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June 20, 2007

Presale:

CM-CIC Covered Bonds

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Presale:

CM-CIC Covered Bonds

Up To €2.5 Billion Fixed-Rate Covered Bonds Series 1 (Up To €15 Billion Program)

This presale report is based on information as of June 20, 2007. The credit rating shown is preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of a final credit rating that differs from the preliminary credit rating. For further ratings information, call Client Support Europe on (44) 20-7176-7176. Members of the media may contact the Press Office Hotline on (44) 20-7176-3605 or via media_europe@standardandpoors.com. Local media contact numbers are: Paris (33) 1-4420-6657; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Investors are invited to call the SF Investor Hotline on (44) 20-7176-3223.

Series	Prelim. rating*	Prelim. amount (Bil. €)	Interest	Available credit support (%)	Legal final maturity
1	AAA	Up to 2.5	Fixed (annually)	Dynamic (see "Maintenance of the portfolio")	TBD

*The rating is preliminary as of June 20, 2007 and is subject to change at any time. A final credit rating is subject to a satisfactory review of the transaction documents, structure and legal opinion. Standard & Poor's ratings address timely interest and principal. TBD-To be determined.

Transaction Participants

Issuer	CM-CIC Covered Bonds
Administrator of the issuer	Banque Fédérative du Crédit Mutuel
Issuer calculation agent	Banque Fédérative du Crédit Mutuel
Borrower	Banque Fédérative du Crédit Mutuel
Collateral providers	Crédit Mutuel entities and Crédit Industriel et Commercial (CIC) entities; Banque Fédérative du Crédit Mutuel for the substitution assets only
Residential loans servicer	Crédit Mutuel entities and Crédit Industriel et Commercial entities
Arranger	BNP Paribas
Cash collateral provider	Banque Fédérative du Crédit Mutuel
Noteholders representative	BNP Paribas Securities Services
Paying agent	BNP Paribas Securities Services
Issuer security agent	BNP Paribas Securities Services
Issuer account bank and custodian	Banque Fédérative du Crédit Mutuel
Asset monitors	Ernst & Young and PricewaterhouseCoopers

Supporting Ratings

Institution/role	Ratings
Banque Fédérative du Crédit Mutuel as the issuer account bank	AA-/Stable/A-1+
Issuer hedging counterparty	An entity rated at least 'A-1'

Transaction Key Features

Expected closing date	July 2007
Program limit (Bil. €)	15
Currencies of covered bonds	Euros, U.S. dollars, Japanese yen, Swiss francs, and any other currency, subject to confirmation from Standard & Poor's

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Transaction Key Features (cont.)	
Issuer collateral	A credit facility between Banque Fédérative du Crédit Mutuel (as borrower) and the issuer
Collateral security	A pool of prime residential real estate loans secured by first-ranking mortgages (second-ranking only if the first-ranking mortgage loans are already selected in the collateral portfolio) or guarantees provided by credit institutions or insurance companies; and substitution assets (maximum 20% of the outstanding covered bonds)

Transaction Summary

Standard & Poor's Ratings Services has assigned a preliminary 'AAA' credit rating to the first issuance under the covered bond program of the CM-CEE Group of up to €15 billion to be issued by CM-CIC Covered Bonds. The proposed size of the first issuance is up to €2.5 billion, but this may change.

Under the program terms, CM-CIC Covered Bonds will issue the covered bonds, using the proceeds to fund a credit facility to be made available to Banque Fédérative du Crédit Mutuel (BFCM). The advances will match the terms and conditions of the covered bonds to ensure full and timely payment under the covered bonds. If BFCM defaults, a pool of residential loans that meet the eligibility criteria (see "Collateral Description") along with the substitution assets will be transferred to the issuer. These assets will secure the financial obligations of BFCM and allow Standard & Poor's to de-link the rating of the program from that of BFCM.

This is the first issuance under the €15 billion global covered bond program set up by CM-CEE Group. It will be backed by a French portfolio owned by the CM-CEE Group and CIC entities of first-lien mortgages (second-lien only if the first-lien mortgage is already included), or residential loans guaranteed by Cautionnement Mutuel de l'Habitat, a CMCEE group entity, or Crédit Logement.

CM-CEE Group comprises:

- BFCM;
- The CM-CEE entities (the "Caisses Locales"); and
- The CIC Group entities (the "Banques Regionales").

Notable Features

This transaction is largely identical to BNP Paribas' recent covered bonds program, and relies on the use of the new collateral provisions of the French monetary and financial code (Articles L 431-7-3) published on July 27, 2005, which implements the European financial collateral directive.

The result is a structure where asset segregation (if CM-CEE Group becomes insolvent) is provided without having to transfer the assets off balance-sheet.

This €15 billion covered bonds program is a complementary funding technique to the more traditional existing unsecured note issuance. for BFCM which acts as the funding arm of the French retail-banking group CM-CEE Group.

Covered bonds are viewed by financial institutions as a way of diversifying the investor base while promoting a rating-delinked issuance source, including longer-term financing.

The French market already benefits from a dedicated covered bond regime known as the "obligations foncières"

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framework. However, this is the second structured covered bonds program to be setup, this choice being mainly driven by the ability to avoid at closing the transfer of assets from the numerous entities of this mutual group into a Société de Crédit Foncier. In the structure, residential loans originating entities will provide these assets as collateral to secure (to the benefit of the issuer) the debt between BFCM and the issuer

Like in previous programs, Standard & Poor's has therefore focused on ensuring that the French courts would recognize a valid security interest in the residential loans or substitution assets that remain on the balance sheet of BFCM, and that if BFCM defaults on certain financial obligations, this security would be enforceable against the CM-CEE Group, or third parties notwithstanding the insolvency of BFCM.

Strengths, Concerns, And Mitigating Factors

Strengths

- As in other covered bond transactions across Europe, the structure provides recourse to residential real estate loans and additional collateral in an amount higher than the debt outstanding under the program if BFCM defaults on certain financial obligations.
- The asset-coverage test (ACT) is designed to provide ongoing adequate protection against, among other things, the credit risk of the residential loans backing the program, their market-value risk in case they need to be liquidated, and the maturity mismatch that may exist between the residential loan pool and the covered bonds.
- The assets forming the collateral pool are all prime residential loans, in contrast to typical mortgage covered bonds in other jurisdictions, which tend to mix residential and commercial mortgage loans. The ACT gives no value to the loans in arrears or defaults and CM-CEE Group entities will be required to add loans or substitution assets if required, as long as BFCM is solvent.
- The ACT includes a cap of the loan-to-indexed value calculation, which will protect against downward spiral in house prices.
- Third-party asset monitors are contracted to check the calculations performed by BFCM as calculation agent regarding the ACT.
- The CM-CEE Group is organized around numerous (approximately 650) "Caisses Locales"; however a principle of solidarity between all members results in a common credit risk. Integrated IT platforms finally contribute to ensure consistent servicing processes and servicing within the CMCEE group.

Concerns

- There is no required minimum portion of first-lien mortgage loans. The loans can benefit from a guarantee from Credit Logement, and also from Cautionnement Mutuel de l'Habitat, an entity within the CMCEE group
- BFCM or group entities carry out several roles, which could cause potential conflicts of interest.
- Contrary to an entity incorporated as a "société par actions simplifiée" (SAS) where it is possible to give an independent shareholder a golden share (that is, one share that can veto all others at a shareholders' meeting), the issuer is a "société anonyme" (S.A.), which is 99.99% owned by BFCM with no independent shareholder having a blocking minority of shares.
- If BFCM defaults, the principal payments on the bonds issued in bullet form cannot be assured solely from cash flows arising on the residential loan pool, and could require a monetization of the pool through securitization or other means.
- If the ACT is breached, BFCM will have until the next test date to provide additional collateral security. If BFCM is unable to do so and the ACT is breached once again, the title of the collateral security assets will be transferred

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to the issuer. However, ownership of any collection under the residential loans or the substitution assets since the last date the ACT was satisfied will remain with CM-CEE Group entities. Furthermore, collections under the residential loans or the substitution assets could be commingled with the servicer assets until borrowers under the residential loans have redirected their payments away from CM-CEE Group entities.
- Since the covered bonds that mature earlier are paid before those maturing later, some time subordination exists.
- No hedging will be in place at closing.

Mitigating factors

- The ACT will ensure that any increase in guaranteed loans will result in higher levels of overcollateralization consistent with a 'AAA' rating.
- If the ratings on BFCM or CIC fall below certain levels, they will be replaced by suitably rated entities. Program documents will strictly govern the parties' functions or capacities to act.
- The issuer is incorporated as a "société anonyme" (S.A.) and licensed as a financial institution with limited and exclusive purpose by the French regulator "Comité des établissements de crédit et des enterprises d'investissement" (CECEI). In addition, BFCM has undertaken not to take any steps leading to the voluntary winding-up or dissolution of the issuer, or change the bankruptcy-remoteness covenants and undertakings. This will mitigate the absence of an independent shareholder with a blocking minority of shares.
- If BFCM is downgraded below 'A-1', it has 60 calendar days to contribute cash collateral in an amount that covers the following nine months at any time of any principal payment due under the covered bonds as well as the issuer's senior expenses. Regarding the ability to monetize the portfolio, Standard & Poor's has assessed the depth and spread stability of both the whole-loan trading market and the French RMBS market. Both are far less developed than in any other European jurisdiction, but Standard & Poor's considers the securitization market to be a resilient potential exit strategy.
- If BFCM or CIC is downgraded below 'A-2', a cash collateral contribution from BFCM will cover in advance two and half months of residential loans collections. Collections under the substitution assets will flow into an account that would be part of the collateral security package, and therefore available to the issuer if BFCM defaults.
- If BFCM is downgraded below 'BBB', the CM-CEE Group entities must be replaced in their servicing capacity.
- If CIC is downgraded below 'BBB', CIC entities must be replaced in their servicing capacity.
- Failure to meet the amortization test will trigger an acceleration of all series of covered bonds of the program. The level of overcollateralization in the program renders an acceleration of the covered bonds ratings-remote.
- If the rating on BFCM falls below 'A-1', hedging at the issuer level must be put in place within 30 calendar days, on predetermined terms at BFCM's cost.
- If BFCM is downgraded below 'A-', it will be required to pay and maintain an amount equal to the registration costs of the mortgages or similar legal privileges (hypothèque or privilège de prêteur de deniers) securing the repayment of any Home Loans granted as collateral security and secured by Home Loan Guarantees granted by Cautionnement Mutuel de l'Habitat. This amount will be estimated by the issuer (or by any of its representatives) subject to Standard and Poor's confirmation. If BFCM is downgraded below BBB, it will be required to (i) ensure that the commitment of Cautionnement Mutuel de l'Habitat is fully guaranteed or insured by a 'A-' rated guarantor or (ii) register mortgages or similar legal privileges (hypothèque or privilège de prêteur de deniers) for Home Loans granted as collateral security and secured by Home Loan Guarantees granted by Cautionnement Mutuel de l'Habitat.

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Structural Overview

One structural difference with BNP Paribas' recent covered bonds program is that the residential loans are provided by the different local entities of the CM-CEE Group as collateral (under the article 431-7 of the French Financial and Monetary code) to secure advances between BFCM and the issuer, and not to secure advances between BFCM and the CM-CEE Group entities. This structure required the analysis of possible corporate benefit issues. The risks are mitigated by the following elements:

- The principle of solidarity that exists between entities within the CM-CEE Group;
- Every collateral provider will benefit indirectly from the positive effect of refinancing for BFCM that is ensuring all refinancing needs of the entities, and a collateral fee will be paid to each collateral provider; and
- Each entity's board will approve the transaction and the relevant entity's participation.

Under the program, the issuance proceeds will be made available by the issuer to BFCM through secured loans ranking pari passu without priority among themselves.

The date of each principal and interest payment due under the advances will match that of:

- The corresponding principal and interest payments under the relevant series of covered notes; and
- All the issuer's senior expenses.

Provided BFCM remains solvent, the interest and principal of the covered bonds will be paid indirectly by BFCM, since interest and principal are fully matched (in amount and in terms of timing) with the payments to be made between the issuer and BFCM (see chart).

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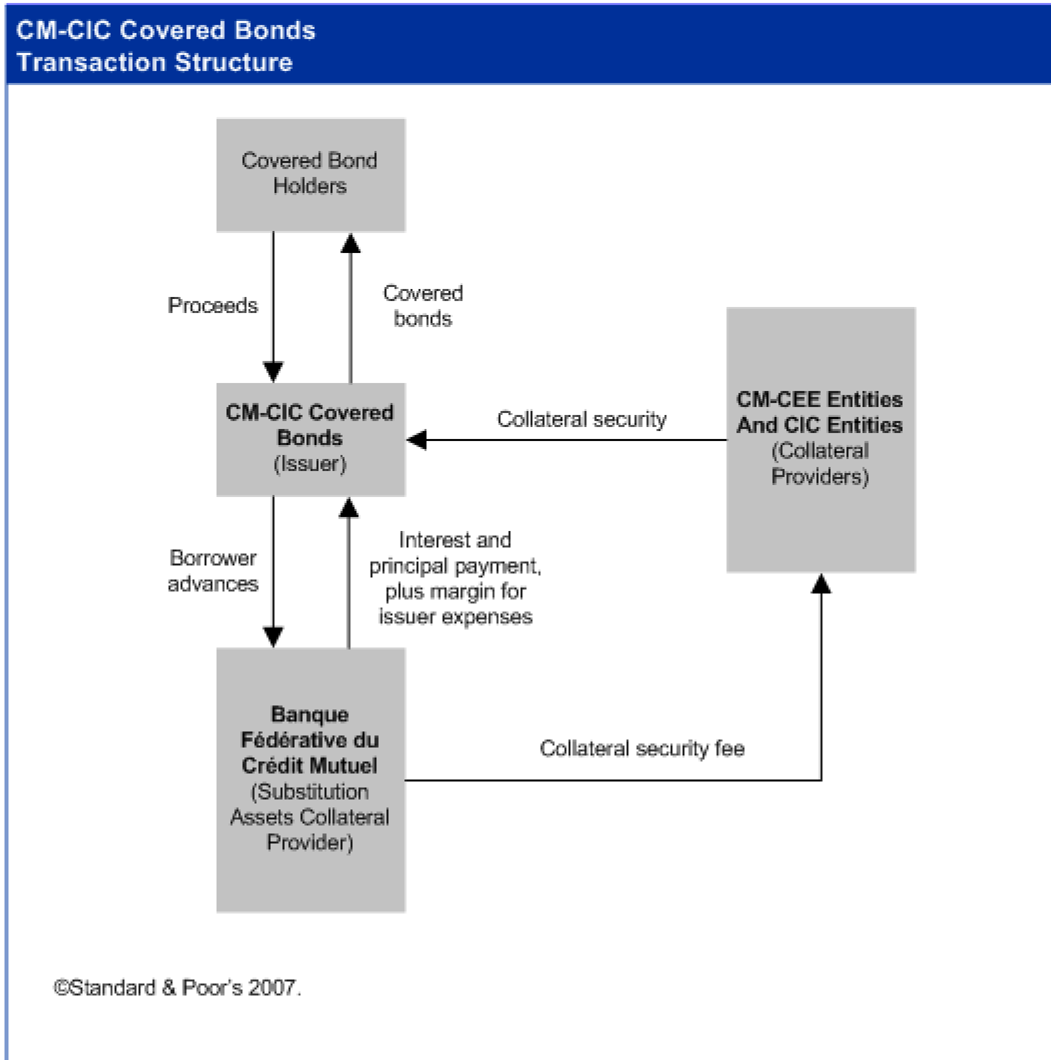

BFCM may onlend the proceeds from the advances to CM-CEE Group entities. The payment obligations of BFCM under the advances will be fully secured by a residential loan portfolio originated by local entities of the CM-CEE Group and CIC Group.

The program also allows the debt to be secured by substitution assets in the form of highly liquid securities.

In addition, the issuer will benefit from cash collateral to be made available to the issuer by BFCM, if certain events occur (see "Pre-Maturity test"). Following a BFCM event of default, the debt may be accelerated.

If a BFCM event of default occurs, the collateral security will be enforced, and the full title of the residential loans and substitution assets will be transferred to the issuer.

Issuer Event Of Default

An issuer event of default will occur if:

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- The issuer fails to satisfy the amortization test;
- The hedging is not concluded if the rating on BFCM is lowered below 'A-1';
- There are any defaults of five days or more in the repayment of any principal due or interest due on the covered bonds;
- The issuer defaults on any material obligation, provided the default is prejudicial to the interests of the noteholders; or
- Proceedings are initiated against the issuer under any applicable liquidation, winding-up, or other similar legal insolvency.

Borrower Event Of Default

A borrower event of default will occur if:

- BFCM fails to pay any sums due under the loan between BFCM and the issuer, subject to a three-day cure period;
- The hedging is not concluded if the rating on BFCM is lowered below 'A-1';
- The pre-maturity test is breached;
- The ACT is breached;
- There is any failure by BFCM to comply with any of its obligations under the BFCM collateral security, provided such default is prejudicial to the interests of the noteholders;
- Proceedings are initiated against BFCM under any applicable liquidation, winding-up, or other similar legal insolvency; or
- Collateral providers fees remain unpaid for more than 60 days.

Legal Aspects Of The Structure

The transaction's legal structure, in particular regarding the availability of the residential loan collateral in an insolvency of BFCM, is based on recent changes to the French monetary and financial code. These changes aim to protect the validity and enforceability of financial collateral arrangements from the adverse effects of insolvency.

Standard & Poor's has received adequate legal comfort regarding the application of the new provisions to this transaction and the residential loans. Standard & Poor's understands that the transaction will be eligible under the new collateral provisions and that the following will be effective, notwithstanding insolvency proceedings against the CM-CEE Group: immediate enforcement of the collateral following a default by BFCM, without any formality or consent.

The documentation provides that the issuer's administrator will enforce the collateral security on the issuer's behalf in these circumstances.

The assets acting as security for the advances will be recorded in the bank's book and records. Every month, BFCM will provide the security agent with a list of all loans and substitution assets that are currently part of the collateral pool.

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Transaction Participants

BFCM (borrower, issuer calculation agent, administrator, and issuer account bank)

The ratings on BFCM (AA-/Stable/A-1+) is based on its core position as the funding arm of the French retail-banking group CM-CEE Group.

In Standard & Poor's view, BFCM's credit risk mirrors that of its parent, CM-CEE Group, given the bank's total operational integration within the parent group.

CM-CEE Group is the largest entity among the regional federations of cooperative banks that form the Crédit Mutuel group. CM-CEE Group 's own creditworthiness is underpinned by its strong franchise in retail banking in France. The group has restructured Crédit Industriel et Commercial (CIC; AA-/Stable/A-1+), acquired in 1998.

CM-CEE Group benefits from a large base of 7.7 million clients, served through the third-largest domestic combined branch network. The group has strong market shares in its northeastern home region, and a national presence through CIC.

Standard & Poor's has conducted a review of CM-CEE Group's origination, underwriting, and collection and default management procedures of residential loans. The lending operation is consistent with criteria used by other large retail banks in France. All residential loans that in are the collateral pool of this transaction must meet eligibility criteria regarding approved product types, loan amount, and final maturity, among other things.

BFCM (as the issuer administrator) will manage all cash transactions and the day-to-day management of the issuer. This includes the servicing of the covered bonds and the debt between the bank and the issuer, and the performance of the obligations and the issuer's regulatory duties.

Upon enforcement of the borrower collateral security, the administrator will take ownership of the residential loans and substitution assets on behalf of the issuer. It will notify the debtors to pay the issuer amounts due under the residential loans.

To meet the payments under the covered bonds, the administrator will sell the relevant residential loans or substitution assets, or arrange its monetization by way of securitization.

BFCM will also act as the issuer bank account provider and will calculate the ACT and the amortization test. If the rating on BFCM is lowered below 'BBB', a substitute entity will perform these tasks and act as servicer.

CM-CIC Covered Bonds (the issuer)

The issuer is a limited company incorporated in France and licensed by the banking authorities. It was established for the solely for this program.

BFCM has undertaken to preserve the limited-purpose nature of the issuer to benefit the covered bondholders, and to maintain covenants that will be provided at closing to ensure the bankruptcy-remoteness of the issuer.

Crédit Logement (home loans guarantor for CIC)

Crédit Logement is a financial institution that provides guarantees for banks' residential property loans granted to individuals. This guarantee is offered as an alternative to the traditional mortgage product that is secured on a property. Crédit Logement is jointly owned by a group that includes several large French banks.

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For further information on Crédit Logement please see the latest full analysis report on Crédit Logement available on www.ratingsdirect.com.

In exchange for an indemnity that covers unpaid instalments, outstanding principal, and exceptional expenses, the borrower pays a financial contribution that covers the remuneration of Crédit Logement and a contribution to a mutual guarantee fund. In addition to the costs and flexibility that the guarantee offers, the attractiveness of the guarantee over the mortgage results also from a partial retrocession of the mutual guarantee fund contribution to the borrower if the underlying loan is fully repaid once the overall performance of Crédit Logement's total portfolio is taken into account

Asset monitor

Ernst & Young and PricewaterhouseCoopers will audit yearly the tests performed by BFCM for the ACT and the amortization test, on the calculation date immediately preceding each anniversary of the program launch date.

Hedging

In the absence of enforcement of collateral security (i.e., as long as the issuer does not benefit from title to the home loans), BFCM will retain any interest or currency risk linked to the mismatch between the collateral security and the covered bonds. If the title to the residential loans (and any substitution assets) is transferred to the issuer following enforcement of the collateral security, the issuer must have appropriate swaps to hedge the currency and interest rate risks arising from the residential loans, since the interest collections from the residential loans will fluctuate in accordance with the interest rates applicable to the residential loans. Interest to the covered bondholders will vary in accordance with the final terms of the series of those covered bonds.

If the short-term rating BFCM falls below 'A-1', the issuer has 30 calendar days to enter—at BFCM's cost—into:

- Issuer hedging agreements concluded by the issuer with a counterparty rated at least 'A-1'; and
- Back-to-back swap agreements concluded with BFCM (the "BFCM hedging agreements").

The purpose of these BFCM hedging agreements will be to transfer to BFCM the benefit of the issuer hedging agreements. When the title to the residential loans is transferred in favor of the issuer following an enforcement of the BFCM collateral security, the issuer must continue the issuer hedging agreements and immediately terminate the BFCM hedging agreements.

Issuer hedging

The issuer will enter into a basis swap with a counterparty that carries the required minimum rating. The basis swap will hedge a notional amount of the residential loans in the collateral security pool against one-month EURIBOR, plus a yet-to-be-determined margin over the residential loans portfolio. The issuer will make monthly payments under the swaps and will receive interest annually.

To hedge its potential interest rate and currency exposure for each series of covered bonds not euro-denominated, or where another interest rate base other than one-month EURIBOR is used, the issuer will enter into several currency and interest rate swaps.

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Backing swaps

Before a default by BFCM, the issuer is not exposed to any hedging risks. It therefore will enter into equal and opposite swap agreements with BFCM as a backing swap provider. Each backing swap will terminate if the collateral security is enforced.

In all cases, termination costs payable by the issuer under any swaps are subordinated in the priority of payments until all the covered bonds are fully repaid.

Note Terms And Conditions

The terms and conditions of each covered bond tranche will be stipulated in the respective pricing supplement.

The maturities of the covered bonds issued may be either "hard" or "soft" (extendable) bullet maturities. The hard-bullet covered bonds are tested nine months before the final maturity date in the pre-maturity test.

The soft-bullet covered bonds carry an extension risk, as their final maturity date could be extended by another 12 months if the funds are insufficient to repay the series of soft-bullet covered bonds on the expected maturity date.

If an extended final maturity applies to a series of covered bonds and the issuer has failed to pay the final redemption amount at the final maturity date (and the administrator determines that the issuer has insufficient funds available to pay guaranteed amounts), the payment of that unpaid amount will be deferred until the extended maturity date. Standard & Poor's ratings address full repayment of the soft-bullet covered bonds by their extended maturity date. Series 2007-1 is hard bullet.

Credit And Liquidity Support

Collateral description

The residential loans that act as security under the advances loans between the covered bond issuer and BFCM will be originated by CM-CEE Group entities. The portfolio composition may have changed significantly at closing. Adequate protection against credit risk is provided through the dynamic ACT (see "Maintenance of the portfolio"). The residential loans in the collateral pool were selected according to eligibility criteria, which include:

- All of the properties must be located in the jurisdiction of the originator of the residential loans;
- Each loan must be made according to customary lending procedures;
- The LTV ratio must not be more than 100% and the loan amount lower than €1 million;
- The loans must be denominated in euros or Swiss francs;
- The remaining term must be less than 30 years;
- All the borrowers must be individuals who are not employees of the originator;
- All loans must be current, and not be defaulted or in default;
- All loans must amortize monthly or quarterly;
- Residential loans must be secured by a first-ranking standard security over residential property (second ranking if the first-ranking mortgage is already selected in the collateral pool, i.e, no second-lien) or guarantee;
- There must be no contractual set-off clauses within the loan agreement; and
- Loans that allow further advances to be made after origination will be subject to Standard & Poor's confirmation.

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A set-off based on interrelated debts ("dettes connexes") may be requested by the debtor under a residential loan to pay the home loan through a set-off against one of its accounts. However, Standard Poor's has received adequate legal comfort that under current French case law, the risk of that request being accepted is commensurate with the 'AAA' rating on the covered bonds.

Credit And Cash Flow Analysis

The issuer's available cash before the enforcement of the collateral security will include payment proceeds under the credit facility and any cash from permitted investments. Once an enforcement notice is served, it will include:

- All interest and principal collections from residential loans and substitution assets;
- Proceeds from any sale or refinancing of home loans and substitution assets;
- Proceeds from enforcement of the home loan security;
- Cash from permitted investments; and
- Cash in the cash collateral accounts.

The priority of payments before pre-enforcement will be:

- Senior fees and tax costs;
- Swap costs (other than swap termination costs) then due and payable;
- Interest amounts due and then payable under the relevant series of covered bonds;
- Principal amounts due and then payable under the series of covered bonds;
- Swap termination costs and other costs of the issuer (other than senior administrative and tax costs), if there are no remaining covered bonds outstanding; and
- Enforcement proceeds surplus, if there are no remaining covered bonds outstanding.

Following an issuer event of default, all covered bonds will become due and payable, and the priority of payments will be:

- Senior fees and tax costs;
- Swap costs (other than swap termination costs) then due and payable (pro rata, pari passu, and in full);
- Interest amounts due and then payable under all the covered bonds (pro rata, pari passu, and in full);
- Principal amounts due and then payable under all the covered bonds (pro rata, pari passu, and in full);
- Swap termination costs and other costs of the issuer (other than senior administrative and tax costs) if there are no remaining covered bonds outstanding (pro rata, pari passu, and in full); and
- Subordinated debt payments (pro rata, pari passu, and in full).

Maintenance of the portfolio

A dynamic ACT is calculated to ensure adequate overcollateralization is available to allow the repayment of the covered bonds in a 'AAA' stress scenario. The asset percentage is dynamic, being no more than 92.5%, thus ensuring that regardless of the portfolio LTV ratio, overcollateralization will always be at least 7.5%. An 80% cut-off to the loan-to-indexed-value calculation in the ACT implies that only the 80% LTV ratio portion of each loan is taken into account for covered bond issuance. If the residential market is affected by value decline, additional collateral under the security package will be required, since the use of an indexed valuation is included in the ACT.

As long as the covered bonds remain outstanding, the calculation agent must ensure that on each calculation date,

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the adjusted aggregate loan amount will be equal to or more than the principal amount outstanding of the covered bonds to comply with the ACT.

On each calculation date, the adjusted aggregate loan amount is calculated as (A+B+C+D)–(Y+Z), where:

- A is the lower of:(i) the adjusted outstanding principal balance of each loan in the collateral security portfolio (which excludes ineligible loans), which is the lower of the actual outstanding principal balance on the relevant calculation date and 80% of the indexed valuation (LTV ratio cut-off); and (ii) the aggregate outstanding principal balance of the loans in the portfolio (which excludes ineligible loans) as at the relevant calculation date multiplied by the asset percentage. These two options are reduced by any sum of financial losses incurred resulting from a material breach of the servicing procedures. Arrears or defaulted loans are not included in the adjusted principal balance.
- B is equal to the aggregate amount of cash in the cash collateral account;
- C is equal to the adjusted aggregate value outstanding under all substitution assets, provided that the outstanding value of a substitution asset in excess of 20% of the outstanding will account for zero;
- D is the adjusted aggregate value of permitted investments;
- Y is equal to (i) zero before any issuer hedging agreement is entered into by the issuer and (ii) otherwise, an amount equal to the payments due under the issuer hedging agreements (plus interest thereon) within the period of a plus two and half months preceding the relevant ACT date where a means the period between two interest payment dates (first day of such period included and last day of such period excluded) under the relevant issuer hedging agreements; and
- Z is the weighted-average maturity of all covered bonds outstanding (subject to a floor) multiplied by the euro equivalent of the aggregate principal amount outstanding of the covered bonds multiplied by 0.5%.

B and C include adjustments to cover market risk if assets are liquidated before their maturity for the payment under the covered bonds at the next interest payment date.

The purpose of Y is to reflect the effect of the payment due under the swap by the issuer to the counterparty in return for the timely payment of the interest on the covered bonds. Therefore, the interest on the covered bonds for a certain period will be paid by the swap counterparty, hence avoiding having to cover these due payments within the pre-maturity cash collateral amount to be provided by BFCM if it is downgraded below 'A-1'. The purpose of Z is to provide sufficient coverage against negative carry after a BFCM event of default.

On each calculation date, the calculation agent will perform the ACT. In addition, Standard & Poor's WAFF/WALS model will be run every three months to determine the asset percentage (subject to a maximum of 92.5%) and to check that the ACT provides a sufficient level of overcollateralization to mitigate any deterioration in the portfolio's asset quality. The calculation will also reflect any spread movement in the RMBS market to account for the possible higher cost of a securitization exit strategy.

An uncured breach will constitute an event of default for BFCM.

After a BFCM event of default, the issuer must ensure that on each calculation date, the assets of the issuer on a risk-adjusted basis will not fall below the outstanding amount of covered bonds in circulation plus an amount reflecting the potential negative carry risk, to ensure that the assets of the issuer are sufficient to meet its obligations under the covered bonds and mitigate the degree of time subordination that exists for later-maturing covered bonds (amortization test). A breach of the amortization test will constitute an event of default for the issuer, and the

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covered bonds will become immediately due and repayable. This event should be 'AAA' remote, as the ACT is designed to ensure that there is always enough overcollateralization available.

Cash flow segregation

To mitigate the risk of the asset cash flows acting as collateral security being commingled with those of an insolvent financial institution, following the downgrade of BFCM below 'A-2', the bank must deposit all funds received under the substitution assets into an account that will be part of the collateral security. In addition, BFCM must create to the benefit of the issuer a cash collateral reserve account in an amount sufficient to cover two months of residential loans collections. Also, if the servicer is downgraded below 'BBB', a substitute servicer will be appointed.

Pre-maturity test

The purpose of the pre-maturity test is to ensure that, before the assets are monetized, there is sufficient liquidity available to redeem each series of hard bullet-covered bonds on the relevant final maturity date. If the short-term rating on BFCM is 'A-1' or lower, BFCM must create a cash collateral reserve covering any principal due under the covered bonds outstanding within the following nine months, as well as issuer senior expenses.

Stress Test And Payment Of Maturing Bullets

In its 'AAA' scenario, Standard & Poor's has assumed the insolvency of BFCM and analyzed how the collateral held by the issuer could redeem the existing covered bonds.

In its rating analysis, Standard & Poor's relied on the ability to monetize the portfolio if the issuer failed to redeem covered bonds on their due date.

The credit and cash flow analysis included a conservative assessment of the portfolio's credit, market, and interest rate risk. Credit risk may arise if nonperforming loans cease to be replaced after BFCM's insolvency. In this respect, the analysis is identical to that that Standard & Poor's would perform on an RMBS securitization. Market risk is linked to the potential requirement to monetize the portfolio to meet a bullet-maturity profile. Based on its review of the market, Standard & Poor's has assumed in its modeling that the loans could be sold through securitization within nine months and with a spread widening of 50 bps compared with conditions prevailing at the time of the BFCM event of default.

Other monetization routes are available, even though they do not have structured modeling assumptions. Interest rate risk arises because cash proceeds from the sale of residential loan portfolios may have to be reinvested at a loss until they are used to retire maturing covered bonds.

According to Banque de France, the size of the French residential market was €134 billion in 2005 (in terms of new production). The volume of securitized residential assets reached an issuance volume of approximately €4 billion in 2005, illustrating that the volume of securitization is clearly not in line with that of the assets that could be securitized. However, this lower volume is not due to any constraints in the market, but rather because the benefit of securitization to French banks has been less important because they have other sources of liquidity and funding.

Even though legislation of the obligations foncières currently includes a 35% limit on the eligibility of guaranteed loans, the ability to sell prime residential assets directly into Société de Crédit Foncier that issues obligations foncières should also not be omitted as a source of potential liquidity.

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Standard & Poor's Surveillance

Continual surveillance will be maintained on the program until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed, pool cuts will be required quarterly, the ACT asset percentage will be recalculated quarterly, supporting ratings will be monitored, and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

Criteria Referenced

- "Cash Flow Criteria for European RMBS Transactions" (published on Nov. 20, 2003).
- "Criteria for Rating French Residential Mortgage-Backed Securities" (published on July 16, 2003).
- "European Legal Criteria For Structure Finance Transactions" (published on March, 2005).
- "Revised Framework For Applying Counterparty And Supporting Party Criteria" (published on May 8, 2007).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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