amount booked at December 31, 2014.

(2) Net impact on customers interests listed on net interest margin.

## NOTE 18. NET FEES AND COMMISSIONS

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>Commissions on interbank and cash transactions (net)</b>	<b>- 8</b>	<b>-10</b>	<b>-12</b>
Income			
Expenses	- 8	-10	-12
<b>Commissions on transactions with customers (net)*</b>	<b>82,969</b>	<b>109,659</b>	<b>45,449</b>
Income	82,969	109,659	45,449
Expenses			
<b>Commissions on securities transactions (net)</b>	<b>-1,441</b>	<b>-1,550</b>	<b>-1,904</b>
Income			
Expenses	-1,441	-1,550	-1,904
<b>Other commissions (net)</b>	<b>- 594</b>	<b>-584</b>	<b>-2,203</b>
Income	3	52	106
Expenses	- 598	-636	-2,309
<b>Total income</b>	<b>82,972</b>	<b>109,711</b>	<b>45,555</b>
<b>Total expenses</b>	<b>- 2,047</b>	<b>-2,195</b>	<b>-4,225</b>
<b>TOTAL NET COMMISSIONS</b>	<b>80,926</b>	<b>107,515</b>	<b>41,330</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.

## NOTE 19. NET GAINS/LOSSES ON TRADING PORTFOLIO TRANSACTIONS

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
Gains on currency and arbitrage transactions	-456	213	319
Losses on other financial instruments			
Gains on other financial instruments			
Charge to provisions for risks on Financial forward instruments*			-10,660
Reversals from provisions for risks on Financial forward instruments			
<b>TOTAL NET GAINS/LOSSES ON TRADING BOOK TRANSACTIONS</b>	<b>-456</b>	<b>213</b>	<b>-10,341</b>

\* Impact of the reclassification of HETA's securities on the associated hedging swaps in 2014.

## NOTE 20. OTHER BANKING INCOME AND EXPENSES

(in thousands of euros)	12/31/2016			12/31/2015	12/31/2014
	Income	Expenses	Net	Net	Net
<b>Transfers of expenses and income, reallocated expenses</b>					-1
Transfers of expenses					
• Transfers of expenses					
• Other rebilled expenses or retrocessions					
Transfers of income					-1
Reallocated expenses					
<b>Total other banking income and expenses</b>	<b>7</b>	<b>-4</b>	<b>2</b>	<b>25</b>	<b>1,251</b>
Other operating income and expenses*	7	-4	2	25	48
Additions to and reservals from provisions for other operating income and expenses*					1,203
<b>TOTAL</b>	<b>7</b>	<b>-4</b>	<b>2</b>	<b>25</b>	<b>1,250</b>

## \* Details

<b>Other operating income and expenses</b>	<b>7</b>	<b>-4</b>	<b>2</b>	<b>25</b>	<b>48</b>
• Transfers to exceptional gains			2		
• Other operating income	7		7	77	104
• Losses on deferred interests and variable rate loans		-4	-4	-10	-23
• Transfers to exceptional losses					
• Other operating expenses				-41	-34

## NOTE 21. GENERAL OPERATING EXPENSES

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>TOTAL PAYROLL COSTS</b>	<b>- 60</b>	<b>-217</b>	<b>-233</b>
Wages and salaries	- 54	-167	-169
Costs of defined-contribution plans	- 2	-9	-10
Other social security costs and payroll-based taxes	- 5	-41	-55
Charges/reversals of provisions for litigation			
<b>TOTAL OTHER ADMINISTRATIVE EXPENSES</b>	<b>-127,629</b>	<b>-122,938</b>	<b>-105,132</b>
<b>Taxes other than on income</b>	<b>- 23,033</b>	<b>-19,194</b>	<b>-15,080</b>
CET (local business tax) and CVAE (tax on company value added)	- 3,650	-1,935	-4,281
Social solidarity contribution	- 4,617	-5,185	-5,222
Contribution to the supervision expenses of the French Prudential Supervision and Resolution Authority (ACPR)	- 835	-791	-596
Systemic banking risk tax	- 3,481	-3,942	-4,865
Contributions to Single Resolution Fund	- 8,411	-5,739	
Management fees to ECB	- 1,018	-818	
Taxes other than on income	- 1,020	-784	-117
Charges/reversals of provisions for tax disputes			
<b>EXTERNAL SERVICES</b>	<b>-104,596</b>	<b>-103,744</b>	<b>-90,052</b>
Leasing			
External services provided by the Group	-100,802	-100,203	-86,383
Fees, subcontracting and services	- 3,467	-3,211	-3,048
Advertising	- 200	-234	-243
Remuneration of intermediaries			
Transport and travel			-3
Maintenance and repairs		-4	-4
Insurance premiums			
Other external services	- 128	-92	-371
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>-127,689</b>	<b>-123,155</b>	<b>-105,366</b>

Note : the total amount of remuneration received by governing bodies as of December 31, 2016 amounted to €15k. Following the decision of the Board of Directors of Compagnie de Financement Foncier taken on February 9, 2016, no remuneration will be paid to the executive bodies since February 1, 2016.

## NOTE 22. COST OF RISK

(in thousands of euros)	12/31/2016			12/31/2015	12/31/2014
	Expenses	Income	Net	Net <sup>(2)</sup>	Net <sup>(2)</sup>
<b>Net additions/reversals on held-to-maturity securities</b>				<b>104,000</b>	<b>-104,000</b>
Net additions/reversals on securities transactions <sup>(1)</sup>				104,000	-104,000
<b>Net additions/reversals on customer transactions</b>	<b>-45,720</b>	<b>1,564</b>	<b>-44,156</b>	<b>-42,221</b>	<b>-22,708</b>
Impairment of customer transactions	-42,436	1,528	-40,908	-41,767	-21,158
Provisions for counterparty risks on performing loans	-3,284	36	-3,248	-455	-1,549
Sectoral provisions					
<b>Losses/recoveries on customer transactions</b>	<b>-9,485</b>	<b>26,563</b>	<b>17,079</b>	<b>15,267</b>	<b>-1,108</b>
Losses on irrecoverable loans and receivables covered by provisions	-2,744	22,535	19,791	12,797	
Losses on irrecoverable loans and receivables not covered by provisions	-6,741		-6,741	-8,176	-5,986
Recoveries of bad debts written off		4,029	4,029	10,647	4,878
<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>-55,205</b>	<b>28,128</b>	<b>-27,078</b>	<b>-14,753</b>	<b>-127,816</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.

(2) Cost of risk neutralising an impact from HETA securities

## NOTE 23. GAINS/LOSSES ON LONG-TERM INVESTMENTS

(in thousands of euros)	12/31/2016	12/31/2015	12/31/2014
Capital gains or losses on disposals of held-to-maturity securities	-48	-4,032	1,362
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>-48</b>	<b>-4,032</b>	<b>1,362</b>



## NOTE 24. INCOME TAX

<i>(in thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>TAX EXPENSE COMPONENTS</b>			
Current tax expenses (income) *	-16,862	48,551	8,921
Deferred tax liabilities (income) */**	-94,104	-137,771	-52,324
Provisions for deferred taxes			
Provisions for risks or for tax litigations			
<b>TOTAL</b>	<b>-110,965</b>	<b>-89,220</b>	<b>-43,403</b>
<b>BREAKDOWN OF DEFERRED TAXES FOR THE PERIOD</b>			
Termination swap balance	-111,212	-117,722	-93,103
Client provisions including credit risk provisions	-231	3,272	2,953
Other temporary differences	17,339	-23,321	37,826
<b>TOTAL</b>	<b>-94,104</b>	<b>-137,771</b>	<b>-52,324</b>

\* Pursuant to the tax consolidation agreement signed by Compagnie de Financement Foncier, BPCE and Cr dit 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 Cr dit 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 Cr dit Foncier.

\*\* Including  34,5bn recorded on the liability method.

NOTE 25. TRANSACTIONS WITH RELATED CREDIT INSTITUTIONS <sup>(1)</sup>

	12/31/2016	12/31/2015	12/31/2014	12/31/2016 Valuation of assets received as collateral <sup>(2)</sup>
<i>(in thousands of euros)</i>				
<b>BALANCE SHEET</b>				
<b>Assets items</b>				
<b>Receivables due from credit institutions</b>				
Demand	243,976	460,025	342,918	
Term			460	
Term deposits guaranteed by repo securities	19,439,806	19,445,786	19,231,553	19,551,503
• <i>Loans guaranteed by French local authority loans (FLA) under L. 211-38</i>	12,826,941	12,831,385	12,610,340	12,985,140
• <i>to Crédit Foncier</i>	10,303,000	10,290,500	10,052,840	10,392,786
• <i>to BPCE</i>	2,320,000	2,320,000	2,320,000	2,388,740
• <i>to other Group entities</i>	203,941	220,885	237,500	203,614
• <i>Loans registered as replacement values under L. 211-38</i>	6,600,000	6,600,000	6,600,000	6,566,363
• <i>to BPCE</i>	6,600,000	6,600,000	6,600,000	6,566,363
• <i>Related receivables</i>	12,865	14,401	21,213	
<b>Customer transactions</b>				
Receivables				
<b>Securities transactions</b>				
Bonds and other fixed income securities	7,389,310	5,831,170	7,395,550	7,684,688
• <i>Mortgage notes</i>	7,321,281	5,749,962	7,317,500	7,684,688
• <i>to Crédit Foncier</i>	7,321,281	5,749,962	7,317,500	7,684,688
• <i>Other fixed income securities</i>	61,497	72,457	68,813	
• <i>Related receivables</i>	6,532	8,750	9,237	
<b>Other assets <sup>(2)</sup></b>				
Other debtors		55,131	90,572	
<b>TOTAL ASSETS</b>	<b>27,073,092</b>	<b>25,792,112</b>	<b>27,061,053</b>	<b>27,236,191</b>
<b>Liabilities items</b>	<b>12/31/16</b>	<b>12/31/15</b>	<b>12/31/14</b>	
<b>Amounts due to credit institutions</b>				
Demand		59		
Term	5,151,053	6,521,208	3,031,509	
Securities sold under repurchase agreements	3,629,830	3,318,110	1,992,159	
<b>Customer transactions</b>				
Demand				
<b>Securities transactions</b>				
Debt securities				
Subordinated debts			3,450,258	
<b>Other liabilities</b>				
Other creditors	50,967	16,615	16,231	
<b>TOTAL LIABILITIES</b>	<b>8,831,850</b>	<b>9,855,992</b>	<b>8,490,157</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 26. STATEMENT OF FOREIGN EXCHANGE POSITIONS

## ■ At 12/31/2016

Heading (in thousands of euros)	Australian \$	Canadian \$	US \$	Sterling £	Swiss Franc	Yen	Hungarian Forint	New Zealand \$	Norwegian Krone	Danish Krone	Total
<b>BALANCE SHEET</b>											
Financial assets	4,542	2,857	2,540,306	128,942	1,387,582	1,961,954	11	39	7,481	7	6,033,721
Financial liabilities	175,880	355,133	1,051,307	670,473	2,839,972	186,613			463,977		5,743,355
<b>Balance sheet differential (I)</b>	<b>-171,338</b>	<b>-352,276</b>	<b>1,488,999</b>	<b>-541,531</b>	<b>-1,452,390</b>	<b>1,775,341</b>	<b>11</b>	<b>39</b>	<b>-456,496</b>	<b>7</b>	<b>290,366</b>
<b>OFF-BALANCE SHEET</b>											
Commitments received	171,373	352,286	1,256,071	642,223	2,783,975	169,848			456,496		5,832,272
Commitments given			2,745,072	100,654	1,329,787	1,945,154					6,120,667
<b>Off-balance sheet differential (II)</b>	<b>171,373</b>	<b>352,286</b>	<b>-1,489,001</b>	<b>541,569</b>	<b>1,454,188</b>	<b>-1,775,306</b>	<b>0</b>	<b>0</b>	<b>456,496</b>	<b>0</b>	<b>-288,395</b>
<b>TOTAL DIFFERENTIAL (I) + (II)</b>	<b>35</b>	<b>10</b>	<b>-2</b>	<b>38</b>	<b>1,798</b>	<b>35</b>	<b>11</b>	<b>39</b>	<b>0</b>	<b>7</b>	<b>1,971</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 27. STATEMENT OF LIQUIDITY POSITION

## ■ At 12/31/2016

Heading (in thousands of euros)	Remaining maturity					Total <sup>(2)</sup>
	< 3 months	3M <T <6M	6M <T <1Y	1Y < T< 5Y	> 5 years	
BALANCE SHEET						
Financial assets <sup>(1)</sup>	7,740,463	998,403	2,707,498	18,694,813	47,030,097	77,171,2740
Receivables from credit institutions	6,756,998	200,061	954,646	5,939,110	6,697,928	20,548,743
Receivables from customers	790,336	602,306	1,282,966	9,465,378	28,415,705	40,556,691
Bonds and other fixed-income securities	193,129	196,036	469,886	3,290,325	11,916,464	16,065,840
Subordinated term loans						
Financial liabilities	7,716,798	3,849,377	6,081,429	25,794,690	31,921,526	75,363,820
Due to credit institutions	4,500,264	2,634,486	712,252	395,753	533,823	8,776,578
Due to customers						
Debt securities:	3,216,534	1,214,891	5,369,177	25,398,937	31,387,703	66,587,242
• Retails certificates of deposit						
• Interbank market securities						
• Negotiable debt securities				150,000		150,000
• Bonds	3,216,534	1,214,891	5,369,177	25,248,937	31,387,703	66,437,242
• Other debt securities						
Subordinated term debt						
Balance sheet differential (I)	23,665	-2,850,974	-3,373,931	-7,099,877	15,108,571	1,807,454
OFF-BALANCE SHEET						
Commitments given			789,502			789,502
Commitments received	53,292		3,400,000			3,453,292
Off-balance sheet differential (II)	53,292		2,610,498			2,663,790
TOTAL DIFFERENTIAL (I) + (II)	76,957	-2,850,974	-763,433	-7,099,877	15,108,571	4,471,244
Conditional positions	1,524	0	0	28,672	1,851,048	1,881,244

(1) The financial assets of Compagnie de Financement Foncier include €4.7bn 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 28. FINANCIAL RESULTS OF THE COMPANY OVER THE LAST FIVE YEARS

Description (in euros)	2012	2013	2014	2015	2016
<b>I) FINANCIAL SITUATION AT THE END OF THE FINANCIAL YEAR</b>					
a) Share Capital	1,187,459,936	1,187,459,936	1,187,459,936	2,537,459,936	2,537,459,936
b) Number of shares in issue	74,216,246	74,216,246	74,216,246	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	5,223,327,050	3,951,959,039	3,483,192,834	3,238,589,705	2,933,578,888
b) Profit for the financial year before tax, employee profit sharing and net increase/reversal in amortisation and provisions	462,156,111	522,287,700	211,614,676	136,262,954	232,455,527
c) Income taxes <sup>(1)</sup>	340,513,414	476,207,470	-8,920,504	-48,551,006	16,483,217
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	132,581,093	32,593,283	84,328,007	132,485,939	93,676,428
f) Amount of profits distributed	125,425,456	30,428,661	74,216,246	126,872,997	93,568,835
<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	1.64	0.62	0.19	0.48	0.77
b) Profit for the financial year after tax and employee profit sharing and net increase/reversal in amortisation and provisions	1.79	0.44	0.07	1.34	0.59
c) Dividend paid per share	1.69	0.41	1.00	0.80	0.59
<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 29. 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 (BFRF).

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 thousands of euros)</i>	12/31/2016	12/31/2015	12/31/2014
<b>OPERATING ACTIVITIES</b>			
Net income for the year	93,676	132,486	84,328
Restatement of earnings related to operating activities			
Tangible and intangible fixed assets, excluding goodwill			
Net provisions/customers and credit institutions	17,380	29,211	20,753
Net provisions/available-for-sale securities			
Net provisions/held-to-maturity securities		-115,108	104,448
Net provisions for risks/loans	4,306	455	12,209
Net gain on sale of fixed assets			
Other transactions without cash payments	957,331	-606,237	-1,084,999
Cash flows on loans to credit institutions and customers	945,978	1,439,818	-6,173,992
Cash flows on short-term investment securities	-1,571,315	1,567,579	899,710
Cash flows on long-term investment securities	-384,249	628,600	1,308,662
Cash flows on other assets	258,864	544,053	-22,109
Cash flows on debts/credit institutions and customers	-1,062,401	4,798,405	1,904,042
Net borrowing	-1,423,161	-1,567,500	-3,810,511
Cash flows on other liabilities	-747,505	-651,939	589,402
<b>Net cash flows used for operating activities</b>	<b>-2,911,096</b>	<b>6,199,823</b>	<b>-6,168,057</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	-126,873	-74,216	-30,429
Net issuances of subordinated debt			
Other			
Net cash flows from financing activities	-126,873	-74,216	-30,429
<b>NET CHANGE IN CASH POSITION</b>	<b>-3,037,969</b>	<b>6,125,607</b>	<b>-6,198,486</b>
Opening cash position	5,466,367	1,440,760	7,639,246
Closing cash position	2,428,398	5,466,367	1,440,760
<b>Net</b>	<b>-3,037,969</b>	<b>4,025,607</b>	<b>-6,198,486</b>
Cash: deposits at Banque de France	2,400,000	5,360,083	1,200,069
Due to credit institutions on demand *	28,398	106,284	240,691
<b>TOTAL</b>	<b>2,428,398</b>	<b>5,466,367</b>	<b>1,440,760</b>
* Of which:			
BPCE	27,744	90,442	234,930

## NOTE 30. FEES OF STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS

	KPMG				PricewaterhouseCoopers			
	Amount (incl. tax)		%		Amount (incl. tax)		%	
(in thousands of euros)	2016	2015	2016	2015	2016	2015	2016	2015
<b>Audit</b>	<b>303</b>	<b>313</b>	<b>100%</b>	<b>100%</b>	<b>321</b>	<b>313</b>	<b>100%</b>	<b>100%</b>
Statutory Auditors, certification, review of individual and consolidated financial statements	192	204	63%	65%	214	204	67%	65%
Other non-certification services	111	109	37%	35%	107	109	33%	35%

These amounts are included in the income statement.



## Statutory Auditor's report on the financial statements

*This is a free translation into English of the statutory auditor's report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditor's report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditor's assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.*

*This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.*

*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

Year ended 31 December 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2016, on:

- the audit of the accompanying financial statements of Compagnie de Financement Foncier S.A. ;
- the justification of our assessments ;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

### **1. OPINION ON THE FINANCIAL STATEMENTS**

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

### **2. JUSTIFICATION OF OUR ASSESSMENTS**

In accordance with the requirements of article L. 823-9 of the French Commercial Code (Code de commerce), we bring to your attention the following matters:

#### **Provisions for credit risks and for securities risks**

As indicated in Notes 4.3.2 and 4.3.3 to the financial statements, your Company records impairments and provisions to cover the credit risks inherent in its business.

We examined the control procedures put in place by management in relation to the monitoring of credit and counterparty risks, the assessment of the risks of non-recovery as well as the coverage of these risks through impairments and provisions on an individual and collective basis.

#### **Valuation of securities and financial instruments**

Your Company holds positions on securities and financial instruments. Notes 4.3.3 and 4.3.7 to the financial statements describe the accounting rules and principles applicable to securities and financial instruments. We examined the control procedures applicable to the related accounting classification and the determination of the criteria used for valuing these positions. As part of our assessment of the accounting rules and principles applied by your Company, we verified that the above-mentioned accounting methods and the related information provided in the notes to the financial statements were appropriate, and ensured that these methods were properly applied.

**Deferred tax assets**

Your Company recognized deferred tax assets, particularly in respect of tax loss carry-forwards (Notes 2.6 and 4.3.9 to the financial statements). We reviewed the main estimates and assumptions that led to the recognition of these deferred tax assets. These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

**3. SPECIFIC VERIFICATIONS AND INFORMATION**

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 documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code (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 companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Paris, La Défense, on the 22 March 2017

Neuilly-Sur-Seine, on the 22 March 2017

The Statutory Auditors

French original signed by

**KPMG Audit**

*Département de KPMG S.A.*

Xavier de Coninck  
*Partner*

**PricewaterhouseCoopers Audit**

Anik Chaumartin  
*Partner*

## 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)
		1	2	3
<b>Assets used to cover privileged resources</b>				
<b>1.</b>	<b>Montage-backend loans - prime mortgages or equivalent collateral</b>	<b>28,836,360</b>	<b>100%</b>	<b>28,836,360</b>
<b>2.</b>	<b>Promissory notes (Articles L. 313-42 To L. 313-49 of the French Monetary and Financial Code)</b>	<b>7,607,028</b>		<b>7,607,028</b>
2.1.	Of which: Mortgage-backed loans – prime mortgages or equivalent collateral	6,615,619	100%	6,615,619
2.2.	Guaranteed loans	991,409	100%	991,409
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.	991,409	100%	991,409
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.		80%	
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.		60%	
<b>3.</b>	<b>Exposures on public entities</b>	<b>32,340,155</b>	<b>100%</b>	<b>32,340,155</b>
3.1.	Of which: • Exposures set out in paragraph 5 of Article L. 513-4 I of the French Monetary & Financial Code			
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.</b>	<b>Fixed assets resulting from the acquisition of property under the application of a guarantee</b>		<b>50%</b>	
<b>5.</b>	<b>Safe securities and deposits, and liquidities coming under Article R. 513-6</b>	<b>6,844,151</b>	<b>100%</b>	<b>6,844,151</b>
5.1.	Receivables and securities from credit institutions and investment firms corresponding to subparagraph 1 of Article R. 513-6	4,823,421	100%	4,823,421
5.2.	Receivables and securities from the management of forward financial instruments corresponding to subparagraph 2 of Article R. 513-6	2,020,730	100%	2,020,730
5.3.	Receivables and securities from credit institutions and investment firms corresponding to subparagraph 3 of Article R. 513-6		100%	
<b>6.</b>	<b>Guaranteed loans</b>	<b>2,705,954</b>		<b>2,705,954</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.	2,705,954	100%	2,705,954
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%	
<b>7.</b>	<b>Shares, equities and debt securities issued by a securitisation entity</b>			

	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>			
7.1.	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%	
7.1.1.	Of which:		
	• 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%	
7.2.1.	Of which:		
	• 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%	
7.3.1.	Of which:		
	• 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%	
7.4.1.	Of which:		
	• 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		

	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%	
Of which:			
7.5.1. • Assets composed of 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%	
Of which:			
7.6.1. • Assets composed of 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%	
Of which:			
7.7.1. • Assets composed of 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. Other assets</b>	<b>4,392,616</b>	<b>100%</b>	<b>4,392,616</b>
8.1. Other class 1 items	2,400,000	100%	2,400,000
8.2. Other class 2 items	872,471	100%	872,471
8.3. Other class 3 items	1,120,146	100%	1,120,146
8.4. Other class 4 items	0	100%	0
<b>9. Transactions deducted from assets</b>	<b>4,173,914</b>	<b>100%</b>	<b>4,173,914</b>
9.1. Funds received from clients awaiting charging, recorded under liabilities on the balance sheet	0	100%	0
9.2. Security repurchase agreements: securities sold	3,141,757	100%	3,141,757
9.3. Receivables funded in the conditions set by Articles L. 313-23 to L. 313-34 of the French Monetary & Financial Code		100%	0
9.4. Assets deducted following the implementation of Article 9 of regulation 99-10	1,032,156		1,032,156
<b>10. TOTAL WEIGHTED AMOUNTS OF ASSETS (1+2+3+4+5+6+7+8+9)</b>	<b>A</b>		<b>78,552,350</b>
<b>Coverage ratio</b> (with 2 decimals) (a/l x 100)			117.59%

Resources having the privilege defined in Article L. 513-11 of the French Monetary & Financial Code: liabilities		Amounts (in €k)
<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>67,573,795</b>
3.1.	<i>Obligations foncières</i> or housing finance bonds	66,437,242
3.2.	Negotiable debt securities	150,000
3.3.	Other securities with privilege	
3.4.	Debts related to these securities	986,553
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	67,573,795
3.7.	of which nominal amount	66,587,242
<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>2,208</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>- 773,202</b>
5.1.	of which impact of variations in exchange rate on the nominal amount of privileged resources	- 827,488
<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>384</b>
<b>7.</b>	<b>Privileged resources (1+2+3+4+5+6)</b>	<b>P 66,803,185</b>
<b>8.</b>	<b>NOMINAL AMOUNT OF PRIVILEGED RESOURCES (1.1+2.3+3.7+5.1)</b>	<b>65,759,755</b>

Audit of the limits applicable to asset classes (ratio with 2 decimals)		Ratios/Amounts (in % / €k)
<b>1.</b>	<b>Total assets</b>	<b>84,348,650</b>
2.1.	Loans guaranteed held directly	2,729,281
2.2.	Guaranteed loans included as assets of securitisation or similar entities, or assigned by promissory notes	1,003,949
2.3.	Total guaranteed loans (2.1 + 2.2)/asset ( $\leq 35\%$ except for housing finance companies)	4.43%
3.1.	Promissory notes held directly	7,324,818
3.2.	Promissory notes included as assets of securitisation or similar entities	
3.3.	Total promissory notes (3.1 + 3.2)/asset ( $\leq 10\%$ )	8.68%
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 ( $\leq 20\%$ )	
<b>7.</b>	<b>Safe and liquid assets/nominal amount of privileged resources (<math>\leq 15\%</math>)</b>	<b>7.33%</b>

## 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 (in €k)	Weighting (in %)	Weighted amounts (in €k)
		1	2	3
<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>7,083,594</b>	<b>100%</b>	<b>7,083,594</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	6,905,473	100%	6,905,473
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)	0	100%	0
1.3	Other assets	178,121	100%	178,121
1.3.1	Interest accrued on swaps	158,724	100%	158,724
1.3.2	Accrued income	0	100%	0
1.3.3	Other	19,397	100%	19,397
<b>2</b>	<b>Non-privileged resources</b>	<b>15,958,901</b>	<b>100%</b>	<b>15,958,901</b>
2.1	Amount of the 25% limit of non-privileged resources provided for in Article 9 of CRBF Regulation No. 99-10	3,989,725		
<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>2,061,712</b>		<b>2,061,712</b>
3.1	Assets weighted at 100%	2,061,712	100%	2,061,712
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>1,032,156</b>		





# 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. Main risks of Compagnie de Financement Foncier

Compagnie de Financement Foncier's business model is, by its very nature, highly secure. 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 three 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.

### 1.1. Risks relating to macro-economic conditions and to strengthened regulatory requirements

#### 1.1.1. POTENTIAL IMPACT ARISING FROM THE PERSISTENCE OF A DIFFICULT ECONOMIC AND FINANCIAL ENVIRONMENT, PARTICULARLY IN EUROPE

European markets have recently experienced major disruptions that have affected economic growth. Arising initially from fears about the ability of many countries in the eurozone to refinance their debt, these disruptions have created uncertainty regarding short-term economic prospects of the members of the European Union on one

hand, and the quality of the debt of some sovereign issuers in the eurozone on the other. These factors have also had an indirect impact on the financial markets, both in Europe and elsewhere in the world. Although the sovereign bonds held by Compagnie de Financement Foncier have not suffered much, the Company has been indirectly affected by the consequences of the spread of the eurozone crisis, which has touched most countries in the region, including the domestic French market. More recently, anti-austerity sentiment has created political uncertainty in some European countries.

If economic or market conditions in France or elsewhere in Europe were to deteriorate further, 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, the associated hedge must also be canceled. In this case, an early repayment fee, intended to compensate for losses from unrealized future interest, is foreseen. This fee must 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 fees for real estate loans, 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 IMPACTS OF LEGISLATION AND REGULATORY MEASURES PROPOSED IN RESPONSE TO THE GLOBAL FINANCIAL CRISIS WHICH MAY AFFECT COMPAGNIE DE FINANCEMENT FONCIER**

Laws and regulations have been enacted or proposed recently to introduce several changes, most of them permanent, into the global financial framework. Even if the new measures are intended to prevent another global financial crisis, they are likely to radically alter 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 secured 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.

Finally, it should be noted that systemic groups are targeted not only by these measures, but also by complementary measures whose impact could be spread across the various entities consolidated within the group. As an institution affiliated with the Groupe BPCE and recognized as having systemic importance, Compagnie de Financement Foncier may be subject to additional constraints.

### **1.1.4. POTENTIAL IMPACT RELATED TO THE POSSIBLE EXIT OF BRITAIN FROM THE EUROPEAN UNION**

In the referendum held in Great Britain on June 23, 2016, the majority of voters voted in favor of leaving the European Union (Brexit). However, the outcome of the vote does not formally oblige Great Britain to leave the European Union. At the time of writing, Britain has not officially announced its decision to leave the European Union.

Given that this procedure has no precedent in the history of the European Union, it is impossible to predict the duration of the negotiations on the exit and withdrawal of approval under Article 50 of the Treaty of the European Union. The potential impact of Great Britain's exit from the European Union 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. The Brexit could adversely affect the European and world economic environment and/or market conditions, and could also lead to increased market volatility, in particular in exchange rates.

However, the direct impact on Compagnie de Financement Foncier will be very small, given that its exposures in Britain are extremely limited and its exposures in pounds are hedged against foreign exchange risk.

### 1.1.5. IMPACT OF POTENTIAL FUTURE EVENTS THAT DIFFER FROM THE ASSUMPTIONS MADE IN COMPAGNIE DE FINANCEMENT FONCIER'S FINANCIAL STATEMENTS

According to current accounting standards and interpretations, Compagnie de Financement Foncier must base its financial statements on certain estimates supported by assumptions, in

particular 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 sales or purchases of derivatives).

As a *société de crédit foncier*, Compagnie de Financement Foncier must respect strict rules regarding the choice of the assets it acquires, by verifying in particular the credit quality of its counterparties and ensuring that guarantees are in place.

Despite these risk management procedures, however, Compagnie de Financement Foncier could be forced, under certain extreme circumstances, to recognize significant 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, including Italy, the United States, Switzerland, Poland and some Canadian and Japanese public bodies.

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. For further details, please refer to section 7 of this report.

- **Interest rate risk** is the risk incurred on the net interests margin in the event of interest rate fluctuations stemming from all balance sheet and off-balance sheet transactions. Compagnie de Financement Foncier covers 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.
- For further details, please refer to section 7.3 of this report.
- **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.

For further details, please refer to section 7.2 of this report.

- **Foreign exchange risk** is the risk incurred in the event of exchange rate fluctuations (against Euro) stemming from all balance sheet and off-balance sheet transactions. Compagnie de Financement Foncier can carry out some of its market financing activities in currencies other than Euro, and changes in exchange rates may affect its net banking income and 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.

For further details, refer to section 7.4 of this report.

- **The operational risk** is borne primarily by Crédit Foncier, which provides, as part of a regulated agreement, 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.

For further details, refer to section 8 of this report.

### **1.2.2. POTENTIAL IMPACT OF THE LOWERING OF COMPAGNIE DE FINANCEMENT FONCIER'S CREDIT RATINGS**

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 change continuously and sometimes suffer unpredictable and highly volatile developments. 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 IMPAIRMENTS OF NEW ASSETS OR AN INSUFFICIENT LEVEL OF ASSET IMPAIRMENTS 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 impairments 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 and bankruptcies. Any substantial increase in provisions for loan losses, or significant change in Compagnie de Financement Foncier's risk of loss estimates for its loan portfolio, or any losses in excess of provisions recorded for the loans in question, may have an unfavorable impact on the Company's results and financial position.

### **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. However, in the event of a default by one of these counterparties, these margin calls would no longer be made, the corresponding swaps would be terminated and part of Compagnie de Financement Foncier exposures would be temporarily no covered. The implementation of a new coverage could result in significant additional costs in the event of adverse market conditions.

### **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 its communication and information systems, as a large number of increasingly complex transactions are processed in the course of its activities. Any failure, interruption or malfunction in these systems may cause errors or interruptions in the systems used to manage accounting, transactions and/or to process loans. Compagnie de Financement Foncier is exposed to the risk of the operational malfunction of the information systems of Crédit Foncier's and Groupe BPCE's service providers.

For further details, refer to section 8 of this report.



## 1.3. Risks specific to Compagnie de Financement Foncier's activities

### 1.3.1. POTENTIAL IMPACT OF A SUDDEN AND SIGNIFICANT DECLINE IN THE REAL ESTATE MARKET ON COMPAGNIE DE FINANCEMENT FONCIER'S ACTIVITIES AND FINANCIAL RESULTS

As a *société de crédit foncier*, Compagnie de Financement Foncier carries on its balance sheet a significant number of home loans.

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, now deemed doubtful. A sharp decline in the real estate market coupled with a sharp rise in defaults could therefore lead to a drop in the value of the guarantees and an increase in Compagnie de Financement Foncier's final losses on the impaired loans it holds.

However, the receivables payable to Compagnie de Financement Foncier, per regulation, should enjoy a ratio (amount of loan/amount of guarantee) that partially protects it against risks. A significant share of the individual real estate loans are also guaranteed by the French State via FGAS as a complement to the mortgage guarantee.

For further details, refer to section 2 of this Registration document.

### 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). Despite the significant reduction in international exposures, these assets are still predominantly and increasingly 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 experiencing significant individual concentrations, in particular in the Republic of Italy for sovereigns and the Jehdra agency in Japan.

### 1.3.3. POTENTIAL IMPACT LINKED 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 appearing 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 REGARDING CREDIT INSTITUTIONS

On May 6, 2014, 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 objective of the BRRD and associated MRU resolution is to provide resolution authorities common tools and powers that allow them to intervene sufficiently early and rapidly in the event that an establishment appears unstable or failing: this is to ensure the continuity of critical financial and economic functions of the latter, while minimizing the overall impact of a possible failure on the financial system, and the Member State on which the institution depends making much less likely the need for recourse to a public bailout. 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) certain 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 necessary for the fraction of the issuer's *obligations foncières* outstanding, which 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 a 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 continue to protect the latter.

The powers defined by the BRRD and its transposition into French law may well have an impact on the way credit institutions, including Compagnie de Financement Foncier, are managed in case of financial difficulties and, in certain circumstances which remain exceptional in the case of *obligations foncières*, on creditors' rights.

### 1.3.5. POTENTIAL IMPACT ASSOCIATED WITH GROUPE 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.

## 2. Governance and risk management system

### 2.1. 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 is comprised of the Risk department, the Compliance and Permanent Control Coordination Division, Information Systems Security Division and the Contingency and Business Continuity Plan (CBCP) Division. This division reports to the single 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.

#### 2.1.1. ORGANIZATION OF GROUPE CRÉDIT FONCIER'S RISK DEPARTMENT

Crédit Foncier Risk department, reporting functionally to 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 groupe 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 groupe Crédit Foncier's Internal Control arrangement.

### 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:

- general risk policy;
- analyzing and monitoring the institution's overall risk profile based on the results of the scoring systems, measurement and assessment systems (stress scenarios, etc.) and its largest 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**, presided by the Chief Executive Officer, monthly gathers representatives of control functions. The conclusions on its works are shared periodically with the Risk Executive Committee, whose main tasks are :

- 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 risks control, conformity of operations and internal procedures, quality, availability of information processed by the Information System (IS) and the security of the latter;
- 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 for the ALM function. It is responsible for financial risk management in line with the risk policy and limits established by the Risk Executive Committee in accordance with groupe BPCE rules.

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

### 2.1.2. ORGANIZATION OF GROUPE CRÉDIT FONCIER'S COMPLIANCE DEPARTMENT

Crédit Foncier's Compliance Division runs the compliance function of the eponymous Group under the provisions of Crédit Foncier's compliance charter, last updated in May 2016. 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. In the framework of the Compliance Charter and the area coordinated by the DRCCP, the department is responsible for the implementation of procedures and permanent controls relating to compliance and to banking and finance ethics as well as the prevention of money laundering and the financing of terrorism. It also ensures fraud prevention and fraud processing.

It is based on the permanent control process managed by the Permanent Controls Coordination Division and reports on its activities and the controls undertaken through quarterly reports presented at Compagnie de Financement Foncier's ALM Committee.

### 2.1.3. ORGANIZATION OF GROUPE CRÉDIT FONCIER'S PERMANENT CONTROL COORDINATION DEPARTMENT

The Permanent Control Coordination Division, which ensures the existence and effectiveness of first and second level permanent control mechanism, works in close cooperation with first level internal auditors that report hierarchically to the Deputy Chief Executive Officers and with the General Secretariat of Compagnie de Financement Foncier.

### 2.1.4. 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 groupe Crédit Foncier plan.

### 2.1.5. ORGANIZATION OF THE INFORMATION SYSTEMS SECURITY DEPARTMENT

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

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

- Information Systems Security Policy (ISSP) specific to Crédit Foncier, coordinated with the Information Systems Security Policy and the rules of Groupe BPCE;



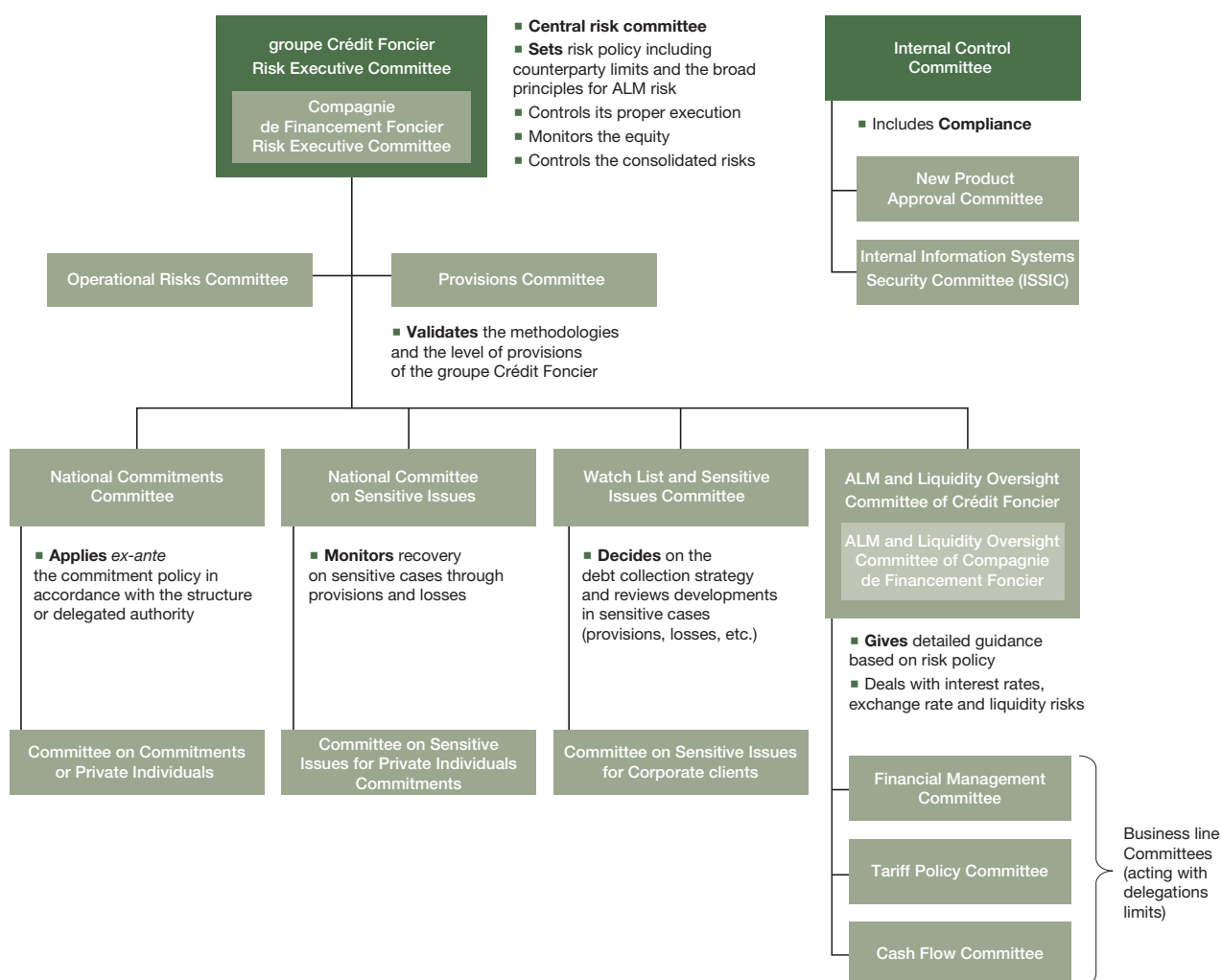
- bodies such as the Internal Information Systems Security Committee (ISSIC) chaired by a member of Executive Management;
- an outreach plan to raise awareness about cyber attacks and security risks among all employees;
- permanent control mechanism for Information Systems Security, combined with a quarterly security report (security indicators).

## 2.1.6. INFORMATION SYSTEMS AND DATA CONSISTENCY

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

All Groupe BPCE entities thus provide that all data transferred to Group regulatory production systems are checked for accounting consistency at least quarterly.

## RISK ORGANIZATION – COMMITTEE STRUCTURE



## 2.2. Assets selection process

Compagnie de Financement Foncier's receivables 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 special 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 groupe 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.

### 2.2.1. COMMITMENT SELECTION AND MONITORING SYSTEM AT CRÉDIT FONCIER

Commitment selection and monitoring relies on:

- implementation of risk policies across activities (loans to individuals, public and private Corporates), in line 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.

### 2.2.2. CREDIT RISK ANALYSIS

Loan assessment tools are organized around two mechanisms:

- counter analysis 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 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 Committees, and, in certain cases, to the Business Line Committee (following the Delegation Chain).

#### RATING APPROACH

##### 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 in past years, an effort to re-rate IPS outstandings was led in the fourth quarter based on the most recent accounting and financial data available.

Concerning the rating model, internal ratings for the IPS are slightly more conservative than the agencies' published ratings.

### 2.2.3. 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.

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 on December 31, 2016.

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 tables, which have been slightly amended during 2016.

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 as the loan becomes doubtful of the end of the year (for a period of 4 years identical to that of their previous observation).

### For all Crédit Foncier entities except the Belgian branch

							Disposal before 2016	Disposal since 2016	Existence of a resolution clause	
Filter conditions										
Doubtful (CX, DX, RX) <b>or</b> Performing and having been doubtful during the last 2 years							X	X		
Performing and not doubtful during the last 2 years	Segment or sub-segment not eligible						X	X		
	Segment and sub-segment eligible	Age of the loan	≤ 4 years	Outstanding rating	1 to 7	Rating at origination	0 to 5	✓	✓	
					6 to 9, Not rated	X	✓	✓		
		Age of the loan	> 4 years	Outstanding rating	1 to 7			✓	✓	
					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. Since 2011, this portfolio has been in run off management. 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, the long-term Corporate loans may be assigned by Compagnie de Financement Foncier. Some long-term private corporates loans are 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.

## 2.2.4. CREDIT LIMITS

### Assigning credit limits

Compagnie de Financement Foncier's credit limits system incorporates the same limits as those used by groupe 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 groupe 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 Permanent Control Unit of the Financial Transactions department and secondarily by the 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.

## 2.2.5. RISK MONITORING

Risk monitoring relies on three main components:

- the quarterly review of portfolios with a view to ensuring 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).

#### 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 groupe Crédit Foncier's Watch List which includes Compagnie de Financement Foncier's 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, groupe Crédit Foncier closely monitors these transactions, enabling it to alert customers in advance about the market development impacts.

#### Private Corporates

Loans and receivables assigned by Compagnie de Financement Foncier are of good quality as they are benefiting from a mortgage

LTV ratio (which is more strict than the current one), and given an asset selection process put in place (housing, offices and commercial properties) with a limit on each type of assets in the global portfolio.

If in spite of all the measures, the said event occurs (default, forbearance, watch list), the loan will no longer be mobilised by Compagnie de Financement Foncier. The monthly control is carried out in order to renew the assignments.

## 3. Changes in assets

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

- secured loans, as defined under Articles L. 513-3, 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

	12/31/2016		12/31/2015	
	€m	% balance sheet	€m	% balance sheet
<b>Secured loans</b>	<b>39,377</b>	<b>46.7%</b>	<b>37,953</b>	<b>43.3%</b>
Mortgage loans secured by the FGAS	16,941	20.1%	16,594	18.9%
Other mortgage loans	12,381	14.7%	13,754	15.7%
Mortgage notes	7,325	8.7%	5,755	6.6%
Guaranteed loans	2,729	3.2%	1,850	2.1%
<b>Exposures on public entities</b>	<b>34,719</b>	<b>41.2%</b>	<b>39,304</b>	<b>44.9%</b>
Public sector loans	10,623	12.6%	12,000	13.7%
Public loans mobilized under L. 211-38	12,840	15.2%	12,846	14.7%
Public entity securities	8,856	10.5%	9,098	10.4%
Deposits at Banque de France	2,400	2.8%	5,360	6.1%
<b>Other assets (interests on IFAT, adjustment accounts, etc.)</b>	<b>3,409</b>	<b>4.0%</b>	<b>3,246</b>	<b>3.7%</b>
<b>Replacement values</b>	<b>6,844</b>	<b>8.1%</b>	<b>7,075</b>	<b>8.1%</b>
<b>TOTAL ASSETS</b>	<b>84,349</b>	<b>100.0%</b>	<b>87,578</b>	<b>100.0%</b>

The €3.2bn reduction in the Compagnie de Financement Foncier's balance sheet in 2016 masked varied movements in different asset categories:

- secured real estate loans grew by €1.4bn thanks to major acquisitions or assignments 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 2016,
- public sector loans, not including deposits with the Banque de France, fell by €1.6bn, mainly due to repayments of existing loans and a modest level of new loan acquisitions,
- cash, comprising replacement values and the balance of the Banque de France account, fell by €3.2bn and was used to fund new asset purchases and the gap between repayment of liabilities and new borrowings.

However, the breakdown of assets by region changed little during the year. The underlyings of 87.5% of assets are in France.

At December 31, 2016, international assets, mainly from the public sector, amounted to €10.6bn, broken down in three categories:

- four countries with the highest exposures, namely Italy (€3.5bn), the United States (€1.9bn), Japan (€1.6bn) and Switzerland (€1.3bn);

- four countries with moderate exposure, namely Belgium (€0.8bn), Spain (€0.5bn), Canada (€0.5bn) and Poland (€0.4bn);
- and two other countries with loan volumes of less than €0.1bn; Portugal and the Netherlands.

## 4. Changes in liabilities

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

- privileged resources that legally protect bondholders by guaranteeing priority repayment and compliance with repayment schedules, even in the event of issuer default or default of its parent company;

- 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 in swaps, with various other bank counterparties;
- subordinated debt and equity, resources contributed by Crédit Foncier.

### ■ Breakdown of liabilities by guarantee rank

	12/31/2016		12/31/2015	
	€m	% balance sheet	€m	% balance sheet
<b>Privileged liabilities</b>	<b>66,803</b>	<b>79.2%</b>	<b>68,034</b>	<b>77.7%</b>
Obligations foncières at the reporting date	67,423	80.0%	68,972	78.8%
Foreign exchange difference on obligations foncières	-827	-1.0%	-1,173	-1.3%
Other privileged resources	208	0.2%	235	0.3%
<b>Translation difference associated with hedging balance sheet items *</b>	<b>1,587</b>	<b>1.9%</b>	<b>1,459</b>	<b>1.7%</b>
<b>Non-privileged resources</b>	<b>15,959</b>	<b>18.9%</b>	<b>18,085</b>	<b>20.7%</b>
Unsecured debt	10,521	12.5%	12,589	14.4%
Subordinated debt and similar debt	2,217	2.6%	2,246	2.6%
• of which associate current account	2,100	2.5%	2,100	2.4%
Shareholders' equity, provisions and FRBG	3,221	3.8%	3,250	3.7%
<b>TOTAL LIABILITIES</b>	<b>84,349</b>	<b>100.0%</b>	<b>87,578</b>	<b>100.0%</b>
Regulatory capital according to CRR/CRD IV:	3,045	3.6%	3,068	3.5%
• of which Common Equity Tier-1 capital	3,045	3.6%	3,068	3.5%
• of which Additional Tier-1 capital	0	0.0%	0	0.0%
• of which Tier-2 capital	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 €1.2bn, contractual debt repayments exceeding issuances this year.

Unsecured debts were also down by €2.1bn. Mainly this reflected repayments of short-term capital provided by Crédit Foncier at



end-2015 and a fall in deposits received from swap counterparties primarily due to exchange rate differences.

The item comprising subordinated debts and equity remained unchanged over the year at €5.4bn, or more than 6% of balance sheet assets at December 31, 2016.

## 5. Prudential ratios

### 5.1. 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-2016, overruns of the LTV threshold amounted to €519m, still significantly lower than overruns for non-privileged liabilities, standing at over €16bn 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, €2.1bn, €3.3bn and €4.5bn, 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 €3.1bn at December 31, 2016, 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 €1.0bn 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 117.6% at end-2016, including any associated currency hedging for assets and liabilities.

At December 31, 2015, this ratio was particularly high at 122.1%. Two thirds of the change during the year was attributable to a faster decline in assets held than in market liabilities. The remaining third was due to regulatory limits on intragroup exposures.

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, 2016, this ratio was 18.5%, down from the 21.7% reported at end-2015.

#### 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 6.3.2.

In 2016, revaluation resulted in, on average, a small rise in home values of 0.07%.

Taking into account all outstanding mortgage loans, both directly-held and used to guarantee mortgage notes, the average LTV at the end of 2016 came to 74.1% for a total outstanding amount of €40bn, breaking down as follows:

- 82.4% on loans guaranteed by FGAS amounting to €19.8bn,
- 67.4% on other mortgage loans to individuals, with €19.4bn outstanding,
- 33.9% on mortgage loans to corporates amounting to €0.8bn.

At end 2015, all mortgage loans, with a combined value of €38.3bn, had an average LTV of 74.9%. This broke down as average LTV of 75.5% on €37.6bn of individual loans and 36.8% on €0.6bn of corporate loans.

### OTHER LIMITS

Compliance with the various holding limits applicable to certain assets is also verified. At December 31, 2016:

- guaranteed loans amounted to 4.4% of total assets, still well below the legal limit of 35%; this calculation includes directly-held guaranteed loans (3.2%) as well as loans used to guarantee mortgage notes (1.2%);
- mortgage notes, which could not exceed 10% of the balance sheet until December 10, 2016<sup>(1)</sup>, make up 8.7% of the latter item;

- replacement values have an outstanding amount equal to 7.3% of the nominal amount of privileged resources, 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 has eligible assets in the Eurosystem (excluding repurchase agreements) that would provide it with an estimated additional €10bn 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 2016, according to the standard Basel III method, its Common Equity Tier One (CET1) ratio was 18.5%, equal to its Tier-1 ratio and its solvency ratio. Total risk exposures (RWA) amounted to €16.5bn, corresponding to an average risk weighting of 18% of outstanding assets subject to credit risk.

## 5.2. 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 starting from February 7, 2017.

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 €3.04bn at December 31, 2016. 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.

<sup>(1)</sup> Publication debt of the Sapin II Act on transparency, the fight against corruption and the modernization of the economy, whose Article 154 abolishes this cap.



(in millions of euros) Exposure categories	12/31/2016		12/31/2015	
	Capital requirements	RWA	Capital requirements	RWA
Central governments	75	936	74	930
Institutions	25	309	30	380
Regional governments	408	5,104	461	5,759
Corporations	13	159	26	329
Retail customers	131	1,643	89	1,113
Mortgage-backed exposure	541	6,761	503	6,284
Exposure at default	39	488	39	482
Other assets	1	13	3	41
<b>Requirements for credit risk (A)</b>	<b>1,233</b>	<b>15,413</b>	<b>1,225</b>	<b>15,317</b>
<b>Requirements for market risk (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Requirements for operational risk (C)</b>	<b>46</b>	<b>571</b>	<b>46</b>	<b>576</b>
<b>Credit value adjustment (D)</b>	<b>37</b>	<b>466</b>	<b>41</b>	<b>507</b>
<b>CAPITAL REQUIREMENTS (A)+(B)+(C)+(D)</b>	<b>1,316</b>	<b>16,455</b>	<b>1,312</b>	<b>16,400</b>

## CAPITAL ADEQUACY RATIOS

Compagnie de Financement Foncier's capital adequacy ratio at December 31, 2016 was determined using the standard approach.

	12/31/2016	12/31/2015
<b>CET1 Ratio</b>	<b>18.5%</b>	<b>18.7%</b>
Tier-1 ratio	18.5%	18.7%
<b>Solvency ratio</b>	<b>18.5%</b>	<b>18.7%</b>

Source: COREP (Common solvency ratio reporting) at December 31, 2016.

## 6. 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 mortgage notes or secured loans under Article L. 211-38 for Public sector 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, their value at the end of 2016 was very low at €0.2bn;
- 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.

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

### 6.1.1. ANALYSIS OF CREDIT RISK EXPOSURES

The tables below show the breakdown of assets excluding endorsements and financial guarantees given.

Financed assets are analyzed by transparency: the analysis covers the collateral guaranteeing, on the one hand, mortgage notes and, on the other hand, public sector exposures 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).

<i>(in millions of euros)</i> <b>Risk exposures</b>	<b>Exposures at 12/31/2016</b>	<b>Exposures at 12/31/2015</b>
	<b>Balance sheet</b>	<b>Balance sheet</b>
<b>A - Individuals mortgage loans</b>	<b>39,352</b>	<b>37,479</b>
French mortgage loans <sup>(1)</sup>	32,337	31,724
French and Belgian Mortgage notes <sup>(2)</sup>	7,015	5,755
<b>B - Public sector</b>	<b>34,319</b>	<b>38,935</b>
French public sector	24,667	29,033
<i>Social housing</i>	1,501	1,860
<i>French local authorities (FLA)</i>	6,876	7,872
<i>FLA L. 211-38 <sup>(3)</sup></i>	12,153	11,825
<i>Sovereign France</i>	4,137	7,477
Public-Private Partnership (PPP)	640	648
International public sector	9,012	9,254
<i>International Public Financing</i>	5,844	6,056
<i>International Sovereign</i>	2,710	2,712
<i>Public sector large corporations</i>	458	487
<b>C - Commercial mortgages exposures</b>	<b>466</b>	<b>116</b>
<b>D - Banking sector exposures</b>	<b>7,436</b>	<b>7,854</b>
Banks with sovereign guarantees or similar	706	700
Other banks	131	554
L. 211-38-RV <sup>(4)</sup>	6,600	6,600
<b>Total risk exposure (A + B + C + D)</b>	<b>81,573</b>	<b>84,384</b>
Miscellaneous adjustments and Other Items <sup>(5)</sup>	2,776	3,194
<b>TOTAL</b>	<b>84,349</b>	<b>87,578</b>

(1) The "French mortgage loans" line item includes a limited amount of outstanding Dutch loans (€57m at December 31, 2016 and €63m at December 31, 2015).

(2) Of which Belgian mortgage notes amounted to €773m (carrying amount) as of December 31, 2016.

(3) Of which €81m L. 211-38 with Caisses d'Épargne and €123m with Banques Populaires.

(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.

(1) Short-term loans to BPCE, guaranteed by collateralized assets.

At December 31, 2016, the total risk exposure was down by €2.8bn to €81.6bn. This change was due to:

- the €1.9bn increase in Individuals mortgage loans to €39.4bn. This increase is mainly due to an important volume of acquisitions and assignments realised during the year that allowed to offset a high volume of early repayments recognised in 2016 ;
- the €4.4bn decrease in the public sector to €24.7bn. In this category, the exposure to SPI entities decreased due to a repayment of the spanish line and the pursue of the run-off management of the portfolio ;
- the €0.4bn decline in banking sector exposures and in particular in "other banks" category.

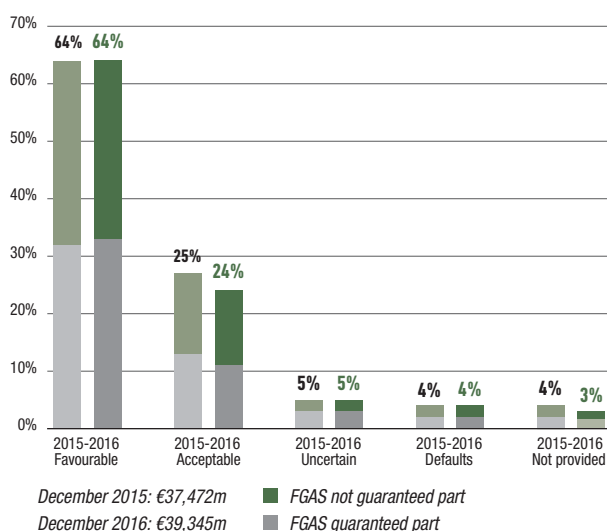
### Geographical breakdown of exposures

Geographical breakdown of exposures	12/31/2016		12/31/2015
	Balance sheet (€m)	%	%
France	73,800	88	88
Other countries in the European Economic Area	5,263	6	6
• of which Italy	3,519	4	4
• of which Belgium	773	n.s	n.s
• of which Spain	453	n.s	n.s
• of which Poland	374	n.s	n.s
• of which Portugal	87	n.s	n.s
• of which Netherlands	57	n.s	n.s
• of which Iceland	0	n.s	n.s
Switzerland	1,261	1	1
North America (USA & Canada)	2,397	3	3
Japan	1,628	2	2
<b>TOTAL</b>	<b>84,349</b>	<b>100</b>	<b>100</b>
Reminder of total exposures at 12/31/2015 (in €m)			87,578

### 6.1.2. QUALITY OF THE PORTFOLIO EXPOSED TO CREDIT RISK

#### PORTFOLIO OF LOANS TO INDIVIDUALS

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



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

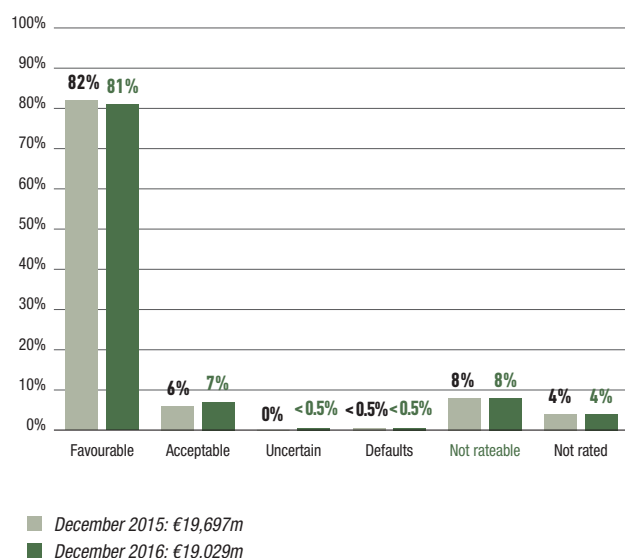
#### FRENCH PUBLIC SECTOR PORTFOLIO

The French public sector portfolio stood at €25.3bn, breaking down as follows:

- French local authorities and social housing: €20.5bn;
- Sovereign France: €4.1bn;
- public-private partnerships: €0.6bn.

## French local authorities

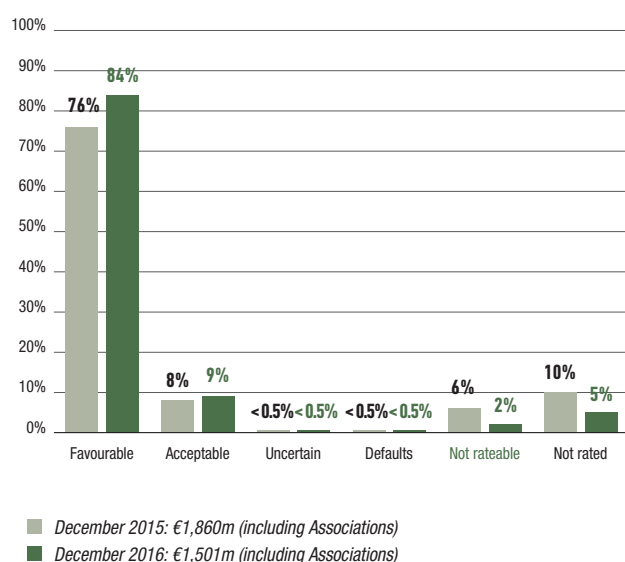
### Portfolio of French public operators – Breakdown by Basel II rating



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



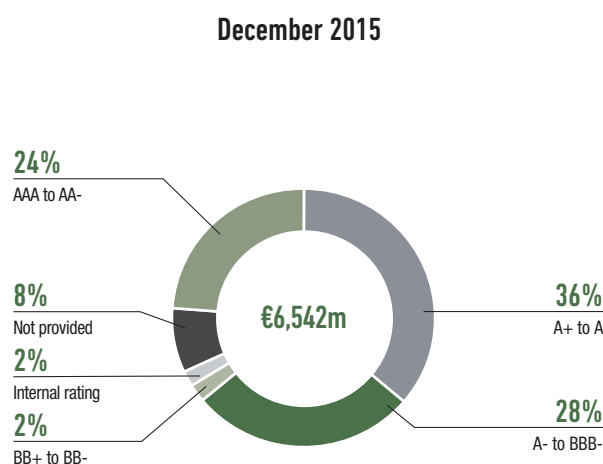
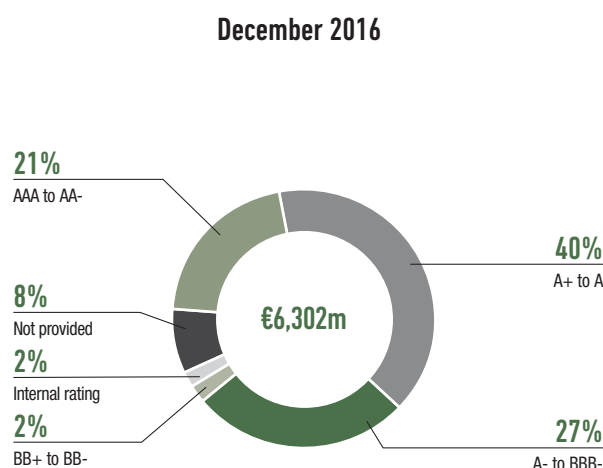
The quality of Social housing portfolio held by Compagnie de Financement Foncier stays at a very high level.

## INTERNATIONAL PUBLIC SECTOR PORTFOLIO

### International Public Financing (excluding Sovereigns) and Large Public sector corporations

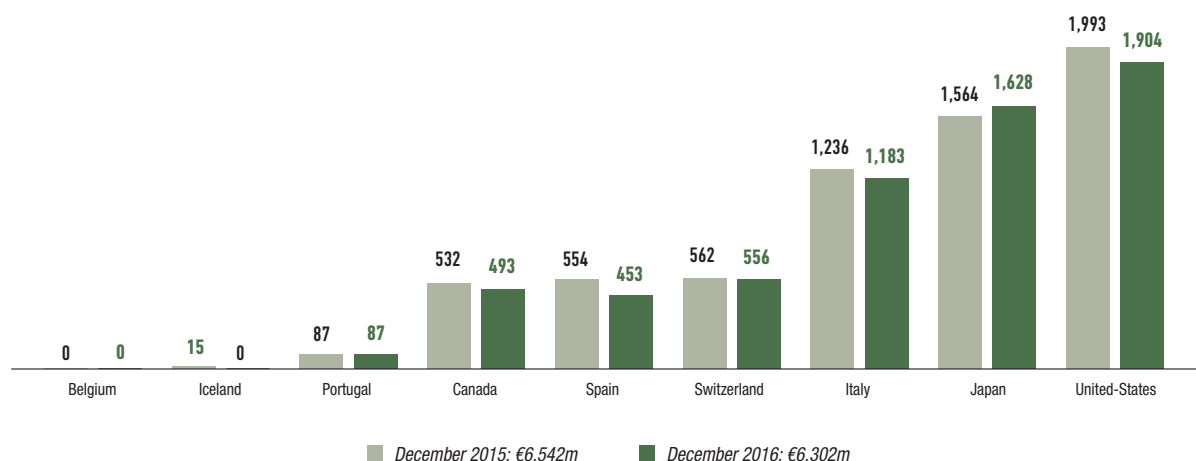
At December 31, 2016, outstandings in the IPS portfolio (excluding Sovereigns) and large IPS public financing Corporates were €6.3bn, down by 3.7%. It should be noted that the IPF portfolio has been in run-off for several years.

### Breakdown of exposures by internal rating on international public financing and Large Corporations



The proportion of assets with an internal rating of at least A is stable from one year to another.

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



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

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

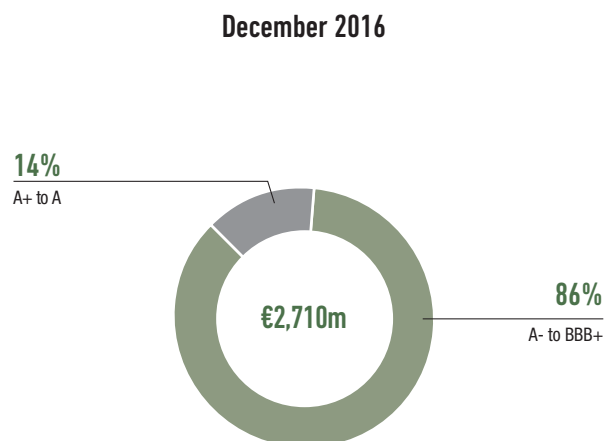
A portion of this portfolio (€1.7bn) is counter-guaranteed by mono-line insurers. For FGIC, the deterioration of its creditworthiness means that its guarantee is less effective than at the outset (due to fact that the transaction's intrinsic credit rating is higher than the one of the credit enhancer). This is, however, not the case of Assured Guaranty Municipal Corp. (formerly FSA) and of Assured Guaranty Corp (which took over CIFG), rated respectively

AA/A2 and AA/A3 by S&P and Moody's, which guarantees a total outstanding amount of €1.34bn in securities; or of National Public Finance Guarantee Corp. (formerly MBIA), rated AA- by Standard & Poor's and A3 by Moody's, and which guarantees a total outstanding amount of €0.2bn in securities.

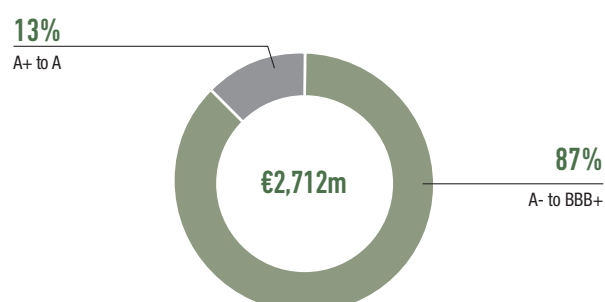
#### International Sovereign

Following the disposals and repayments, Compagnie de Financement Foncier is now only exposed to Italian and Polish sovereign. Some of the exposures are denominated in foreign currencies, which explains some fluctuations from one year to another.

### ■ Breakdown of exposures by internal rating of Sovereigns excluding France

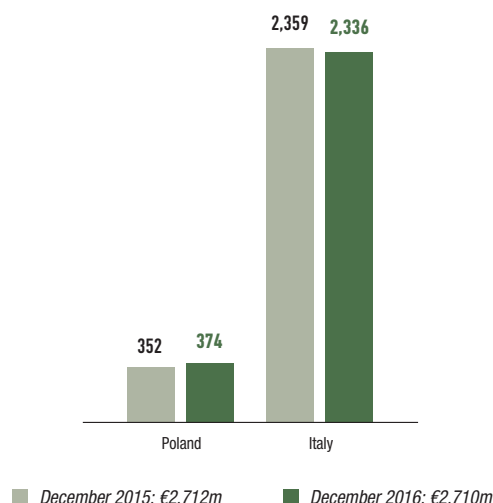


December 2015



Compagnie de Financement Foncier's whole International Sovereign portfolio is rated investment grade (rating  $\geq$  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.

### PRIVATE CORPORATES PORTFOLIO

The exposure to Private Corporates portfolio amounts to €466m as of December 31, 2016, after taking into account the assignment of Private Corporates loans in form of mortgage notes accounting for €309m. 80% of the outstanding benefit from "Favourable" or "Acceptable" ratings.

### BANKING SECTOR PORTFOLIO

With €7.4bn outstanding, the banking sector exposures declined by 5.3%.

The 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.

## 6.2. Delinquencies

### 6.2.1. 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 millions of euros) Risk exposures	Exposures at December 31, 2016			Exposures at December 31, 2015		
	Balance sheet	Doubtful loan rate	Doubtful loan rate (excl. subsidized sector)	Balance sheet	Doubtful loan rate	Doubtful loan rate (excl. subsidized sector)
<b>A – Individuals mortgage loans</b>	<b>39,352</b>	<b>3.4%</b>	<b>3.4%</b>	<b>37,479</b>	<b>3.3%</b>	<b>3.2%</b>
French mortgages <sup>(1)</sup>	32,336	4.2%	4.1%	31,724	3.9%	3.8%
French and Belgian mortgage notes <sup>(2)</sup>	7,016	-	-	5,755	-	-
<b>B – Public sector</b>	<b>34,319</b>	<b>&lt;0.5%</b>	<b>&lt;0.5%</b>	<b>38,935</b>	<b>&lt; 0.5%</b>	<b>&lt; 0.5%</b>
French public sector	24,667	<0.5%	<0.5%	29,033	< 0.5%	< 0.5%
<i>Social housing</i>	1,501	<0.5%	<0.5%	1,860	0.8%	< 0.5%
<i>French local authorities (FLA)</i>	6,876	<0.5%	<0.5%	7,872	< 0.5%	< 0.5%
<i>FLA L. 211-38 <sup>(3)</sup></i>	12,153	-	-	11,825	-	-
<i>Sovereign France</i>	4,137	-	-	7,477	-	-
Public Private Partnership (PPP)	640	-	-	648	-	-
International public sector	9,012	-	-	9,254	-	-
<i>International Public Sector (IPS)</i>	5,844	-	-	6,056	-	-
<i>International Sovereign</i>	2,710	-	-	2,712	-	-
<i>Public sector large corporations</i>	458	-	-	487	-	-
<b>C – Commercial mortgage exposures</b>	<b>466</b>	<b>14.4%</b>	<b>0.6%</b>	<b>116</b>	<b>63.0%</b>	<b>8.3%</b>
<b>D – Banking sector exposures</b>	<b>7,436</b>	<b>-</b>	<b>-</b>	<b>7,854</b>	<b>-</b>	<b>-</b>
Banks with sovereign guarantees or similar	706	-	-	700	-	-
Other banks	131	-	-	554	-	-
L. 211-38-RV <sup>(4)</sup>	6,600	-	-	6,600	-	-
<b>Total risk exposure (A + B + C + D)</b>	<b>81,573</b>	<b>1.7%</b>	<b>1.6%</b>	<b>84,384</b>	<b>1.6%</b>	<b>1.4%</b>
Miscellaneous adjustments and other assets <sup>(5)</sup>	2,775	-	-	3,194	-	-
<b>TOTAL</b>	<b>84,349</b>	<b>1.7%</b>	<b>1.6%</b>	<b>87,578</b>	<b>1.5%</b>	<b>1.4%</b>

(1) The "French mortgage loans" line item includes a limited amount of outstanding Dutch loans (€57m at December 31, 2016 and €63m at December 31, 2015).

(2) Of which Belgian mortgage notes amounted to €773m as of December 31, 2016 (carrying amount).

(3) Of which €81m L. 211-38 with Caisses d'Épargne and €123m with Banques Populaires.

(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 1.6% (excluding subsidized loans).

With regards to direct mortgage loans and underlyings of mortgage notes, the doubtful rate (excluding subsidized loans) was 3.4% at December 31, 2016 compared with 3.2% a year earlier.

The doubtful rate was of 1.65% as of September 30, 2016. The doubtful rate of mortgage loans to Individuals amounts to 3.82% of which 54% is guaranteed by French State via FGAS (see Note 2 bis).

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

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

<i>(in millions of euros)</i>	12/31/2016	12/31/2015
Individual cost of risk (A)	- 23.83	-14.30
Collective provisions (B)	- 3.25	-0.45
<b>Cost of risk (A + B)</b>	<b>-27.08</b>	<b>-14.75</b>
Risk charge, net banking income (C)	-0.15	-5.34
<b>Net (A+ B + C)</b>	<b>-27.22</b>	<b>-20.09</b>

At December 31, 2016, the cost of risk of Compagnie de Financement Foncier was -€27.22m, or 3 basis points.

On an individual basis, the cost of risk was -€23.8m. Its level stays stable excluding the HETA provision in 2015. The net allocation to collective provisions was -€3.2m.

The risk charge in net banking income was -€0.15m.

**6.3. Risk mitigation techniques****6.3.1. 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, 51% 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 guaranteed by 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.

**6.3.2. VALUATION AND PERIODIC REVIEW METHODS FOR REAL ESTATE ASSETS****SPECIFIC CONTROLLER'S CERTIFICATION ON THE VALUATION AND PERIODIC REVIEW METHODS OF THE REAL ESTATE ASSETS AT DECEMBER 31, 2016**

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, 2016 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, 2016.

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, 2016;



- 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, 2016, 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 2016 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 2016.

Paris, March 21, 2017

The Specific Controller

**CAILLIAU DEDOIT et Associés**

Laurent Brun  
19, rue Clément Marot  
75008 Paris

## PROCEDURE FOR THE VALUATION AND PERIODIC REVIEW OF THE VALUE OF THE ASSETS UNDERLYING THE LOANS FOR FISCAL YEAR 2016

### 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 de France'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.

### C – SUMMARY

The above-mentioned rules, applied since February 24, 2011, are summarized in the following table:

Type of asset	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	Appraisal
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.

Other collateral (securing loans authorized before December 1, 2015 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 or assigned 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 107 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: 107 Apartment indices/107 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) 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".

In light of the extraordinary jump in the 2015 re-valuation, the newly derived indices, based on September 30, 2016 observations of the 15-month price trend (from June 2015 in September 2016), were restated on an annualized basis.

**Sources**

These indices are based on an ad hoc survey and on 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-immo.com](http://www.marche-immo.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 Île-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 regulations (Order of February 20, 2007 Article 168), concerns residential real estate posted as collateral for a debt of over €3 million.

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 or assigned to the Compagnie de Financement Foncier.

Each property in this category is individually revalued every year 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.

#### IV Summary table of methods

	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-TOM)

	Individual residential				Corporates and Individual non-residential	
	Crédit Foncier statistical method (A.1.)				BPCE statistical method (A.2.)	
	or foreign indices				Individuals	Corporates
	France	Belgium	Netherlands	Global		
Loan (€m)	32,890	735	57	25	11	14
No. of guarantees	344,491	6,917	690	104	83	21
2016 value	54,772	1,528	75	58	14	44
(2015 value)	(54,735)	(1,475)	(73)	(57)	(16)	(41)
Change	0.07%	3.6%	3.24%	1.65%	N/S	0.50%*

Source: Reporting date at October 31, 2016

\* Not including 2 items of collateral with no prudent value that the valuation engine valued at €3.2 million: the rate was determined as 0.5%.

Corporate loans revalued by appraiser estimate include 68 collateral items posted against 71 loans totaling €280 million. No Individual collateral was revalued by appraiser estimate in 2016 under the revaluation procedure. But appraisals were sought where necessary for management and debt collection purposes (notably for legal disputes).

## APPENDIX 2 - STATICAL CHANGES CRÉDIT FONCIER (A.1.)

## ■ Agglomerations with more than 200,000 inhabitants

Region	Dept No.	Department	Town/City	Appartment index 2015-2016	House index 2015-2016
ALSACE	67	BAS-RHIN	Strasbourg	1.033	1.038
ALSACE	68	HAUT-RHIN	Mulhouse	0.995	1.018
AQUITAINE	64	PYRÉNÉES-ATLANTIQUES	Bayonne	1.020	1.031
AQUITAINE	33	GIRONDE	Bordeaux	1.039	1.044
AUVERGNE	63	PUY-DE-DÔME	Clermont-Ferrand	1.029	1.016
BOURGOGNE	21	CÔTE-D'OR	Dijon	1.026	1.045
BRETAGNE	29	FINISTÈRE	Brest	1.010	1.005
BRETAGNE	35	ILLE-ET-VILAINE	Rennes	1.006	1.021
CENTRE	45	LOIRET	Orléans	1.000	1.000
CENTRE	37	INDRE-ET-LOIRE	Tours	1.000	1.000
CHAMPAGNE	51	MARNE	Reims	1.027	0.971
HAUTE NORMANDIE	76	SEINE-MARITIME	Le Havre	1.004	0.980
HAUTE NORMANDIE	76	SEINE-MARITIME	Rouen	1.000	0.990
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Montpellier	1.000	1.003
LORRAINE	54	MEURTHE-ET-MOSELLE	Nancy	1.015	0.990
LORRAINE	57	MOSELLE	Metz	1.010	0.990
MIDI-PYRÉNÉES	31	HAUTE-GARONNE	Toulouse	1.004	0.997
NORD	59	NORD	Valenciennes	0.988	1.000
NORD	59	NORD	Lille	1.014	1.010
NORD	62	PAS-DE-CALAIS	Douai-Lens	0.995	0.992
NORD	62	PAS-DE-CALAIS	Béthune	0.985	0.987
PACA	13	BOUCHES-DU-RHÔNE	Marseille-Aix-en-Provence	0.986	0.990
PACA	6	ALPES-MARITIMES	Nice	1.008	0.992
PACA	84	VAUCLUSE	Avignon	0.980	0.992
PACA	83	VAR	Toulon	0.986	0.964
PAYS DE LOIRE	44	LOIRE-ATLANTIQUE	Nantes	1.032	1.035
PAYS DE LOIRE	49	MAINE-ET-LOIRE	Angers	1.004	1.003
PAYS DE LOIRE	72	SARTHE	Le Mans	0.990	0.989
RHÔNE-ALPES	69	RHÔNE	Lyon	1.017	1.031
RHÔNE-ALPES	38	ISERE	Grenoble	1.004	1.006
RHÔNE-ALPES	42	LOIRE	Saint-Étienne	0.992	1.000
<b>AVERAGE</b>				<b>1.006</b>	<b>1.004</b>

## ■ Cities of 100,000-199,999 inhabitants

Region	Dept No.	Department	Town/City	Appartment Index 2015-2016	House Index 2015-2016
AQUITAINE	64	PYRÉNÉES-ATLANTIQUES	Pau	1.022	1.000
BASSE NORMANDIE	14	CALVADOS	Caen	0.981	1.014
BRETAGNE	56	MORBIHAN	Lorient	1.012	1.011
CHAMPAGNE	10	AUBE	Troyes	0.994	0.998
FRANCHE-COMTÉ	25	DOUBS	Besançon	0.998	0.981

Region	Dept No.	Department	Town/City	Apartment Index 2015-2016	House Index 2015-2016
FRANCHE-COMTÉ	25	DOUBS	Montbéliard	0.989	0.995
LANGUEDOC-ROUSSILLON	66	PYRÉNÉES-ORIENTALES	Perpignan	0.982	0.982
LANGUEDOC-ROUSSILLON	30	GARD	Nîmes	1.027	0.982
LIMOUSIN	87	HAUTE-VIENNE	Limoges	1.031	0.987
LORRAINE	57	MOSELLE	Thionville	1.006	1.002
NORD	59	NORD	Dunkerque	0.990	1.005
NORD	59	NORD	Maubeuge	0.980	0.993
PICARDIE	60	OISE	Creil	0.987	0.975
PAYS DE LOIRE	44	LOIRE-ATLANTIQUE	Saint-Nazaire	1.013	1.017
PICARDIE	80	SOMME	Amiens	0.996	0.988
POITOU-CHARENTES	17	CHARENTE-MARITIME	La Rochelle	1.013	1.017
POITOU-CHARENTES	86	VIENNE	Poitiers	0.979	0.976
POITOU-CHARENTES	16	CHARENTE	Angoulême	0.990	0.985
RHÔNE ALPES	26	DRÔME	Valence	0.991	0.990
RHÔNE-ALPES	74	HAUTE-SAVOIE	Annecy	1.018	1.015
RHÔNE-ALPES	74	HAUTE-SAVOIE	Genève-Annemasse	0.986	1.001
RHÔNE-ALPES	73	SAVOIE	Chambéry	0.994	1.008
<b>AVERAGE</b>				<b>0.999</b>	<b>0.996</b>

#### ■ Cities of 50,000-99,999 inhabitants

Region	Dept No.	Department	Town/City	Apartment Index 2015-2016	House Index 2015-2016
ALSACE	67	BAS-RHIN	Haguenau	1.018	1.015
ALSACE	68	HAUT-RHIN	Colmar	1.025	1.028
AQUITAINE	33	GIRONDE	Arcachon	1.000	1.027
AQUITAINE	24	DORDOGNE	Périgueux	1.032	1.000
AQUITAINE	24	DORDOGNE	Bergerac	0.977	0.974
AQUITAINE	47	LOT ET GARONNE	Agen	1.002	1.000
AUVERGNE	3	ALLIER	Vichy	1.000	1.000
AUVERGNE	3	ALLIER	Montluçon	0.992	0.988
BASSE NORMANDIE	50	MANCHE	Cherbourg	1.000	1.005
BOURGOGNE	71	SAÔNE-ET-LOIRE	Chalon-sur-Saône	1.000	1.014
BOURGOGNE	58	NIÈVRE	Nevers	0.980	0.968
BRETAGNE	35	ILLE-ET-VILAINE	Saint-Malo	1.008	1.009
BRETAGNE	22	CÔTES-D'ARMOR	Saint-Brieuc	0.994	1.000
BRETAGNE	29	FINISTÈRE	Quimper	1.011	1.012
BRETAGNE	56	MORBIHAN	Vannes	1.014	1.012
CENTRE	18	CHER	Bourges	0.992	0.995
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	0.991	0.989
CHAMPAGNE	51	MARNE	Châlons-en-Champagne	0.988	0.999
CHAMPAGNE	8	ARDENNES	Charleville-Mézières	0.992	1.003
FRANCHE-COMTÉ	90	TERRITOIRE DE BELFORT	Belfort	0.984	0.995

Region	Dept No.	Department	Town/City	Apartment Index 2015-2016	House Index 2015-2016
HAUTE NORMANDIE	27	EURE	Évreux	0.979	0.976
LANGUEDOC-ROUSSILLON	30	GARD	Alès	1.002	0.993
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Béziers	1.019	0.995
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Sète	0.963	1.004
LIMOUSIN	19	CORRÈZE	Brive-la-Gaillarde	1.007	1.019
LORRAINE	88	VOSGES	Épinal	0.992	0.993
LORRAINE	57	MOSELLE	Forbach	0.971	0.968
MIDI-PYRÉNÉES	81	TARN	Albi	1.008	0.995
MIDI-PYRÉNÉES	81	TARN	Castres	0.992	0.997
MIDI-PYRÉNÉES	65	HAUTES-PYRÉNÉES	Tarbes	1.000	1.000
MIDI-PYRÉNÉES	82	TARN-ET-GARONNE	Montauban	1.000	1.008
NORD	62	PAS-DE-CALAIS	Arras	1.000	1.000
NORD	62	PAS-DE-CALAIS	Calais	0.978	0.981
NORD	59	NORD	Armentières	1.010	0.995
NORD	62	PAS-DE-CALAIS	Saint-Omer	0.996	1.000
NORD	62	PAS-DE-CALAIS	Boulogne-sur-Mer	0.988	1.007
PACA	83	VAR	Fréjus	1.023	0.971
PACA	6	ALPES-MARITIMES	Menton-Monaco	0.977	1.007
PACA	13	BOUCHES-DU-RHÔNE	Salon-de-Provence	0.995	0.97
PACA	13	BOUCHES-DU-RHÔNE	Arles	0.997	0.964
PAYS DE LOIRE	49	MAINE-ET-LOIRE	Cholet	1.012	1.003
PAYS DE LOIRE	53	MAYENNE	Laval	1.004	1.002
PICARDIE	2	AISNE	Saint-Quentin	0.99	0.988
PICARDIE	60	OISE	Beauvais	1.015	1.011
PICARDIE	60	OISE	Compiègne	0.998	0.995
POITOU-CHARENTES	79	DEUX-SÈVRES	Niort	0.978	0.979
RHÔNE-ALPES	42	LOIRE	Roanne	0.99	0.989
RHÔNE-ALPES	1	AIN	Bourg-en-Bresse	1.014	1.018
RHÔNE-ALPES	26	DRÔME	Romans-sur-Isère	1.002	1.012
RHÔNE-ALPES	74	HAUTE-SAVOIE	Thonon-les-Bains	0.986	0.988
RHÔNE-ALPES	74	HAUTE-SAVOIE	Cluses	0.995	0.993
<b>AVERAGE</b>				<b>0.998</b>	<b>0.997</b>

## ■ Non-urban areas

Region	House Index 2015-2016
ALSACE	1.012
AQUITAINE	1.018
AUVERGNE	1.000
BASSE NORMANDIE	1.001
BOURGOGNE	1.024
BRETAGNE	1.010
CENTRE	0.971
CHAMPAGNE	0.991
FRANCHE-COMTÉ	0.987
HAUTE NORMANDIE	0.985
LANGUEDOC-ROUSSILLON	0.973
LIMOUSIN	1.000
LORRAINE	0.975
MIDI-PYRÉNÉES	1.000
NORD	0.978
PACA	0.975
PAYS DE LOIRE	0.985
PICARDIE	0.968
POITOU-CHARENTES	1.000
RHÔNE-ALPES	1.016
<b>AVERAGE</b>	<b>0.993</b>

## ■ Paris and Île-de-France

Region	Dept No.	Department	Apartment Index 2015-2016	House index 2015-2016
ÎLE-DE-FRANCE	91	ESSONNE	0.996	1.009
	92	HAUTS DE SEINE	1.011	1.016
	75	PARIS	1.025	
	77	SEINE-ET-MARNE	0.989	1.006
	93	SEINE-ST-DENIS	1.003	1.022
	94	VAL-DE-MARNE	1.008	1.019
	95	VAL-D'OISE	0.997	1.011
	78	YVELINES	1.004	1.005
<b>AVERAGE (EXCLUDING PARIS)</b>			<b>1.001</b>	<b>1.012</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 October 31, 2016

Compagnie de Financement Foncier portfolio		
Region	Regional breakdown of collateral value (in €m)	Regional breakdown in %
Alsace	695.52	1.27%
Aquitaine	3,702.3	6.76%
Auvergne	464.62	0.85%
Basse Normandie	827.17	1.51%
Bourgogne	981.45	1.79%
Bretagne	1,884.84	3.44%
Centre	1,534.46	2.80%
Champagne-Ardenne	545.02	1.00%
Franche-Comté	556.84	1.02%
Haute Normandie	1,936.48	3.54%
IDF (excluding Paris)	14,432.61	26.35%
Languedoc-Roussillon	3,058.39	5.58%
Limousin	344.39	0.63%
Lorraine	1,141.64	2.08%
Midi-Pyrénées	3,165.85	5.78%
Nord-Pas-de-Calais	2,400.48	4.38%
PACA	5,512.90	10.07%
Paris	1,139.23	2.08%
Pays de Loire	2,524.36	4.61%
Picardie	1,998.49	3.65%
Poitou-Charentes	958.86	1.75%
Rhône-Alpes	4,959.31	9.05%
Others (Monaco...)	7.33	0.01%
<b>TOTAL</b>	<b>54,772.53</b>	<b>100.00%</b>
Corse*	121.01	0.22%
Dom-Tom*	456.76	0.83%

\* For Corse and Dom-Tom the revaluation was carried out in January 2017, which didn't allow to integrate the values updated by different analyses to the present review.

## APPENDIX 3 - BREAKDOWN OF THE COLLATERAL PORTFOLIO REVALUED USING THE BPCE METHOD FOR LOANS HELD BY COMPAGNIE DE FINANCEMENT FONCIER AS OF OCTOBER 31, 2016

### ■ Corporates (Periodic review method A.2)

Dept No.	Number of guarantees	Valuation of collateral (in €)	Outstandings (in €) as of 10/31/2016
30	1	50,409	98,761
31	1	3,067,168	431,483
49	1	2,029,141	556,087
61	1	837,045	104,001
63	1	3,358,450	1,059,488
67	1	3,693,352	745,429
68	1	1,299,480	370,415
69	5	6,121,445	567,713
73	1	2,822,570	269,187
75	2	453,668	98,937
84	1	303,528	323,386
86	1	185,004	59,509
91	2	6,322,765	989,791
92	1	413,673	7,291
94	1	13,675,855	8,336,151
<b>TOTAL</b>	<b>21</b>	<b>44,633,553</b>	<b>14,017,630</b>

### ■ Individuals (Periodic review method A.2)

Dept No.	Number of guarantees	Valuation of collateral (in €)	Outstandings (in €) as of 10/31/2016
01	1	99,592	96,246
02	1	150,976	131,272
06	2	440,014	343,351
11	2	155,957	187,020
13	6	1,548,586	1,356,855
16	1	115,946	86,476
17	1	161,903	138,907
25	1	19,246	15,244
31	4	573,147	305,778
33	5	1,223,752	971,491
34	1	214,664	192,408
35	1	157,612	47,399
38	2	156,062	252,261
39	1	118,220	106,597
41	1	129,197	124,041
42	3	334,881	381,683
44	1	170,306	156,338
52	1	42,553	27,466
55	1	79,354	106,964
56	1	28,857	24,966

Dept No.	Number of guarantees	Valuation of collateral (in €)	Outstandings (in €) as of 10/31/2016
57	4	571,534	588,475
60	1	2,995	130,821
67	1	155,924	56,697
68	1	17,460	111,825
69	4	639,984	578,782
73	1	71,283	66,801
74	1	85,029	67,442
75	2	148,638	79,286
77	6	1,351,579	791,444
78	4	685,938	346,353
84	1	79,680	76,775
85	2	199,908	158,216
91	4	889,449	830 872
92	3	1,230,210	755,974
93	3	443,704	473,466
94	3	342,930	504,031
95	3	373,500	344,593
971	1	208,802	208,988
98	1	330,647	181,927
<b>TOTAL</b>	<b>83</b>	<b>13,750,019</b>	<b>11,405,535</b>

## APPENDIX 4

## ■ Revaluation of Belgian guarantees

Crédit Foncier proceeded to a revaluation of the guarantees of its Belgian branch for 2016, through its servicer, Stater. This revaluation carried out as of June 30, 2016 covers a 18-month period as the last revaluation dates from December 31, 2014.

6,917 guarantees were revalued representing an overall valuation amount of €1,528m, i.e. an average increase in value of 3.6% (after excluding guarantees that increased or decreased by more than 20%) associated with 6,917 loans with an outstanding amount of €735m.

Region	Number of guarantees	Valuation of collateral (in €) as of June 30, 2016	Change 2016-2015 (in %)	Outstanding (in €) as of November 30, 2016	Breakdown of outstandings
Antwerpen	954	233,857,529	4.61%	99,014,936	13.47%
Brabant Wallon	253	70,671,649	2.02%	30,208,031	4.11%
Hainaut	1,487	232,697,929	3.14%	146,927,586	19.99%
Liège	774	146,435,995	2.63%	80,452,056	10.95%
Limburg	365	82,963,640	2.92%	41,736,059	5.68%
Luxembourg	103	20,821,445	6.58%	12,444,094	1.69%
Namur	362	73,559,330	2.52%	40,320,754	5.49%
Oost-Vlaanderen	898	234,799,658	4.30%	97,803,260	13.31%
Région Bruxelles-Capitale	502	122,495,555	6.06%	53,426,800	7.27%
Vlaams-Brabant	650	186,527,959	3.49%	74,508,857	10.14%
West-Vlaanderen	569	122,998,048	2.63%	58,135,333	7.91%
<b>TOTAL</b>	<b>6,917</b>	<b>1,527,828,736</b>	<b>3.60%</b>	<b>734,977,766</b>	<b>100.00%</b>

## ■ Revaluation of Dutch guarantees

Revaluation was made of a total of 690 guarantees associated with 718 loans representing a total outstanding value of €57m.

Revaluation was conducted based on the PBK Index developed by the Netherlands land registry. In 2016, the index average rose by 3.24% (after excluding 2 guarantees with year on year changes of more than 15%).

## 7. 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.

### 7.1. 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 (Bancware) that is interfaced with the management systems.

Rates and liquidity risks are strictly framed by the risk appetite scheme, the limits for which were approved by the Board of Directors.

### 7.2. Liquidity risk monitoring

#### 7.2.1. 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 2016, Compagnie de Financement Foncier issued €5.4bn of *obligations foncières*.

Furthermore, Compagnie de Financement Foncier has a very large volume of assets that are eligible for the ECB's refinancing operations. As at December 31, 2016, the outstandings amounted to €35.3bn in nominal value, divided into:

- €3.8bn in public sector loans;
- €3.3bn in securities;
- €28.3bn in mortgage loans to individuals, meeting the criteria set out by the Banque de France after the ECB's decision of February 9, 2012 to expand, on a temporary and national basis, the conditions under which a receivable may be accepted as a guarantee for refinancing operations by the Eurosystem.

€2.4bn (gross) of these securities have currently been sold under repurchase agreements. Taking into account the available eligible outstandings and after applying a cautious haircut calculation, the additional financing that could be provided by the ECB can be estimated at €10.6bn, while keeping the overcollateralization ratio above its regulatory limit of 105%.

In 2016 Compagnie de Financement Foncier did not make any use of this financing facility.

### 7.2.2. 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 2016. 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, 2016, Compagnie de Financement Foncier had €2.4bn of available cash deposited with the Banque de France.

It also had €6.8bn in replacement values, consisting of safe and liquid investments, of which €6.6bn lent to BPCE with a term of less than two months and fully guaranteed by a loans portfolio.

### 7.2.3. COMPLIANCE WITH LIMITS

#### LCR (LIQUIDITY COVERAGE RATIO)

Applicable since January 1, 2016, Compagnie de Financement Foncier's LCR ratio was above 110% as of December 31, 2016, in excess of the regulatory minimum of 70% applicable starting from January 1st, 2016. It should be noted that the regulatory minimum will be of 100% starting from January 1st, 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 2016, 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 2016, 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 2016, 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.

## 7.3. Monitoring of overall interest rate risk

### 7.3.1. 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, 2016, the amount of deposits received was €2bn.

### 7.3.2. MONITORING FOREIGN EXCHANGE RISK

Compagnie de Financement Foncier has adopted a static approach for measuring risk and the sensitivity of results. The two main indicators are the fixed interest-rate gap and the sensitivity of the equity's net present value (Basel II indicator). Variable rates by categories' buckets were also analyzed.

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. All of these indicators are monitored quarterly by the ALM and Liquidity Oversight Committee and the Risk Executive Committee.

### 7.3.3. 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%

In 2016, these limits were applied with.

#### 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%. In this indicator, equity capital is linearly amortized over 20 years.

In 2016, Compagnie de Financement Foncier was in compliance with this limit.

## 7.4. Monitoring foreign exchange risk

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.

As to foreign exchange risk, BPCE rules require spot foreign exchange positions per currency to be limited to 5% of the balance sheet total in the currency concerned. This limit only applies if the outstanding loans in the currency concerned exceed the equivalent of €1m.

Regarding such exposure, Compagnie de Financement Foncier established an additional internal limit equal to the exchange value of €5m for all currencies combined and to €3m per currency.

Compliance with this limit is monitored by the ALM Committee and the Risk Executive Committee of Compagnie de Financement Foncier.

All these limits were respected in 2016.

## 7.5. Monitoring settlement risk

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.



## 8. 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. Those operational risks associated with the entity of Compagnie de Financement Foncier's General Secretariat 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 2016.

### 8.1. General management

All of groupe 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.

### 8.2 Governance

Operational risk management is part of groupe 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.

### 8.3. Management environment

#### 8.3.1. 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.

#### 8.3.2. 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 arise 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.

Groupe Crédit Foncier also receives reports through the PARO system.

Lastly, for calculating capital adequacy requirements, groupe Crédit Foncier currently applies the Basel II standard approach.

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

In accordance with the service agreements between groupe 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.

## 8.5. 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.

Mid-November 2015, Crédit Foncier's IT system has been migrated to the Caisses d'Épargne MySys platform.

In 2016, additional post-migration work has been completed.

The cyber or Information Systems Security risks sharply rose in 2016 coupled with new bank-oriented threats (like Crypto Locker or Dridex) and recurring "frontal" attacks via internet (mail, infrastructure etc). However, ITCE and its technical and operational security measures, together with Crédit Foncier's IT security actions (employee awareness, follow-up of SSI alerts, operational interventions, PC monitoring, etc.) allowed to protect the information resources and the company's functioning in general in spite of several minor incidents.

## 8.6. 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.

## 8.7. 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.

In 2016, the major files being monitoring were:

- 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. 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.
- Regarding the dispute initiated by a local authority who held a loan whose rate, subsidized at first, then resulted in applying a structured formula based on the exchange rate evolution of

certain currencies. A compromise was reached in connection with the intervention of the support Fund set up by the Finance Act, 2014. Compagnie de Financement Foncier is no longer subject to a lawsuit regarding its offer of a "structured" loan.

- 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 was 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.

## 9. 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.

### 9.1. Risk monitoring and measurement systems

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.

### 9.2. Risk identification and monitoring

Non-compliance risks are identified using a dual approach:

- detection 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;
- analysis of the results of Level I controls carried out by Crédit Foncier operating teams within the scope of Compagnie de

Financement Foncier. These controls target the thematic non-compliance areas identified in the group's compliance standards or the results of thematic approaches.

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

### 9.3. Risk management

The control of non-compliance risks is divided between:

- the controls carried out by Crédit Foncier on its business activity (real estate financing, financial management, etc.) which directly benefit Compagnie de Financement Foncier;

- the compliance controls specifically set up for Compagnie de Financement Foncier notably relate to compliance with the regulations that apply to the acquisition of receivables and the updating of the value of collateral.

### 9.4. Monitoring of dysfunctions

Specific action plans are drawn up by the operational units to address dysfunctions identified during audits or revealed by recurrent operational risk incidents. These action plans are monitored by the permanent control and compliance officers of the departments concerned. 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 groupe Crédit Foncier's Internal Control Committee and Compagnie de Financement Foncier's Risk Executive Committee.

## 9.5 Compliance of investment services

Regarding investment services for own account, related to refinancing activities, cash flow and balance sheet coverage, Crédit Foncier continued to develop the EMIR regulation.

In the context of the application of the Volcker Rule, the Compliance Division drafted the Senior Management report (SMR), based on BPCE SA's report. As a reminder, this SMR is a summary of the enhanced compliance program implemented within groupe Crédit Foncier. It has also centralized the sub-certifications necessary to complete the annual certification signed by its Chief Executive

Officer. This final certification by the Chief Executive Officer, accompanied by the Senior Management report, was sent to BPCE SA in March in the context of Groupe BPCE's<sup>(1)</sup> certification. The Compliance Division, together with the Risk department, defined financial risks across the Crédit Foncier Group control plan and updated the mapping of Volcker and SRAB (Separation and Regulation of Banking Activities) units of the Crédit Foncier Group. This update resulted in the creation of Volcker units specific to the Company and the drafting of "desk manuals".

## 9.6. Approval of new products or services

Consideration of non-compliance risk is integrated into Crédit Foncier's approval process for new products and services. As part of the review and approval process for new products, services or activities, matters specifically related to Compagnie de Financement Foncier, in particular the eligibility of future outstandings for its balance sheet, are systematically examined.

In 2016, the Compliance Division updated the procedure on the organization of the process for the study, creation, approval and

monitoring of products, activities and services in order to take account of developments in the "Business practices and customer protection" questionnaire of the French Prudential Supervisory and Resolution Authority, introduce the changes related to new regulations (Volcker, AEOL, and FATCA in particular), and formalize the final validation of the Compliance Division prior to implementation.

## 9.7. Ethics – Market abuse – Conflicts of interest

Financial ethics standards specifically incorporate regulatory measures arising out of the Market Abuse directive.

Corporate officers, Directors and other personnel acting on behalf of Compagnie de Financement Foncier are governed by this procedure to the extent they are concerned.

The regulation on market abuse has evolved to strengthen July 3, 2016, date of implementation of Regulation 596/2014 of the European Parliament. The Compliance Division presented its main

provisions to the General Management and has applied them within the Crédit Foncier Group, both to closely related persons and insiders.

Finally, the Compliance Division has provided several ethics reminders, one on the exercise of the possibility to alert, and the other on the reporting obligation of the elected and executive positions held by employees of Crédit Foncier.

## 9.8. Combating money laundering and financing of terrorism

Groupe 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.

(1) Composed of BPCE SA and its subsidiaries held at more than 25% and all its affiliates (groupe Crédit Foncier, Banque Palantine, BPCE-I and Natixis).

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## 9.9. Outsourced services

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Essential Outsourced Services within the meaning of Articles 231 to 240 of the ministerial order of November 3, 2014 concerning the internal control of credit institutions, companies providing payment and investment services that are subject to supervision by the French Prudential Supervisory and Resolution Authority (*Autorité de Contrôle Prudentiel et de Résolution* – ACPR) are those covered by

agreements between Crédit Foncier and Compagnie de Financement Foncier. The Corporate Secretariat of Compagnie de Financement Foncier together with Permanent Control Coordination Division is in particular responsible for monitoring services outsourced to Crédit Foncier.





# Report of the Chairman of the Board of Directors

## REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

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## STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF COMPAGNIE DE FINANCEMENT FONCIER S.A

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# Report of the Chairman of the Board of Directors

## prepared pursuant to Article L. 225-37 of the French Commercial Code

### Conditions for preparing and organizing the work of the Board of Directors

#### 1.1. MEMBERS OF THE BOARD OF DIRECTORS

As of December 31, 2016, the Board of Directors of Compagnie de Financement Foncier was composed of 11 members, including the Chief Executive Officer. 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.

#### 1.2. 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 covered bonds and other privileged resources which require certification by the Specific Controller;
- delegation of the powers necessary to carry out these operations;
- examination 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 Committee on Banking and Financial Regulation (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 2016.

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.



### 1.3. COMMITTEES AND CONTROLS

In order to comply with the various changes relating to the governance of credit institutions introduced by directive 2013/36/EU, transposed into the French Monetary and Financial Code (CMF) by Order No. 2014-158 of 02/20/2014 (CRD IV) and the Decree of November 3, 2014, the Board of Directors resolved, at its meeting of December 16, 2014, to establish an Appointments Committee and to change the name of the Audit Committee, in light of all its duties, to the Audit and Risk Committee. At its June 10, 2015 meeting, the Board of Directors resolved to split the Audit and Risk Committee, and established a separate Audit Committee and a separate Risk Committee.

#### 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, 2016, 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 statements;
- choice of Statutory Auditors and Specific Controller;
- examination of the annual report of the Specific Controller.

At December 31, 2016, the Audit Committee had the following members:

- Crédit Foncier de France, represented by Mr Éric Filliat, Chairman;
- BPCE, represented by Mr Olivier Irisson;
- 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, 2016, the Risk Committee had the following members:

- Crédit Foncier de France, represented by Mr Éric Filliat, Chairman;
- BPCE, represented by Mr Olivier Irisson;
- Mr Pascal Chabot;
- Ms Christine Fabresse;
- Mr Dominique Garnier.

Mr Thierry Dufour, Chief Executive Officer, is in charge of permanent and periodic control and compliance for Compagnie de Financement Foncier.

This appointment meets the requirements of 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 Director meeting of February 9, 2016 that appointed Olivier Avis as Deputy Chief Executive Officer voted that he would not receive remuneration for his social mandate. At the same meeting it was decided that as of February 1, 2016, no further

remuneration would be paid to the Chief Executive Officer and the Deputy Chief Executive Officer for their social mandates.

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 that is actually allocated depends on the income of Crédit Foncier for 80%

and Groupe BPCE for the remaining part and, for the Deputy Chief Executive Officer, 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.

## 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 (previously regulation No. 97-02 as amended of the Committee on Banking and Financial Regulation (CRBF)).

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.). The 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 regulations 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 the compliance with the financial regulation. 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 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 it with a number of services, under a series of agreements, particularly with regard to internal control and compliance services. 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, 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".

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 assures the control of outsourced to Crédit foncier activities. The General Secretariat is equally responsible for for the Oversight and Control Division of Compagnie de Financement Foncier, part of the Crédit Foncier's Financial Operations Department.

Compagnie de Financement Foncier entrusts its internal control to Crédit Foncier, the organisation of which also follows Group 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 European Central Bank in 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:

- enable 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 Group's 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 periodically 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 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 major management ratios and 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 a Deputy Chief Executive Officer of Crédit Foncier. Within this department, a Permanent Control Coordination department monitors the overall consistency of the permanent controls system (development and validation of annual audit plans, follows up the update of different entities control levels, monitors the general framework of permanent control and business meetings, etc.).

#### OPERATIONAL PERMANENT CONTROL

First-level permanent operational controls (CP1) are performed within the operational units by employees or their management. The controls are specified in procedural and operating manuals, and unit heads are responsible for producing and updating these manuals.

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

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 the commercial development. He also reports functionally to the Deputy Chief Executive Officer 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 and VMG Oversight and Control” unit, which supervises permanent control of all processes impacting Compagnie de Financement Foncier (particularly the quality of procedures and services) and reports to the Head of Crédit Foncier’s Financial Operations department.

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 responsible for controlling the risk of non-compliance and controlling investment services. It also covers ethics and the prevention of 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** for group Crédit Foncier reports to the Deputy Chief Executive Officer, in charge of the Risk and Compliance Division. He has a three-fold mission: definition of the information systems security policy, oversight of a network of officers within the Company’s entities and assisting and advising the IT department on security issues. In addition, he is now also responsible for the Contingency and Business Continuity Plan (CBCP) for 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.

These three departments report directly to the Deputy Chief Executive Officer, in charge of the Risk and Compliance Division.

- **The “Accounting Audit” unit**, which reports to the Accounting Division but has no operational duties, is responsible for auditing the accounting and regulatory data generated by Crédit Foncier and its subsidiaries.

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 monitoring 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.

The BPCE’s control unit may also contribute to periodic control by auditing group Crédit Foncier and forwarding recommendations to Crédit Foncier’s General Inspection department, which oversees their implementation.

#### Management’s role in controlling employees’ activities

As a key element of operational permanent control, control by line management is usually ensured:

- by analyzing the incident reports, supervisory reports or reports that enable the managers to oversee the activities of their units;
- by a system of delegations, to a large extent incorporated into the IT procedures, or in the form of manual approvals.

#### 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 resolution, the management, 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:

- **National Commitments Committee:** authorizes commitments exceeding the powers delegated to the operational units;
- **Compagnie de Financement Foncier 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's Committee:** approves the market launch of new types of loans and other products and provides 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:** is charged to daily manage the liquidity positions;
- **Financial Management Committee :** analyses, takes decisions and manages the operations that have an impact on financial balances of Crédit Foncier group, especially the disposals, acquisitions and mobilisation of 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;
- **Tariff Policy Committee:** determines loan terms offered to customers;
- **Provisions Committee:** validates the methodologies and the level of provisions of Crédit Foncier;
- **International Run-Off Portfolio Monitoring Committee:** manages strategy and decisions pertaining to the disposal of a significant amount of international securities and receivables;
- **Management Committee** of Compagnie de Financement Foncier: 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 Committee 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 the monthly 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 and its specific unit;
- 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 Oversight and Control Division is responsible for organizing and coordinating three committees exclusively focused on the management of Compagnie de Financement Foncier and its control:

- **Agreements 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 Agreements Monitoring Committee to the Compagnie de Financement Foncier Management Committee;
- **the Management Committee of Compagnie de Financement Foncier:** This 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.

### WORK PERFORMED BY THE GENERAL INSPECTION DIVISION OF CRÉDIT FONCIER

#### Organization and resources of the General Inspection Division of Crédit Foncier

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 2016, the division had a staff of 20 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, then to the Risk Committee of Compagnie de Financement Foncier and to its Board of Directors for the relevant audited units (in the Group plan, the audits in question are specifically identified).

All units within the scope of intervention of the General Inspection department are audited on the basis of an audit cycle of at most four years; intrinsically risky activities are audited more frequently.

During the year, special audits or reviews may be conducted at the behest of Executive Management or the Risk Committees of the Group or of Compagnie de Financement Foncier.

Reports on the audits conducted are sent to Executive Management and to the Risk Committee. Information is also provided to top management at Crédit Foncier, allowing a final review of recommendations prior to implementation.

#### Inspection assignments conducted in 2016

Overall, the General Inspection Division of Crédit Foncier conducted its audit plan in 2016, apart from the "Accounting and summary statements" audit which was deferred until 2017 and replaced by two other assignments (General Administration and FPI-PPP).

The audits conducted were included in the annual audit plan approved by the Risks Committee on December 10, 2015, covering the various segments of group Crédit Foncier relevant to Compagnie de Financement Foncier: loans to individuals, corporates, financial transactions, key ratios, pricing, MO-BO, outsourced services, IS and CBCP.

#### 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 (Reco! system). These reports must be accompanied by supporting documentation provided by the audited entity and containing all the necessary proof of completion. The General Inspection department systematically verifies whether the audit recommendations have actually been implemented by checking documents when the completion rate reaches 100%. The BPCE General Inspection department verifies its own recommendations as well as those by the French Prudential Supervision and Resolution Authority.

A detailed statistical report is prepared quarterly to provide a clear summary report to Executive Management of Crédit Foncier and to its top management. It is sent to the Risk Committee of Compagnie de Financement Foncier regarding recommendations within its own scope only: it includes requests to extend or abandon recommendations. Recommendations not implemented according to the initial timetable are specifically reviewed.

When an entity is re-audited, the status of previous recommendations is systematically examined.

## PROCEDURES FOR AUDITING ACCOUNTING AND FINANCIAL INFORMATION

Following the migration on the shared IT system of Caisses d'Épargne carried out in the end of 2015, the control and auditing procedures were updated.

In fact, accounting was heavily affected by this migration, in two respects:

- firstly, as “recipient” of all management activity;
- and secondly, as a result of changes to its own bookkeeping and analytical tools.

Management processes having an impact on accounting were reviewed. The accounting Department encountered certain difficulties in the oversight of transit accounts that made it necessary to carry out an action plan together with IT-CE (IT service). This action plan would allow to establish a new lettering tool in order to a more efficient supervision and control of accounts. The reporting system easily adapted without any particular hardware problem.

## 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 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 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, which do not have their own Accounting departments. It thus undertakes this work for Compagnie de Financement Foncier.

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> <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 the Groupe BPCE BFC software package).</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>
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, and the Studies and Projects department of the Finance Division.</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 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 department	<ul style="list-style-type: none"> <li>• Permanent controls in accounting, regulatory and tax audits.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit briefing notes.</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 "Accounting and Regulatory Audit Charter" approved by BPCE's Management Board on May 10, 2010.

The Accounting and Regulatory Audit area reports hierarchically to the Head of the Accounting department in 2016 and to the Chief Financial Manager since January 1st, 2017. Otherwise it is functionally attached to the Head of the Permanent Controls 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 work schedule proposed by the accounting and regulatory audit, presented to the Permanent Controls Coordination department and approved by the Internal Control Committee of Crédit Foncier.

These audits include:

- in-depth controls at the quarterly account closing dates, in particular of the evidence supporting the accounts (banking reconciliation, consistency between accounting and management systems, suspense accounts, etc.);
- 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, the department responsible for oversight and control 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 automatic consistency controls before sending them to the French Prudential Supervisory and Resolution Authority (ACPR) and/or the European Central Bank.

### AUDIT OF FINANCIAL DATA

The financial data disclosures (regulatory restitutions intended specifically for the French Prudential Supervisory and Resolution

Authority (ACPR), Registration Documents submitted to the French Financial Markets Authority) are carefully audited by the competent departments (Management Control, ALM, General Accounting, Risks Department).

More specifically, for Compagnie de Financement Foncier, the "Oversight and Control for Compagnie de Financement Foncier and Vauban Mobilisations Garanties" unit is responsible for checking the documents for the Specific Controller and the rating agencies.

## APPENDIX

### COMPAGNIE DE FINANCEMENT FONCIER

#### MEMBERS OF THE BOARD OF DIRECTORS AT DECEMBER 31, 2016

Range of the number of members: 3 to 18

Number of members: 11

Number of Board meetings: 6

Average Attendance Rate: 74.24%

Number of women directors: 1 (9.09%)

Number of men directors: 10 (90.91%)

Attendance fees: yes

#### Surname/First name

#### Company name

#### + Permanent representative

#### Position on the Board/in the Company

#### Appointment date

#### Term expires on

#### Comments

Mr Bruno Deletré	Chairman of the Board	12/18/2013	OGM 2019	Chairman of the Appointments Committee
Crédit Foncier de France SA, represented by Mr Eric Filliat	Director	12/28/1998	OGM 2017	Chairman of the Audit Committee, Chairman of the Risk Committee
Mr Thierry Dufour	Chief Executive Officer and Director	Director since 12/18/98	OGM 2019	
		OGM 2019, Chairman from 07/31/07 to 12/18/13	OGM 2019	
Mr Benoît Catel	Director	Chief Executive Officer since 12/14/07	OGM 2019	
		OGM 2019, Chairman from 07/31/07 to 12/18/13	OGM 2019	
Mr Benoît Catel	Director	02/9/2016	OGM 2019	
BPCE SA, represented by Mr Olivier Irsson	Director	03/28/2011	OGM 2017	Member of the Audit Committee, Member of the Risk Committee
Mr Cédric Mignon	Director	03/25/2014	OGM 2020	
Mr Pascal Chabot	Director	03/25/2014	OGM 2022	Member of the Risk Committee
Ms Christine Fabresse	Director	03/25/2014	OGM 2018	Member of the Audit Committee, Member of the Risk Committee
Mr Francis Delacre	Director	03/25/2014	OGM 2022	
Mr Dominique Garnier	Director	03/25/2014	OGM 2018	Member of the Audit Committee, Member of the Risk Committee
Mr Jean Cheval	Director	03/25/2014	OGM 2020	Member of the Appointments Committee

## 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 13 to 15 submitted to the Ordinary General Meeting of May 15, 2017 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, 2017.

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, 2017.

**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, 2017 :**

	<b>B. DELETRE</b>	<b>T. DUFOUR</b>	<b>O. AVIS</b>
<b>Corporate office :</b>	<b>Chairman of the Board of Directors</b>	<b>Chief Executive Officer</b>	<b>Deputy Chief Executive Officer</b>
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 since February 1st, 2016	
Benefits in kind :	NA		
Payments due when executives give up their corporate offices (Law TEPA)	NA		
Director's fees*:	€1,500 per session with a maximum of €7,500	non	non

\* 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 1st, 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.

## Statutory Auditors' report, prepared in accordance with Article L.225-235 of the French Commercial Code (Code de commerce), on the report prepared by the Chairman of the Board of Directors of Compagnie de Financement Foncier S.A

*This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.*

### **Compagnie de Financement Foncier S.A.**

Registered office: 19, rue des Capucines - 75001 Paris

Share capital: €2,537,459,936

Year ended 31 December 2016

To the shareholders,

In our capacity as Statutory Auditors of Compagnie de Financement Foncier S.A., and in accordance with Article L.225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code for the year ended 31 December 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by Article L.225-37 particularly in terms of the corporate governance measures.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this report contains the other disclosures required by Article L. 225-37 of the French Commercial Code, it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

### **INFORMATION ON THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION**

These professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information.

These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and existing documentation;
- determining if any significant weaknesses in the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board in accordance with Article L. 225-37 of the French Commercial Code.

### **OTHER DISCLOSURES**

We hereby attest that the Chairman's report includes the other disclosures required by Article L. 225-37 of the French Commercial Code.

Paris La Défense, on the 22 March 2017

**KPMG Audit**  
Division of KPMG S.A.  
Xavier de Coninck  
Partner

Neuilly-sur-Seine, on the 22 March 2017

**PricewaterhouseCoopers Audit**  
Anik Chaumartin  
Partner



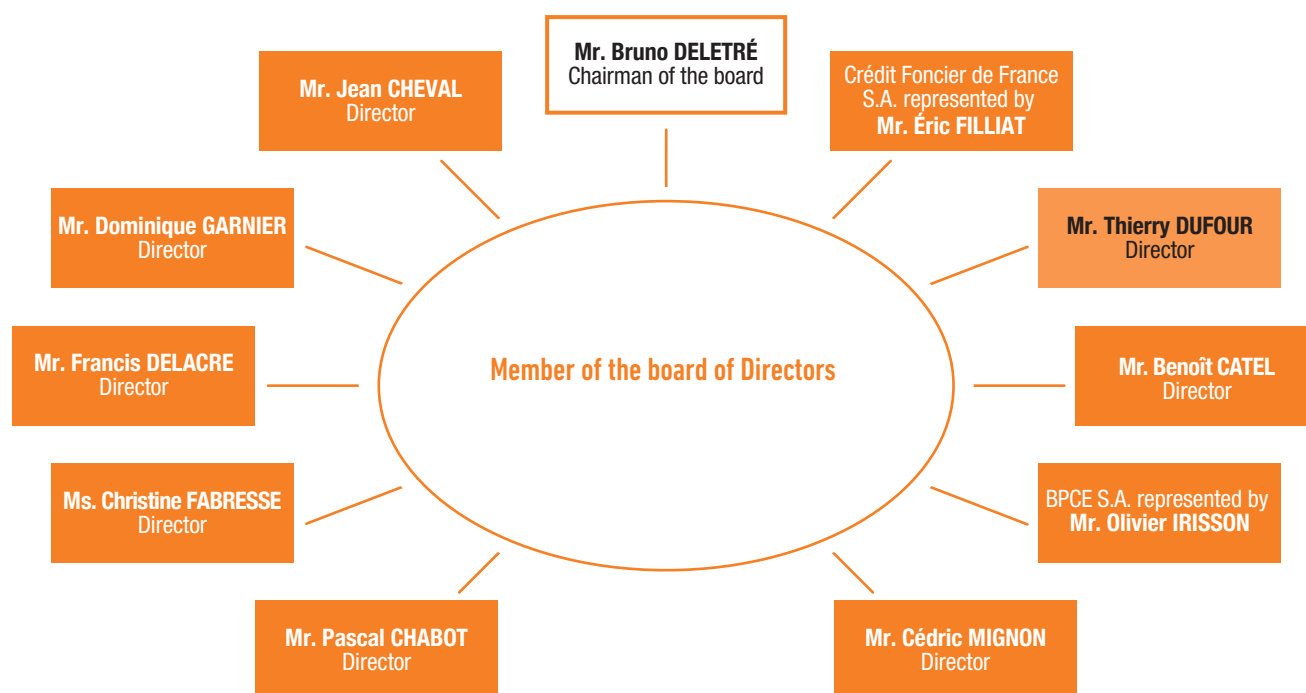


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# 1. Corporate governance

## ■ Members of the Board of Directors and their professional addresses at December 31, 2016



### Movements within the Board of Directors in 2016

On February 9, 2016 the Board of Directors was informed of the resignation of Ms Sandrine Guérin from her term as Deputy Chief Executive Officer and Director effective as of February 8, 2016.

During its meeting on February 9, 2016, the Board of Directors coopted Mr Benoît Catel to replace Ms Sandrine Guérin for the rest of her term until the Annual General Shareholders' Meeting called to approve the financial statements for the 2017 fiscal year, as proposed by the Appointments Committee. The appointment was ratified by the shareholders at the Annual General Shareholders Meeting on May 25, 2016.

## 2. General information concerning the Company

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, three 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 second one relates to the Audit Committee and concerns the proportion of independent directors which cannot be properly implemented.

The third 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
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 strategy	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 to 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
Committee responsible for remuneration	Recommendations implemented
Number of terms for executive company officers and directors	Recommendations implemented
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



## a. Registered office

The registered office of Compagnie de Financement Foncier is located at 19, rue des Capucines, 75001 Paris and reachable at +33 (0) 1 57 44 92 05.

## 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, on October 21, 1999 Crédit Foncier transferred 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, 2016, 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 two agreements between Crédit Foncier, Compagnie de Financement Foncier and a third party:

- an agreement relating to management and recovery of loans subsidized by the French State,
- renewal of the broker agreement (with BPCE, Caisse d'Épargne and Crédit Foncier).

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 conduct all transactions mentioned in Articles L. 513-2 and 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:

- 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. 513-511 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 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° concluding, 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° acquiring and holding 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° concluding, with any insurance company, any agreement that serves the corporate purpose, notably to hedge 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, providing 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° participating 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:
  - carrying 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,
  - entering into any agreement that allows the Company to use essential outsourcing services and related controls.

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## **g. Company registration number**

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Compagnie de Financement Foncier is registered in the Paris Trade and Companies Register under number 421 263 047.

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## **h. Location of legal documents concerning the Company**

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Legal documents concerning Compagnie de Financement Foncier can be consulted at 4, quai de Bercy, 94220 Charenton-le-Pont.

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## **i. Fiscal year**

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The Company's fiscal year starts on January 1 and ends on December 31.

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## **j. Statutory allocation of earnings**

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If the financial statements for a given fiscal year, as approved by the Annual General Shareholders' Meeting, show distributable earnings as defined by law, shareholders shall decide either to attribute them to one or more reserve accounts, the allocation and use of which it determines, 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 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 Shareholder's 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 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.

# 3. General information concerning the share capital

## A. SHARE CAPITAL

As of December 31, 2016, 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 as of December 31, 2016	Number of shares	As a %
Crédit Foncier de France	158,591,240	100.00
Directors	6	n.s.
<b>TOTAL</b>	<b>158,591,246</b>	<b>100.00</b>

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

No change was made to the share capital in 2012.

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 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.

## 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 DE FRANCE, 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.

# 4. Resolutions submitted to the Annual General Shareholders' Meeting

Annual General Shareholders' Meeting of May 15, 2017.

## 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, 2016 as presented and that show a profit of €93,676,428.26.

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 €185,565,839.33, composed of net income for the fiscal year of €93,676,428.26 plus retained earnings of €91,889,411.07, resolved to allocate said distributable earnings as follows:

Allocated to legal reserves: €4,684,000.00

Dividend: €88,811,097.76

Retained earnings: €92,070,741.57

The dividend per share for each of the 158,591,240 shares comprising the share capital is therefore fixed at €0.56.

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 30, 2017.

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, 2017.

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, 2016 approved by the Annual General Shareholders' Meeting in the first resolution set forth above, divided by the number of existing shares.

It amounts to €19.49 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, 2017 and June 15, 2017.

Any shareholder who has not exercised his option by June 15, 2017 at the latest will receive the dividends in cash on the dividend payment date of June 30, 2017.

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 243a 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*
2013	74,216,246	€0.41	€0.41
2014	74,216,246	€1.00	€1.00
2015	158,591,246	€0.80	€0.80

\* 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 2017 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 Auditor's 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 Crédit Foncier 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 2022 fiscal year.

### SIXTH RESOLUTION

The Annual General Shareholders' Meeting, noting that the term of office of BPCE 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 2022 fiscal year.

### SEVENTH RESOLUTION

The Annual General Shareholders' Meeting, noting that the appointment of KPMG, the Acting Statutory Auditor, was expiring, resolved to renew their appointment for six years, ending at the Annual General Shareholders' Meeting called to approve the financial statements for the 2022 fiscal year.

### EIGHTH RESOLUTION

The Annual General Shareholders' Meeting notes that the appointment of Mr Boris ETIENNE, Substitute Statutory Auditor, was expiring.

On the proposal of the Board of Directors and in accordance with Article 19 of the Bylaws, hereby appoints KPMG Audit FS I as Substitute Statutory Auditor for a period of six years. The appointment will end at the Annual General Shareholders' Meeting called to approve the financial statements for 2022.

### NINTH 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 financial year ended December 31, 2016, to Mr Bruno DELETRE, Chairman of the Board of Directors and executive director, as mentioned in the Financial Report.

### 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 financial year ended December 31, 2016, to Mr Thierry DUFOUR, Chief Executive Officer and executive director, as mentioned in the Financial Report.

### 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 financial year ended December 31, 2016, to Mr Olivier AVIS, Deputy 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 financial year ended December 31, 2016, to Ms Sandrine GUÉRIN, 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, following the reading of the report drafted according Article L. 225-37-2 of the French Commercial Code, hereby expresses a favorable opinion on the remuneration of Mr Bruno DELETRÉ, Chairman of the Board of Directors, forecasted for the 2017 financial year.

**FOURTEENTH RESOLUTION**

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, following the reading of the report drafted according Article L. 225-37-2 of the French Commercial Code, hereby expresses a favorable opinion on the remuneration of Mr Thierry DUFOUR, Chief Executive Officer, forecasted for the 2017 financial year.

**FIFTEENTH RESOLUTION**

The Annual General Shareholders' Meeting, acting in accordance with the quorum and majority requirements for Ordinary General Shareholders' Meetings, following the reading of the report drafted according 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, forecasted for the 2017 financial year.

**SIXTEENTH RESOLUTION**

Consultation pursuant to Article L. 511-73 of the French Monetary and Financial Code regarding the overall package of all kinds of compensations paid to persons referred to in Article L. 511-71 of the French Monetary and Financial Code, for the financial year ended December 31, 2016.

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 overall compensation package, totalling €14,127, paid in the financial year ended December 31, 2016 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.

**SEVENTEENTH 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.



# 5. 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° performing all transactions mentioned in Articles L. 513-2 *et seq.* 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. 513-511 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° concluding, 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° acquiring and holding 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° concluding, 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, providing 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° participating 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:

- carrying 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,
- concluding 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 euros) 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 Annual 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. 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 (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.

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 – REMUNERATION 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 decides on the Chairman's term, 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. 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 – 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 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.

## Section VII: Dissolution – liquidation – disputes

### 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.

## 6. General information

### Outlook for Compagnie de Financement Foncier

#### 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 8, 2017 – 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.
- At December 31, 2016, 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 AUDIT – DEPARTMENT OF KPMG SA

Represented by Mr Jean-François Dandé

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

Expiration of term: at the end of the Ordinary General Shareholders' Meeting called to approve the financial statements for the 2016 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

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

### SUBSTITUTES

#### 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

Expiration of term: at the end of the Annual General Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2016.

#### MR ÉTIENNE BORIS

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

Start of term: May 26, 2008

Length of term: six fiscal years

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

## Specific Controllers

### PRINCIPAL

#### CAILLIAU DEDOUIT & ASSOCIÉS

Represented by Mr Laurent Brun

Address: 19, rue Clément-Marot – 75008 Paris

Date of approval from the Banking Commission: June 23, 2004. Approval renewed by the French Prudential Supervisory and Resolution Authority – (*Autorité de Contrôle Prudentiel et de Résolution* – ACPR) on November 14, 2014.

Start of term: June 29, 2004

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

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

### SUBSTITUTES

#### 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.

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

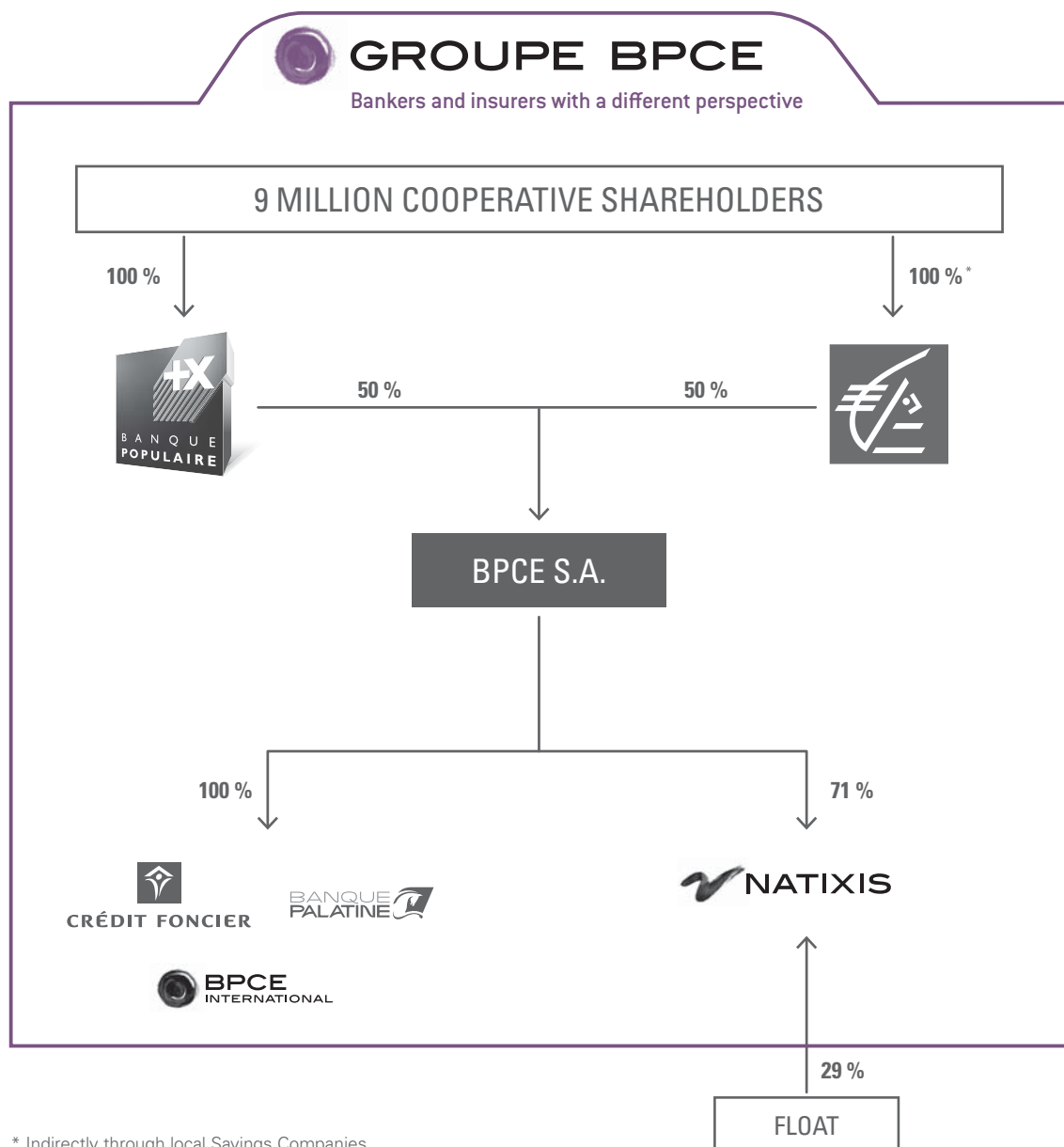


# Appendix

## Positioning of Crédit Foncier, fully-owner of Compagnie de Financement Foncier, within Groupe BPCE

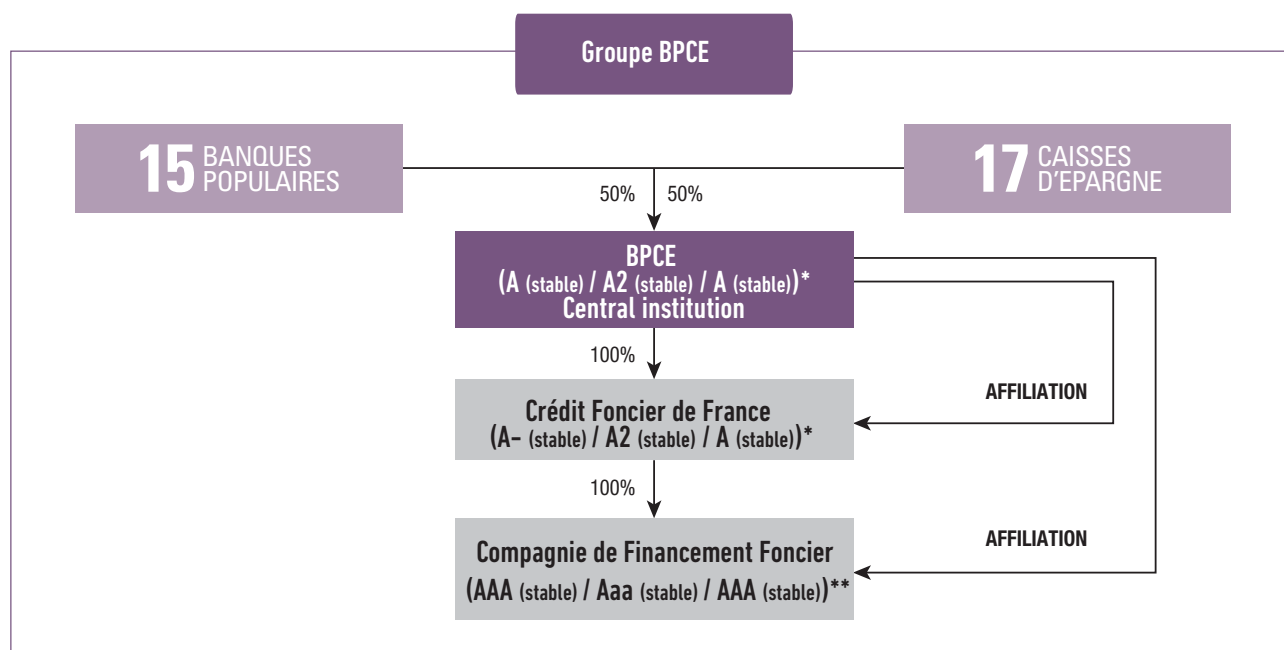
Since the merger of holding companies previously owned by Banques Populaires (BP Participations) and Caisses d'Épargne (CE Participations) on August 5, 2010 within the Central body (BPCE), Crédit Foncier's is wholly owned by Groupe BPCE, the second banking group in France<sup>(1)</sup>.

### ■ Organization chart of Groupe BPCE at December 31, 2016



(1) Market shares: 21.6% of market share for customer savings and 20.7% for customer credits (source: Banque de France Q3-2016 – all non-financial customers).

■ Focus-on the positioning of Compagnie de Financement Foncier



\* Ratings (S&P/Moody's/Fitch) updated as of the Registration document's filing date.

\*\* Ratings (S&P/Moody's/Scope Ratings) of obligations foncières updated as of the Registration document's filing date.



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

## PERSON RESPONSIBLE FOR FINANCIAL INFORMATION

Thierry DUFOUR

Chief Executive Officer Compagnie de Financement Foncier

Address: 4, quai de Bercy – 94220 Charenton-le-Pont

Telephone: +33 (1) 57 44 92 12

Fax: +33 (1) 57 44 92 88

## 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 45 to 78 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, 23 March, 2017

Chief Executive Officer  
Compagnie de Financement Foncier  
Thierry DUFOUR

# AMF Cross-reference Table

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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, 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;  
- the parent company financial statements for the financial year ended December 31, 2014 and the related Statutory Auditors' report, presented on pages 73 to 122 and 123 to 124 of Registration document No. D.15-0329 filed with the AMF on April 13th, 2015.

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• Consolidated financial statements	n/a
• Statutory Auditors' report on the consolidated financial statements	n/a



## **Contacts**

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Investor relations:

[ir@foncier.fr](mailto:ir@foncier.fr)

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

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