



## **Strong and additional commitments to financial markets**

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

For example, Compagnie de Financement Foncier requires overcollateralization above the minimum required ratio, and has adopted rules to minimize the following risks:

- credit and counterparty risk;
- interest rate risk; by systematically hedging variable-rate assets and liabilities;
- liquidity risk: by maintaining enough cash to meet 12 months of privileged debt obligations in a runoff scenario.

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

These additional risk management rules provide extra-security for investors in the company's privileged debt.

### **A particularly high and sustainable overcollateralization ratio**

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

This minimum legal requirement, under which some assets may be weighted less than 100%, is the first level of collateralization.

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

A second calculation of the minimum overcollateralization requirement, which is explained below and is based on Compagnie de Financement Foncier's estimation of asset quality and interest rate risk, is also regularly conducted.

Compagnie de Financement Foncier’s overcollateralization ratio at December 31, 2009 is 110.5%, and therefore above both of the above minimum levels and the non-privileged resources represents 17% of the privileged resources.

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

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

**Two criteria for determining the minimum overcollateralization ratio**

Compagnie de Financement Foncier’s minimum overcollateralization ratio is calculated to cover the credit risk on its assets, and also to ensure that the overall interest rate risk on its balance sheet is covered. The sum of these two calculations determines the minimum overcollateralization that the company has decided to maintain. This rate cannot be less than 5%.

***Overcollateralization of credit risk***

Compagnie de Financement Foncier’s loan portfolio is divided into six sub-categories, by type of borrower, type of property being financed and type of collateral provided. The overcollateralization ratio for each subcategory depends on:

- the estimated credit risk;
- the date the loan was acquired.

The following overcollateralization ratios are currently applied:

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

***Overcollateralization of interest rate risk***

The overcollateralization required to cover Compagnie de Financement Foncier’s overall interest rate risk depends on the size of its balance sheet and on its estimated future earnings. It is 0.5% of Compagnie de Financement Foncier’s assets, minus the net present value of estimated earnings over the next 10 years.

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

- three advance repayment assumptions: no advance repayment, likely advance repayment ratio and a stressed advance repayment ratio that is three times greater than the likely ratio;
- three market interest rate assumptions: benchmark yield curve, stressed cash flow assuming unfavorable borrowing and lending conditions, a 200 bp upward shift in the yield curve.

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

### ***Continuous monitoring of overcollateralization***

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

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

## **Controlling credit risk**

### ***Asset purchasing criteria by category***

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

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

	<b>Standard &amp; Poor's</b>	<b>Moody's</b>	<b>Fitch Ratings</b>
<b>From 0 to 1 month</b>	ST A-1	ST P1	ST F1
<b>From 1 to 3 months</b>	ST A-1	ST P1	ST F1+
<b>From 3 to 12 months</b>	ST A-1+	ST P1	ST F1+
<b>More than 1 year</b>	LT AAA	LT Aaa	LT AAA

### ***Limiting counterparty risk***

<sup>1</sup> Intragroup accounting currently monitors these constraints. Otherwise the corresponding exposures would be collateralized.

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

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

The counterparty agrees that if its rating is or is likely to fall below one of the lowest ratings of one of the credit rating agencies [F1+ or AA- (Fitch Ratings), P1 or Aa3 (Moody's) and A-1+ or AA- (Standard & Poor's)] to pay Compagnie de Financement Foncier (on a daily or weekly basis depending on the counterparty's rating) a security deposit equal to its net debt position, with no compensation for this.

## Management of balance sheet risks

### ***Management of interest rate risk***

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

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

Compagnie de Financement Foncier's balance sheet is structurally protected against interest rate risk, since assets and liabilities are systematically hedged with adjustable-rate swaps.

### ***Covering liquidity risk***

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

Thus, the Company's cash position (with no new activity) is sufficient at any given time to meet the contractual payments on its privileged debt over the coming twelve months.

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

Long aware of the importance of maintaining liquidity, as early as 2007 the CFF group implemented a rigorous policy for managing its liquid assets. The high quality of Compagnie de Financement Foncier's

assets, and in particular of its eligible securities and receivables, give it immediate access to funding from central banks, such as the ECB for important amounts.

With its liquidity thus assured for several years, Crédit Foncier was able to pursue its business serenely in 2009, and in 2010 will be able to meet the needs of its customers in both the public and private sectors.

Compagnie de Financement Foncier also limits the duration gap between its assets and its overall liabilities to two years at most. At December 31, 2009, the duration gap was insignificant (asset duration being 6.44 years and liabilities duration being 6.45 years).

### ***No currency risk***

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

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

*Updated on December 31, 2009.*