

LEGAL FRAMEWORK

FMFC: French Monetary and Financial Code – Legislative and regulatory sections

AI: Articles of Incorporation and By-laws of CRH

IR: Internal Rules and Regulations of CRH approved by the Shareholders' Meeting, signed by all of them and integrated into the CRH bond issuance prospectus.

	CRH	Société de Crédit Foncier (SCF)
Type of securities issued	<p>Covered bonds as defined by the European Capital Requirements Directive (CRD)</p> <p>These bonds are governed by article 13 of French law 85-695 of 11 July 1985</p>	<p>Covered bonds as defined by the European Capital Requirements Directive (CRD)</p> <p>These bonds are governed by article L. 515-13 of the FMFC</p>
Legal status of securities issuer	<p>Credit institution authorised as a “société financière”</p> <p>CRH was created in 1985 by the French government as a central agency, then with an explicit government guarantee. Currently, CRH is a private company with the equity owned by French banks</p>	<p>Credit institution authorised as a “société financière”</p>
Business purpose of securities issuer	<p>Exclusively the refinancing of promissory notes issued by shareholders in support of their housing loans through the issuance of bonds under article 13 of law 85-695 of 11 July 1985</p> <p>As a refinancing centre for banks, CRH borrows:</p> <ul style="list-style-type: none"> - to refinance some eligible housing loans <p>CRH lends the proceeds of its bond issues to banks by acquiring promissory notes issued by these banks and having similar characteristics to those of bonds</p> <p>FMFC (art. L. 313-42 to L. 313-49, art. R. 214-7), law 85-695 of 11 July 1985 (art. 13), AI (art. 2), IR (art. 1)</p>	<p>Exclusively, the granting or acquisition of guaranteed loans, exposures to public-law corporations, shares of securitisations and promissory notes, financed through the issuance of bonds under article L. 515-13 of the FMFC</p> <p>As a refinancing subsidiary of a bank, the SCF borrows:</p> <ul style="list-style-type: none"> - to refinance some eligible loans - or to refinance purchases on the market of shares of securitisations similar to these loans (RMBS, etc.) <p>FMFC (art L. 313-42 et seq. and L. 515-13 et seq.)</p>

	CRH	Société de Crédit Foncier (SCF)
Status of refinanced loans	<p>The refinanced housing loans remain on the balance sheets of the borrowing banks and are pledged as collateral to CRH</p> <p>These loans make up the cover pool</p> <p>FMFC (art. L. 313-42 to L. 313-49, art. R. 214-7), law 85-695 of 11 July 1985 (art. 13) and IR (art. 6)</p>	<p>Whether they are initially sold to the SCF or issued by it, the loans remain on the SCF's balance sheet</p> <p>These assets make up the cover pool</p> <p>FMFC (art. L. 515-19)</p>
Recourse mechanism	<p>In accordance with special legal provisions, when the guarantee of the state is not accorded (it's the current situation) the sums or amounts deriving from the promissory notes are allocated, as a matter of priority under all circumstances to the payment of interest and principal on the bonds</p> <p>The promissory notes are covered through the pledging of refinanced loans</p> <p>If the borrowing bank defaults on the servicing of a promissory note, all refinancing that has been granted to the bank becomes due and CRH may become the owner without any formality, notwithstanding all provisions to the contrary, for the entire portfolio of pledged loans. CRH may then sell the portfolio and buy back its bonds in the market in order to cancel and extinguish them</p> <p>The notes held by CRH representing its claims on the banks give CRH recourse under exchange law. In addition, the notes are sometimes endorsed</p> <p>FMFC (art. L. 313-46), law 85-695 of 11 July 1985 (art. 13) and IR (art. 7)</p>	<p>In accordance with special legal provisions, the sums deriving from the assets of SCF are allocated as a matter of priority notwithstanding any provisions to the contrary to the payment of bonds and financial instruments referred to in Article L. 515.18 (mainly swaps)</p> <p>FMFC (art. L. 515-19)</p>

	CRH	Société de Crédit Foncier (SCF)
Types of loans eligible for refinancing (eligible loans)	<ul style="list-style-type: none"> • Housing loans that have: <ul style="list-style-type: none"> - a first-rank mortgage or collateral property that provides at least an equivalent guarantee - the guarantee of a credit institution or insurance company <p>These loans must comply with the terms of §I of article L. 515-14 of the FMFC</p> <p>In addition, these loans must comply with the more stringent terms set by CRH</p> <p>FMFC (art. L. 313-42, L. 515-14, Art. R. 214-7-I, R. 313-20 to R. 313-25), IR (art. 6)</p>	<ul style="list-style-type: none"> • Property loans that have: <ul style="list-style-type: none"> - a first-rank mortgage or collateral property that provides at least an equivalent guarantee - the guarantee of a credit institution or insurance company • Exposures to public-law corporations • Securitisation shares and RMBS and compound with at least 90% of eligible loans <p>These loans must comply with the terms of articles L. 515-14 to L. 515-17 of the FMFC</p> <p>FMFC (art. L. 515-14 to L. 515-17, art. R. 515-2 to R. 515-7)</p>
Geographic coverage area of these loans	<p>European Economic Area, currently exclusively France</p> <p>FMFC (art. L. 313-42)</p>	<p>France, another Member State of the European Union or party to the European Economic Area agreement or a State with the highest-possible credit rating established by an independent credit rating agency recognised by the French Banking Commission</p> <p>FMFC (art. L. 515-14)</p>

	CRH	Société de Crédit Foncier (SCF)
Maximum amount of loan eligible	<p>Up to 60% of the value of the financed asset is eligible for the loan. This amount may be increased to 80% of the value of the financed asset if the entire loan portfolio consists of loans to individuals and is intended to finance home purchases</p> <p>This limit may be raised to 90%, if the amount of the collateralised loans exceeds that of the bonds by at least 25%</p> <p>This amount may be raised to up to 100% of the value of the asset provided as collateral for loans guaranteed by the FGAS or any other institution acting in this capacity</p> <p>FMFC (art. L. 313-42, art R. 313-20 and R. 313-21)</p>	<p>Up to 60% of the value of the financed asset is eligible for the loan. This amount may be increased to 80% of the value of the financed asset if the entire loan portfolio consists of loans to individuals and is intended to finance home purchases</p> <p>This amount may be raised to up to 100% of the value of the asset provided as collateral for loans guaranteed by the FGAS or any other institution acting in this capacity</p> <p>FMFC (art. L. 515-14 et seq., art R. 515-2)</p>
Maximum residual term of eligible loan	<p>Yes</p> <p>25 years</p> <p>IR (art. 6.1)</p>	<p>None</p>
Maximum amount of eligible loan	<p>Yes</p> <p>€1 million (maximum amount of capital remaining due)</p> <p>IR (art. 6.1)</p>	<p>None</p>

	CRH	Société de Crédit Foncier (SCF)
Homogeneity of cover pool	<p>Yes</p> <p>The cover pool is made up exclusively of housing loans granted to individuals or the non-trading real estate investment company (<i>Société Civile Immobilière - SCI</i>) of an individual</p> <p>The pledged portfolio may not include replacement assets</p> <p>FMFC (art. L. 313-42 to L. 313-49, art. R. 313-20 to R. 313-25), IR (art. 1 and 6)</p>	<p>No</p> <p>The cover pool is made up of eligible loans of different types: housing loans, industrial or commercial loans and even securitisation shares (RMBS, etc.)</p> <p>The pledged portfolio may include replacement assets up to 15% of the amount of the bonds</p> <p>FMFC (art. L. 515-17, art. R. 515-7)</p>
Minimum amount of cover pool relative to amount of bonds issued (as a %)	<p>125%</p> <p>FMFC (art. L. 313-48, art R. 313-21), art. IR (art. 6.1)</p>	<p>100%</p> <p>FMFC (art. L. 515-20)</p>
Matching (of rates and maturities) between payments made and payments received	<p>Yes</p> <p>Exact matching of CRH refinancing through promissory notes and CRH loans</p> <p>In addition, some congruence must be maintained between cover pool and CRH'bonds</p>	<p>No</p> <p>But some congruence must be maintained</p>
	<p>Law 85-695 of 11 July 1985 (art. 13), FMFC (art. R. 214-7), AI (art. 2), IR (art. 1 and 6)</p>	<p>CRBF Ruling No. 99-10 of 9 July 1999 (art. 12)</p>
Absence, for the bondholder, of risks arising from the early repayment of loans pledged as collateral	<p>Yes</p> <p>When they are repaid, the loans pledged as collateral must be replaced by the borrowing bank</p> <p>FMFC (art. L.313-44), IR (art. 6)</p>	<p>No</p>

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Procedure aimed at securing the repayment schedule	<p>Yes</p> <p>Five working days before the repayment date of a bond, each borrowing bank must grant CRH an advance corresponding to the amount due</p> <p>The corresponding funds are invested in delivered repurchase agreements of Treasury notes deposited in an open account with the Banque de France</p> <p>Upon maturity, the advances are cleared against the amounts due</p> <p>In the event of a payment default on the advance, CRH therefore has five working days to call liquidity lines among non-defaulting shareholders</p> <p>IR (art. 5.3 and 8.3)</p>	<p>No</p> <p>We are not aware of any such procedure</p>
Commitments of shareholders of the institutions issuing the bonds	<p>Yes</p> <p>Commitments to CRH enable it, in the event of a default by a borrowing bank, to receive liquidity lines from the non-defaulting banks in an amount up to 5% of the total amount of their loans</p> <p>AI (art. 10), IR (art. 8)</p>	<p>?</p>
Recourse beyond the cover pool	<p>Yes</p> <p>If the loan portfolio transferred to CRH following default is insufficient, CRH has recourse against the defaulting bank as an unsecured creditor</p> <p>If CRH experiences difficulties and its assets are insufficient to satisfy the claims of bondholders, the bondholders have recourse against CRH as unsecured creditors, and the borrowing banks that are its shareholders are required to allocate equity</p> <p>FMFC (art. L. 313-46), AI (art. 10)</p>	<p>Yes, in principle</p> <p>However, the bondholder generally has no recourse against the SCF's parent company</p>

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Independence of the bond issuing institution relative to the borrowing group	<p>Yes</p> <p>CRH is body independent of the borrowing banks. These banks become shareholders, but their voting rights are limited through dilution set forth in the Articles of Incorporation. Furthermore CRH does not earn any margin on refinancing</p> <p>AI (art. 2, 6 and 8) IR (art. 1 and 2)</p>	<p>No</p> <p>The SCF's sole purpose is to refinance its parent company.</p>
Issuer not allowed to own shares	<p>Yes</p> <p>FMFC (art. R. 214-7), AI (art. 2) and IR (art. 1.5)</p>	<p>Yes</p> <p>FMFC (art. L. 515-13)</p>
Ban on issuing debt corresponding to unsecured transactions	<p>Yes</p> <p>Except in the case of subordinated debt aimed at strengthening equity or in the event of a default by an issuer of promissory notes; in any event, bonds issued by CRH rank ahead of this subordinated debt</p> <p>FMFC (art. R. 214-7), AI (art. 2) and IR (art. 1.5)</p>	<p>No</p> <p>FMFC (art. L. 515-13)</p>
Special public control	<p>Yes</p> <p>French Banking Authority Apart from this control, the system is controlled by CRH, which has no stake in these refinancing transactions and does not earn a margin on them. CRH is itself subject to periodic controls by the audit departments of its shareholders</p> <p>FMFC (art. L. 313-49), IR (notably art. 6.3 and art. 9)</p>	<p>Yes</p> <p>French Banking Authority and special controller</p> <p>FMFC (art. L. 515-29 and L. 515-30)</p>

	CRH	Société de Crédit Foncier (SCF)
Weighting of bonds in calculation of European solvency ratio for credit institutions	10% using the standardised approach CRBF Ruling No. 91-05 of 15 February 1991 (art. 4.2.1 bis)	10% using the standardised approach CRBF Ruling No. 91-05 of 15 February 1991 (art. 4.2.1 bis)
Maximum portion of mutual fund assets invested in the issuer's bonds	25% FMFC (art. R. 214-7-I)	25% FMFC (art. R. 214-7-I)
Eligibility of the bonds for ECB open market transactions	Yes	Yes
Rating	CRH bonds are rated Aaa	SCF bonds are rated Aaa
Largest bond issue	CRH 4.10% 2015: €5 billion CRH 3.50% 2017: €4.9 billion	CFF 2010: €4.2 billion
Euronext compartment	<i>"Obligations foncières et titres assimilables"</i>	<i>"Obligations foncières et titres assimilables"</i>
IBOXX sub-index	French Covered Legal	French Covered Legal
Total bond volume	€34.5 billion at 30 April 2008	?
Total volume of cover pool	€49.8 billion at 30 April 2008 Made up exclusively of housing loans in France	?

Disclaimer

**CRH Caisse de Refinancement de l'Habitat
35 rue la Boétie
75008 PARIS
Tel: +33 1 42 89 49 10
crh@crh-bonds.com
<http://www.crh-bonds.com>**

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