
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF GROUPE CAISSE D'EPARGNE
FOR THE SIX MONTHS ENDED JUNE 30, 2006**

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MANAGEMENT REPORT GROUPE CAISSE D'EPARGNE – FIRST HALF 2006

1. Significant events during first-half 2006

1.1 Macroeconomic environment

*** The global economy performed well against a backdrop of increased economic volatility**

Despite the sharp hike in oil prices (in second-quarter 2006, the price of Brent crude averaged US\$70 a barrel, peaking at US\$75 in May), international growth remained buoyant (4.9% on an annualized basis).

The US (which saw growth in GDP advance 3.5% over the year but slow in the second quarter) and China (continued growth of over 10%) were once again the main engines of economic expansion. Japan (3.2% growth) continued its marked turnaround on the back of healthier finances in its banking sector, enhanced corporate profitability, a reduction in the national debt, and strong domestic demand.

Against this backdrop, the economic performance of the eurozone is gathering momentum. GDP grew by 0.6% in first-half 2006 (2.1% on an annualized basis), aided by both vibrant export trading (especially in Germany) and increased consumer spending fuelled by a more buoyant labor market. Corporate investment spending also picked up pace, boosted by strong demand and attractive borrowing conditions.

The dollar has fluctuated considerably since the beginning of the year, losing ground against all the major currencies. The average euro/dollar exchange rate was \$1.20 and \$1.26 in the first and second quarter, respectively, against \$1.18 at end-December 2005. The dollar was also down slightly against the yen (-1%).

*** Improved economic performance in France driven by higher levels of consumer spending and growth in industrial output and exports**

The French economy has been experiencing more robust growth since summer 2005 and this trend was borne out by its performance in both the first quarter (GDP up 0.4%), and especially the second quarter (GDP up 1.2%). This performance also confirmed consumer spending as the backbone of growth and helped to stem concerns regarding the foreign trade deficit.

The growth of the French economy was fuelled by strong consumer spending galvanized by lower interest rates on savings accounts, a rise in borrowings and encouraging results on the jobs front.

The French economy has also been buoyed by strong growth in industrial output, which rose 1.6% during the second quarter of 2006 powered by the strong performance of the capital goods sector and, to a lesser extent, the intermediate goods sector. French exports also gained ground, boosted by the improved fortunes of its main trading partners, especially Germany.

*** Higher exchange rates and more volatile markets**

Uncertainty as regards US monetary policy, an upsurge in geo-political conflict and an unpredictable growth outlook led to increased volatility in the US and European stock markets. Stock market performances over the first half of 2006 were mixed, and stock market

indices fell back in May/June. The Eurostoxx 50 index fell 5.3% over the second quarter to 3,649 points, while the CAC 40 shed 4.9% over the same period and dropped to 4,966 points.

Raw materials and real estate prices continued on their upward spiral, despite a loss of momentum in the US. However, the situation remained cause for concern to central bankers in both Europe and the US. The Federal Reserve raised the Fed Fund rate again in March to 5.25%, while the ECB lifted its refinancing rate to 2.75% in June. For the first time since 1991, the Japanese Central Bank broke with its “quantitative” zero-rate monetary policy and raised its base rate to 0.25%.

Interest rates and long-term yields on government bonds have continued to rise both in the US and Europe amid increasingly volatile markets. The ten-year rate on French government bonds stood at 4.10% at the end of June 2006.

1.2 An evolving Group

1.2.1 The NATIXIS project and sale by the CDC of its stake in the CNCE

In March 2006, Groupe Caisse d'Epargne entered into exclusive negotiations with the Banque Populaire Group and on June 6, 2006, the two groups signed the memorandum of understanding that sets out the conditions for the creation of their new joint subsidiary, NATIXIS, which brings together their corporate and investment banking and services businesses.

NATIXIS will be created in several stages: asset transfers; issue and transfer of Cooperative Investment Certificates – “CICs”; and market operations.

The CNCE will first transfer to Natexis Banques Populaires the following assets for an amount of €11 billion:

- its entire interest in: IXIS CIB, IXIS AM group, La Compagnie 1818, CACEIS, Gestitres, CIFG, CEFI, GCE Affacturage, GCE Bail, GCE Garanties, GCE Financial Services and Foncier Assurance, valued at almost €9.5 billion;
- €1.5 billion of the CICs issued by the individual Caisses d'Epargne during 2004.

The remaining CICs issued by the Caisses d'Epargne network will be sold to a special-purpose entity of the Banque Populaire group for an amount of €3 billion, and subsequently transferred to Natexis Banques Populaires in order to even out the stake held by the two Groups.

Also on June 6, 2006, the Supervisory Board of the Caisse Nationale des Caisses d'Epargne approved the conditions under which the Caisse des Dépôts et Consignations will withdraw from the capital of the CNCE. Subject to regulatory approvals, this will be completed as quickly as possible following the creation of NATIXIS.

The CNCE and the CDC agreed on the conditions for reorganizing their business relationship, which are set out in:

- a **memorandum of understanding** representing an irrevocable commitment by both parties in respect of the repurchase of the CDC's interest in the capital of the CNCE;
- a **letter of intent** setting out the terms of a new strategic partnership between the two groups, to be known as the “New Deal”. This partnership will concern non-banking activities, particularly life insurance, real estate and private equity.

1.2.2 Significant events in first-half 2006 within the Group's businesses

Alongside the NATIXIS project, Groupe Caisse d'Epargne was involved in a number of external growth ventures and reinforced or entered into several strategic cooperation agreements over the period. The Investment Banking division remained committed to targeted international expansion, while Groupe Caisse d'Epargne has adopted a forward-looking product policy for all Commercial Banking operations.

Operations in the **Commercial Banking** sphere included:

- Launch of a national real estate leasing division in line with the Group's plan to strengthen its position as a dominant player in this segment. This business will be headed by Crédit Foncier via its subsidiary Cicobail. The launch involved the following operations:
 - o Eurosic's real estate leasing portfolio was transferred to Cicobail;
 - o Cicobail, Mur Ecureuil, Cinergie, Foncier Bail, Investimur and Palatine Mur SNC were merged with retroactive effect from January 1, 2006. Banque Palatine will have a 40% stake in the new entity.
- Roll-out of the common personal care services platform 'Serena' on January 31, 2006. Serena is a jointly-owned subsidiary of the Caisse d'Epargne, MAIF, MACIF and MGEN groups;
- Launch of the *Parcours Confiance* initiative: Groupe Caisse d'Epargne has stepped up its commitment to combat banking exclusion. Caisse d'Epargne has become the first French bank to offer a complete range of banking services to customers experiencing financial difficulties, thus enabling them to stabilize their financial situation. *Parcours Confiance* will eventually be made available to 10,000 private and professional customers every year;
- Acquisition by Financière Océor of the Orane group, which is specialized in arranging tax-efficient transactions for SMEs operating in French overseas territories and departments;
- Signature of a memorandum of understanding between Groupe Caisse d'Epargne and the Banca Carige group to set up a jointly-owned subsidiary that would be domiciled in Italy and specialized in consumer credit;
- First-time consolidation of GCE Habitat;
- Secundis Finance's corporate name was changed to Banco Primus. This Portuguese-based subsidiary is 35%-owned by Crédit Foncier and specializes in mortgage restructuring. Its dual offering consists of mortgage-backed consumer loans and debt restructuring services.

Operations in the **Investment Banking** sphere included:

- Roll-out of the business activities of CACEIS. Following the launch in February 2006 of CACEIS Corporate Trust issuer services, CACEIS completed the operational link-up of its fund administration businesses in France by setting up CACEIS Fastnet, the market leader in French fund administration with 3,695 portfolios (mutual funds and mandates), administered funds of €627 billion and 550 staff;
- Finalization of the acquisition by IXIS CIB of Nexgen, which specializes in financial engineering for major corporations;
- Continued international expansion of IXIS CIB. The Milan branch began operations and a subsidiary was opened in Dubai to market the bank's entire range of products, although its operations will still be structured by teams working out of Paris, London and Tokyo.

1.3 Basel II

The aim of the revised Basel II capital framework is to define a better risk monitoring system and to bring capital into line with exposure to risks. The Basel II rating system appraises credit risk by calculating both the probability of the borrower defaulting on the loan and the rate of loss should the borrower actually default. Basel II also provides for closer monitoring of other types of risk, especially market and operational risks.

The Basel II initiative is a cross-functional project. It has been coordinated by Group Risk Management since the end of 2005 and involves an extremely large number of participants both from the CNCE and the individual Caisses d'Epargne, subsidiaries and IT communities.

Preparation for Basel II compliance by both the Group and its entities continued apace. Different tools have been developed to assess the risk monitoring system in light of Basel II requirements, as well as the status of rated outstandings, which have been reconciled to the relevant accounting balances. A number of presentations have also been given to the Group's steering committees and corporate governance structures.

The Internal Audit department has completed its audit of the rating systems used by Commercial and Investment Banking divisions. The audit involved two external service providers (Deloitte and Standard&Poor's Risk Solutions) and its findings have been passed on to the French Banking Commission.

From January 1, 2008, the Group plans to treat its main asset classes in accordance with Basel II. It has asked the French Banking Commission to review the systems in place within the Investment Banking division (from October 2006) and the Retail Banking business (from the end of 2006).

As regards operational risks, the Group has also informed the French Banking Commission that it intends to comply with the Advanced Measurement Approach (AMA) from January 1, 2009. As a result of financial modeling begun at the end of 2005, the Group now has a Basel II-compliant prototype model for measuring capital. This has already been pilot-tested and should be rolled out to the Group by the beginning of 2007.

1.4 Change in accounting policies: transition to IAS/IFRS

Companies that are not officially listed in the European Union, but whose debt securities are traded on a regulated market, must prepare their consolidated financial statements in compliance with the international accounting standards drawn up by the International Accounting Standards Board (IASB) as adopted for use by the European Union, by 2007 at the latest (EC regulation No. 1606/2002).

The French Finance Minister's order of December 20, 2004 (order No. 2004/1382) authorizes unlisted companies to prepare their consolidated financial statements using international accounting standards prior to 2007.

Groupe Caisse d'Epargne has elected for early application and prepares its consolidated financial statements under IAS/IFRS as adopted for use by the European Union with effect from January 1, 2006.

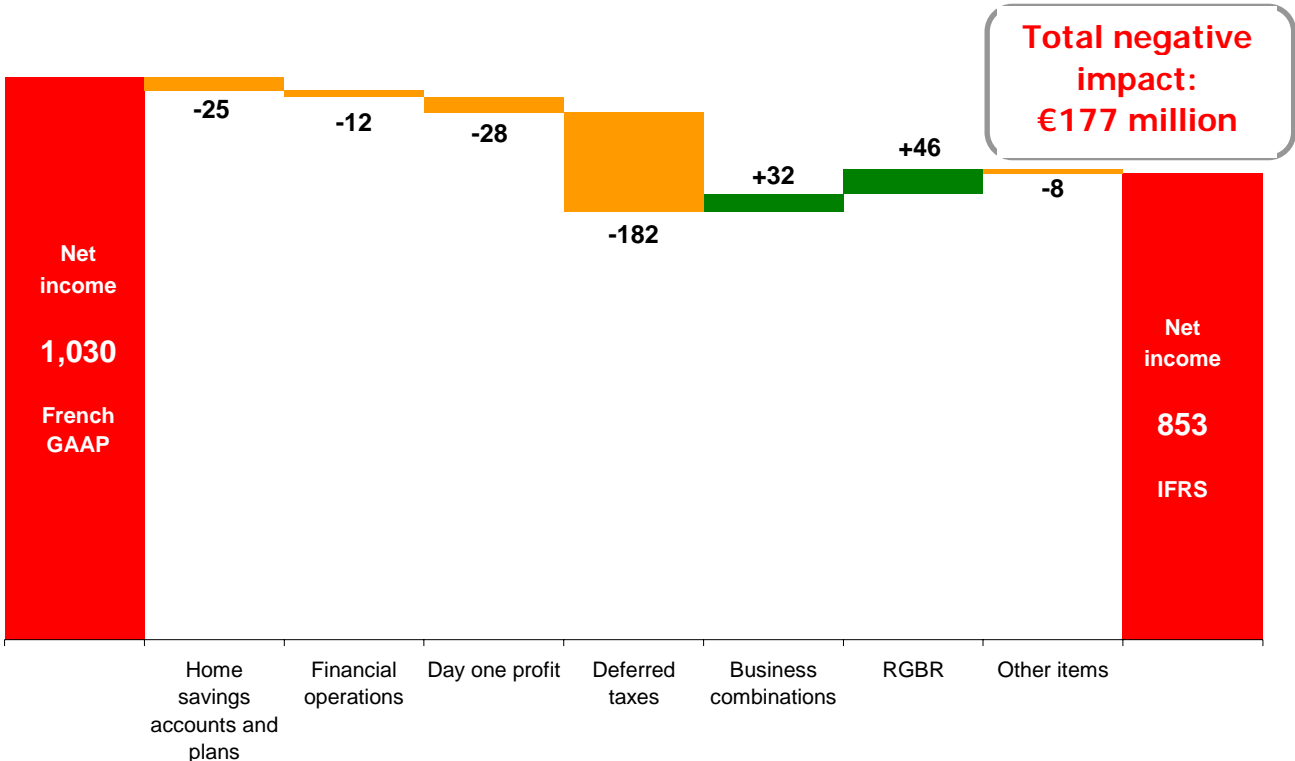
The 2005 consolidated financial statements have been restated under IFRS for comparison purposes. Note 3 to the consolidated financial statements, "First-time adoption of IFRS", sets out the principles adopted by the Group for the preparation of its opening balance sheet under IFRS at January 1, 2005.

The impacts of IFRS adoption on equity and the opening consolidated balance sheet at January 1, 2005 and the 2005 consolidated statement of income, are set out in Note 6 to the interim consolidated financial statements.

2. Strong upswing in performance

Following the Group's decision to elect for early application, its consolidated financial statements are now prepared under IAS/IFRS. The 2005 consolidated financial statements have been restated under IFRS as adopted for use by the European Union and applicable at the balance sheet date (June 30, 2006).

2.1 Overall negative impact of IFRS adoption on first-half 2005 income



(1) Provision for regulated home savings accounts and plans (IAS 37 and IAS 39)

▪ **Application impacts:**

Regulated home savings accounts and plans consist of a capped savings phase during which interest is paid at a regulated rate, and a subsequent phase in which customers are entitled to a loan bearing interest as fixed at inception.

Savings deposits are carried at amortized cost under both IFRS and French GAAP.

A provision should be recognized for future obligations under these schemes, by generation of outstandings. No offsetting is permitted.

▪ **Financial impact for Groupe Caisse d'Epargne:**

At January 1, 2005, a provision of €535 million, net of deferred taxes, was recognized for the difference between the regulated terms and conditions applicable to each of these phases and market conditions.

➤ Net allocations to this provision during first-half 2005 stood at €25 million net of taxes.

(2) Financial operations

- **Securities portfolio (IAS 39)**

The classification of portfolio equity investments has been modified by IAS 39, which classifies financial assets into four categories (financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for sale financial assets).

Changes in the fair value of available-for sale financial assets are recorded by means of an offsetting entry in a specific equity account, entitled "Revaluation reserve". These amounts are only taken to income upon disposal of the securities or whenever the securities are deemed to have suffered a lasting decline in value. Impairment recorded against an equity instrument may not be reversed.

Held-to-maturity assets are recognized at amortized cost. However, unlike under French GAAP, these securities may not be hedged against interest rate risk.

- **Derivatives used for hedging purposes – Specific hedging strategy (IAS 39)**

All derivative financial instruments must be carried at fair value in the balance sheet regardless of the purpose for which the hedge was contracted.

Hedging relationships only qualify for hedge accounting if they are properly documented and meet strict eligibility criteria. The effectiveness of the hedge must be demonstrated at the inception of the contract and subsequently verified.

The Group uses two types of hedge:

- fair value hedges: changes in the fair value of the hedged item is recognized in income symmetrically with the remeasurement of the hedging instrument;
- cash flow hedges: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized on a separate line in equity to be recycled to the income statement, while the ineffective portion is recognized in profit or loss.

- **Derivatives used for hedging purposes – Macro-hedging strategy (IAS 39)**

The "carve-out" from IAS 39 allows macro-hedging transactions (interest rate swaps) carried out within the scope of Asset/Liability Management (ALM) to qualify as fair value hedges.

Gains and losses on the remeasurement of the hedged item are recorded in "Remeasurement adjustment on interest-rate risk hedged portfolios". This neutralizes the impact of any changes in fair value of the hedging instrument and therefore eliminates the volatility of equity and earnings.

- **Financial assets and liabilities accounted for under the fair value option (IAS 39)**

Under IAS 39, entities can choose to designate a financial asset or liability on initial recognition at fair value in the following cases:

- hybrid financial instruments containing embedded derivatives;
- where this option would eliminate or significantly reduce a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring assets or liabilities on different bases;
- when the group of financial assets or financial liabilities is managed and valued on a fair value basis in accordance with a documented risk management or investment strategy.

▪ **Financial impact for Groupe Caisse d'Epargne:**

➤ Financial operations had a negative €12 million impact on first-half 2005 income.

(3) Day one profit

▪ **Application impacts:**

The initial margin generated when a financial instrument is traded is only taken to income if the valuation parameters are based on observable market data.

The initial trading margin generated on financial instruments whose fair value is assessed using valuation techniques incorporating non-observable parameters is recognized in the balance sheet and taken to income as and when these parameters become observable.

▪ **Financial impact for Groupe Caisse d'Épargne:**

Consolidated equity at January 1, 2005 was reduced by the unearned portion of the margins initially recognized on operations that:

- were measured using non-observable parameters,
- were entered into after October 25, 2002, and are still current at the opening balance sheet date.

The impact on the opening balances under IFRS will be recognized in net banking income over the residual life of the financial instruments concerned (amortizable impact).

This will help reduce the volatility of income relating to such operations. The related risks continue to be tracked and managed in the same way.

➔ The non-recognition of day one profit had a negative €28 million impact on first-half 2005 income.

(4) Deferred taxes

▪ **Application impacts:**

The criteria for recognizing net deferred tax assets are broader under IFRS, which requires recognition whenever it is more probable than not that taxable profit will be available against which deductible temporary differences can be utilized.

▪ **Financial impact for Groupe Caisse d'Épargne:**

The impact mainly concerns the individual Caisses d'Épargne due to the increase in net deferred tax assets recognized, especially those relating to the CGR¹ (the deferred tax assets relating to non-taxable provisions were not recognized in an exhaustive manner under French GAAP).

➔ The negative impact on first-half 2005 income resulting from the non-recognition of deferred taxes already recognized in the opening balance sheet is material (€182 million).

(5) Business combinations

▪ **Application impacts:**

Goodwill is no longer amortized. Instead, periodic impairment tests are performed on each cash generating unit and an irreversible impairment loss is taken to income whenever there is objective evidence of impairment.

Under the option available in IFRS 1, entities may choose not to restate business combinations that took place before the IFRS transition date.

Assets and liabilities acquired within the scope of a business combination that took place prior to January 1, 2005 must nevertheless meet the general criteria for recognition under IFRS in order to be included in the opening balance sheet.

▪ **Financial impact for Groupe Caisse d'Épargne:**

The Group has elected not to restate business combinations that took place before January 1, 2005, in accordance with the option provided by IFRS 1.

Intangible assets acquired by the Group, but that do not qualify for recognition as intangible assets under IFRS (e.g., market share and business goodwill), have been reclassified under goodwill.

The tax credit recognized in connection with the NVest acquisition, which represents potential future tax savings arising from the tax-deductibility of US goodwill, is not an identifiable asset under IFRS and does not therefore appear in the opening balance sheet.

The Group does not anticipate any material impairment risk in relation to existing goodwill.

¹ Under the terms of the Fillon law relating to pension schemes in France, the CGRCE pension fund became an employee benefit savings institution (*institution de prévoyance*) and a number of assets were transferred from Group entities to the CGRCE with the aim of setting up provisions regarding the pension obligation in the CGRCE's balance sheet. As these transfers involved the release of non-taxable provisions, they gave rise to tax income under French GAAP.

➡ The cancellation of goodwill amortization had a positive €32 million impact on first-half 2005.

(6) Reserve for General Banking Risks

The Reserve for General Banking Risks is not recognized under IFRS.

2.2 Strong growth in consolidated earnings

in millions of euros	Groupe Caisse d'Epargne		Change	
	H1 2005	H1 2006	Amount	%
Net banking income	4,984	5,715	731	15%
Total operating expenses	(3,838)	(4,009)	-171	4%
Gross operating income	1,146	1,706	560	49%
<i>Cost/income ratio</i>	<i>77.0%</i>	<i>70.1%</i>	<i>-6.9 pts</i>	<i>--</i>
Cost of risk	(76)	(46)	30	-40%
Share of earnings of associates accounted for by the equity method	143	138	-5	-3%
Net gains or losses on other assets	20	1	-19	-93%
Changes in value of goodwill				
Income before tax	1,233	1,799	566	46%
Income tax	(337)	(561)	-224	67%
Minority interests	(43)	(68)	-25	57%
Net income attributable to equity holders of the parent	853	1,170	317	37%
<i>Return on equity (*)</i>	<i>10.2%</i>	<i>12.5%</i>	<i>2.3 pts</i>	<i>--</i>

(*) Based on average equity (excluding deferred and unrealized gains and losses)

Groupe Caisse d'Epargne posted strong earnings growth in first-half 2006, buoyed by a largely favorable business environment and a proactive sales policy. Net banking income rose 15% to over €5.7 billion, gross operating income soared by almost 50% to €1.7 billion, and net income jumped 37% to €1.2 billion.

At June 30, 2006, equity² stood at €20.9 billion against €20 billion at end-December 2005. While continuing to pursue its expansion drive, Groupe Caisse d'Epargne maintained its capital adequacy ratios well above regulatory requirements. The Tier One ratio came out at 9.5% (after deducting all CICs) and post-tax return on equity was 12.5%.

2.3 Reporting by division

Groupe Caisse d'Epargne implemented a matrix-based structure in 2004, organized around two divisions (Commercial Banking and Investment Banking) and cross-functional departments.

Commercial Banking encompasses:

- all operations relating to lending, savings and other banking services carried out by the individual Caisses d'Epargne and other networks operating within the Group, including Banque Palatine, OCEOR and La Compagnie 1818;

² Equity: equity attributable to equity holders of the parent at the balance sheet date, including unrealized/deferred gains and losses.

- activities concerning the management of surplus customer deposits and capital funds, as well as any related refinancing;
- the Group's insurance subsidiaries, particularly CNP, Ecureuil Vie, Ecureuil IARD and GCE Garanties;
- the specialized banking and financial institutions, in particular Crédit Foncier³ and CEFI.

The Investment Banking division is structured around four business lines:

- IXIS Corporate & Investment Bank, the Group's capital markets and financing arm. This division operates on an international scale through its offices and subsidiaries in Europe (Paris, Frankfurt, London, Milan and Luxembourg), the US (New York) and Asia (Hong Kong and Tokyo). IXIS Corporate & Investment Bank has also recently opened a subsidiary in Dubai;
- IXIS Asset Management Group, responsible for financial and real estate asset management in Europe, Asia and North America;
- CACEIS (IXIS Investor Services up to June 30, 2005), the market leader in providing custody, fund management and institutional investor services in Europe;
- IXIS Financial Guaranty (CIFG), specialized in financial guaranty operations, mainly in the US.

A holding structure completes the lineup, encompassing mainly:

- central financing operations conducted by the CNCE for the entire network of the individual Caisses d'Epargne;
- CNCE support functions, excluding those directly relating to management of the Group's businesses;
- management of investments in unconsolidated undertakings;
- overseeing investments made in connection with any surplus capital funds of the individual Caisses d'Epargne;
- managing exceptional income and expense items, such as those relating to the Group's private CGR pension fund, the amortization of fair value measurement adjustments and goodwill impairment.

The breakdown by division is aimed at providing a clearer picture of the results and profitability of the Group's different activities.

Reporting by division is based on the following rules and methods:

▪ **Net banking income**

Net banking income by division includes revenues generated by the divisions concerned, excluding certain exceptional items. Net banking income for the Commercial Banking division also includes the return on the equity allocated to the network of the individual Caisses d'Epargne.

▪ **Total operating expenses**

Total operating expenses of the divisions correspond to total expenditure of the legal entities within each division, combined with the retail banking expenses of the individual Caisses d'Epargne allocated to the Commercial Banking division, and direct costs borne

³ Excluding Foncier Assurance (fully consolidated in 2005, but accounted for by equity method based on a 40% stake in 2006) and SICP (GCE Immobilier) – accounted for by the equity method in 2005 – which appear in insurance subsidiaries and specialized banking and financial institutions, respectively.

by the CNCE in relation to managing and monitoring each business segment (essentially impacting the Commercial Banking division).

Operating expenses included under the holding structure comprise costs related to managing proprietary portfolio transactions on behalf of the individual Caisses d'Epargne and the CNCE, as well as exceptional expenditure and committed costs that cannot be directly allocated to the operating divisions.

▪ **Provisions for contingencies and impairment**

Provisions are booked to cover the risks inherent in each division.

▪ **Net gains or losses on other assets**

This item includes capital gains or losses generated by the businesses on the sale of investments in consolidated companies, property, plant and equipment, and intangible assets.

▪ **Tax charge**

The tax charge of the divisions represents the charge recorded at the level of the legal entities, adjusted if necessary to take account of the income or expense relating to items included under the holding structure. Tax savings arising from group relief generated under the tax group headed by the CNCE and from operations relating to the CGR pension fund are recorded under the holding structure.

Net income by division:

in millions of euros	Commercial Banking		Investment Banking		Holding structure		Groupe Caisse d'Epargne		Change	
	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	Amount	%
Net banking income	3,537	3,851	1,333	1,817	114	47	4,984	5,715	731	15%
Total operating expenses	(2,648)	(2,717)	(878)	(1,137)	(312)	(155)	(3,838)	(4,009)	-171	4%
Gross operating income	889	1,134	455	680	(198)	(108)	1,146	1,706	560	49%
<i>Cost/income ratio</i>	<i>74.9%</i>	<i>70.6%</i>	<i>65.9%</i>	<i>62.6%</i>	<i>ns</i>	<i>ns</i>	<i>77.0%</i>	<i>70.1%</i>	<i>-6.9 pts</i>	<i>--</i>
Cost of risk	(81)	(62)	(14)	21	19	(5)	(76)	(46)	30	-40%
Share of earnings of associates accounted for by the equity method	135	131	8	7			143	138	-5	-3%
Net gains or losses on other assets	24	(3)	(0)	(0)	(4)	4	20	1	-19	ns
Changes in value of goodwill										
Income before tax	967	1,200	449	708	(183)	(109)	1,233	1,799	566	46%
Income tax	(225)	(342)	(135)	(205)	23	(14)	(337)	(561)	-224	67%
Minority interests	(12)	(12)	(31)	(56)	0	0	(43)	(68)	-25	57%
Net income attributable to equity holders of the parent	730	846	283	447	(160)	(123)	853	1,170	317	37%

Both the Commercial and the Investment Banking divisions contributed to the Group's strong earnings growth. The Investment Banking division put in an excellent performance and increased its contribution to net income attributable to equity holders of the parent by 58% year-on-year. The Commercial Banking division saw its net income jump by 16%.

Exceptional items allocated to the holding structure mainly relate to 2005 and include a €149 million provision in respect of the pension obligations of the CGRCE. The purpose of this provision is to provide the institution with the regulatory capital to meet solvency margin requirements by end-2008, in view of its new status as an employee benefit savings institution (*institution de prévoyance*) pursuant to the Fillon law.

Excluding the contribution made by the holding structure, the Investment Banking division generated 32% of the Group's net banking income and 34% of its net income at end-June 2006. The Commercial Banking division, the Group's traditional core business, represents 66% of net income.

3. Commercial Banking: a steady increase in results

in millions of euros	Commercial Banking		Change	
	H1 2005	H1 2006	Amount	%
Net banking income	3,537	3,851	314	9%
Total operating expenses	(2,648)	(2,717)	-69	3%
Gross operating income	889	1,134	245	28%
<i>Cost/income ratio</i>	<i>74.9%</i>	<i>70.6%</i>	<i>-4.3 pts</i>	<i>--</i>
Cost of risk	(81)	(62)	19	-24%
Share of earnings of associates accounted for by the equity method	135	131	-4	-3%
Net gains or losses on other assets	24	(3)	-27	ns
Changes in value of goodwill				
Income before tax	967	1,200	233	24%
Income tax	(225)	(342)	-117	52%
Minority interests	(12)	(12)	0	1%
Net income attributable to equity holders of the parent	730	846	116	16%
<i>Return on equity based on regulatory capital requirements (*)</i>	<i>--</i>	<i>16%</i>	<i>--</i>	<i>--</i>

(*) Return on allocated equity

The Commercial Banking division enjoyed strong forward momentum in first-half 2006 and year-on-year net income jumped 16%.

- **Net banking income was up 9% to almost €3.9 billion**, driven by the strong performance of all of the Group's banners, its specialized finance and insurance entities and, especially, the individual Caisses d'Epargne, Crédit Foncier and its insurance subsidiaries.
- **Gross operating income leapt 28% to over €1.1 billion** buoyed by the combined impact of the increase in net banking income and the lower proportional increase in total operating expenses. **The cost/income ratio shed 4.3 percentage points when compared with end-June 2005.**
- **Cost of risk came in at a very low €62 million** due mainly to favorable lending conditions and the Group's low risk profile.
- **Income before tax grew by slightly less than operating income (up 24%)** to stand at €1.2 billion. This reflects the near-stability of income generated by associates accounted for by the equity method, as well as a fall in net gains on other assets.
- **Net income attributable to equity holders of the parent rose 16%** over the same year-ago period, to **€846 million.**

At June 30, 2006, the Commercial Banking division had average equity of €11.6 billion. **Return on allocated equity**, determined based on regulatory capital requirements equivalent to 6% of risk-weighted assets for banking activities and 100% of the solvency margin for insurance business, was 16% at end-June 2006.

3.1 Net banking income up 9%

In the first half of 2006, the Commercial Banking division continued to enjoy very high volumes despite fierce market competition. The division's net banking income climbed 9% to nearly €3.9 billion. If the impact of adjustments to provision for home savings accounts and plans due to changes in regulated borrowing conditions are netted out (fall in new deposits due to the taxation of interest on regulated home savings plans with terms of over 12 years) net banking income would have risen 6%.

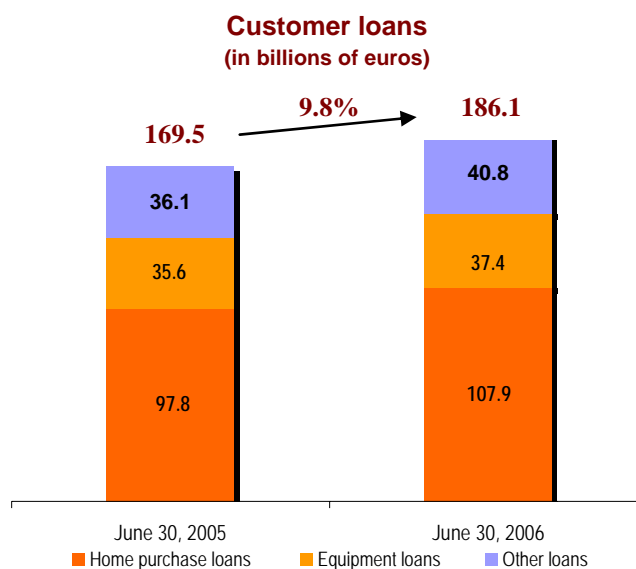
Continuing success in winning new clients

During the first six months of the year, the individual Caisses d'Epargne enjoyed renewed success in expanding its customer base driven by a 46% surge in new bank card issues. They also sold 228,000 new service packages, an increase of 11%. This reflects the success of the decision to pay interest on current accounts, effective since April 14, 2005.

Healthy first-half lending

Total outstandings (including finance leases) jumped 9.8% year-on-year to €186.1 billion, on the back of buoyant demand for real estate and equipment loans.

The Commercial Banking division granted €26.4 billion in new loans up to end-June 2006, a year-on-year jump of 22% on a like-for-like basis. The retail banking network turned in a solid performance, with €16.5 billion in new loans granted over the first six months of the year, reflecting steady growth in its two main services (real estate loans and consumer credit) amid fierce competition and rising interest rates.



The Group has continued to grow its retail banking franchise⁴, while also building a presence in regional development banking⁵.

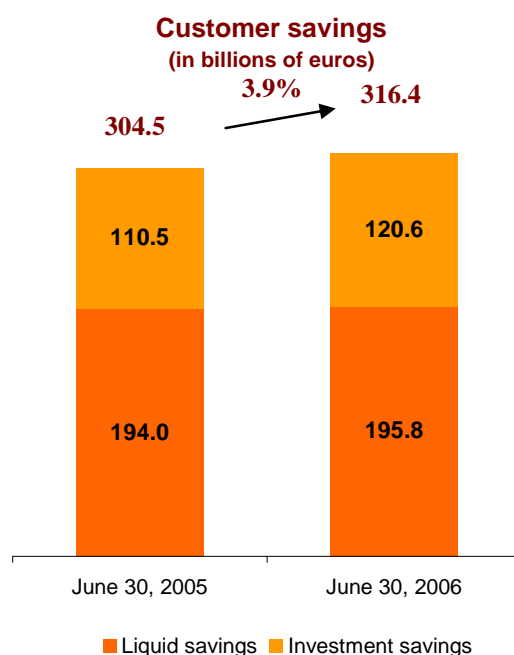
Considerable rise in customer savings

At June 30, 2006, customer savings (excluding demand deposits) amounted to nearly €290 billion, up 3.4% on the year-earlier figure.

⁴ Including the private individual and self-employed professional markets.

⁵ Including the specialized markets (SME/SMIs, social economies, local and regional authorities, social housing, private real estate professionals).

Total customer savings – including demand deposits – climbed 3.9% to €316.4 billion at end-June 2006. This €12 billion year-on-year rise was driven by growth in life insurance.



Liquid savings edged up 1% on June 30, 2005 and totaled €195.8 billion at June 30, 2006:

- savings held in *Livret* passbook accounts grew by €1 billion, to €17.7 billion. This 6% rise was fuelled by the increase in the amounts held in *Livret B* passbook accounts (up 9% year-on-year);
- savings held in Ecureuil accounts, savings certificates and term deposits posted a 12% (€2.5 billion) rise over the period, to €24 billion;
- savings in demand accounts jumped more than 10% to €26.9 billion at end-June 2006;
- unlike other savings products, deposits held in home savings accounts and plans fell 4.4% over the period to €44.4 billion, mainly due to the taxation of interest on regulated home savings plans with terms of over 12 years;
- deposits held in regulated savings funds deposited with the Caisse des Dépôts also declined by 2.5% compared with the same year-ago period, to €82.8 billion at June 30, 2006. This decrease was mainly due to a downturn in new *Livret A* passbook accounts following a cut in the regulated rate of interest paid to account holders during the second half of 2005.

Investment savings totaled €120.6 billion, up 9% on the year-earlier figure. This rise was mainly driven by life insurance, which reported a 14% increase in total outstandings, to €78.8 billion at end-June 2006, and to a lesser extent by savings held in mutual funds, which grew 0.4% year-on-year to stand at €41.8 billion. The Group has turned these activities into formidable growth avenues designed to cushion the impact of the fall in interest paid on regulated savings accounts.

The Commercial Banking division attracted **net inflows** of €3.1 billion in first-half 2006, down 24% on the year-earlier figure due mainly to two factors:

- the cut in interest rates on regulated savings accounts which triggered a fall in new deposits to these accounts. Nevertheless, the Group's multi-brand strategy helped to cushion the impact of these rate reductions;

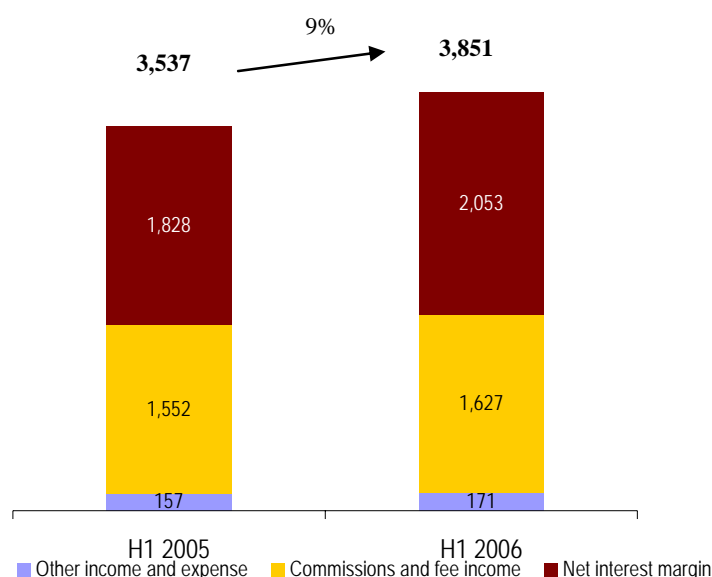
- the tax reform concerning PEL home savings plans with terms of over 12 years, which resulted in a year-on-year fall of €2 billion in new deposits to these accounts.

Life insurance confirmed its place among primary savings products, boosted by net inflows of €4.3 billion within the individual Caisses d'Epargne alone. Life insurance also picked up some of the business from investors eschewing liquid savings.

In addition, the Group continued to sell shares in the individual Caisses d'Epargne to its local customers. At end-June 2006, cooperative shareholders had purchased shares for a total of €3.2 billion since subscriptions began.

Net banking income up 9%

In millions of euros



* Net interest margin

The net interest margin jumped 12% year-on-year to over €2 billion.

The individual Caisses d'Epargne increased their net interest margin by €147 billion, which represented a 12% increase on the year-earlier figure. Despite the adverse impact of lower regulated interest rates on income from the investment of customer deposits and a fiercely competitive marketplace, the individual Caisses d'Epargne have continued to enjoy high volumes of business. The enhanced net interest margin is also attributable to adjustments to provisions for home savings accounts and plans.

The 14% improvement in the Crédit Foncier group's net interest margin mostly reflects exceptional items (capital gains on the sale of real estate, first-time consolidation of Palatine Mur and Eurosic).

The specialized subsidiaries also lifted their net interest margins, especially Gestitres, due to higher volumes of stock market orders executed, and Caisse d'Epargne Financement.

* *Net commission and fee income*⁽¹⁾

in millions of euros	H1 2005	H1 2006	Change	
			Amount	%
From savings products	807	770	-37	-5%
From loans	208	264	56	27%
From banking services and other products	693	764	71	10%
Commissions and other products	1,708	1,798	90	5%

Commissions and other income rose 5% to €1.8 billion, representing 47% of first-half 2006 net banking income.

- **Commissions and fees from savings products** dropped by 5% in the first half of the year.

Commissions and fees from life insurance products over the six-month period came in at €281 million. This 7% increase was achieved mainly thanks to the 14% growth in inflows, driven primarily by the flagship products *Nuances* and *Initiative Transmission*.

Commissions and fees from mutual funds rose 3% over the period to €123 million, due mainly to the higher fees charged by the individual Caisses d'Epargne on guaranteed funds (from 1% to 1.5%) and higher investment quotas.

Commissions and fees from regulated savings products dropped back 14% year-on-year to €366 million, in line with the fall in income received by the Group on *Livret A* passbook and *Codevi* accounts.

Livret A passbook accounts contributed €324 million (down 11%) due to two consecutive 10-euro-cent reductions in the commission rate on the provision of *Livret A* passbook accounts in 2005. The contribution of *Livret A* passbook accounts to the Commercial Banking division's net banking income was 8.4%, down from 10.3% at end-June 2005.

- **Commissions and fees from loans** leapt 27% to €264 million for the first six months of 2006.

Payment protection insurance contributed €114 million (i.e., 43% of the total), representing a year-on-year increase of 15% – primarily driven by a vigorous real estate lending market and the renegotiation of the partnership with the CNP. Early repayment loan penalties grew on the back of lower interest rates. Incidental commissions on loans soared 38% when compared with the year-earlier figure.

- **Commissions and fees from banking services and other products** continued to show strong growth, increasing 10% to €764 million at end-June 2006.

- commissions and fees from banking services

This item was boosted by the 3% increase in service charges and fee income from expanding customer relationships due to the rise in the average number of customer service packages and custody service commissions. Commissions from general risk insurance surged 2.9%, reflecting the continued improvement in equipment levels.

- other products

⁽¹⁾ Income generated by the distribution of *Livret A* passbook accounts is included in commission and fee income for the purposes of the management report.

Gross margin on insurance business, which accounts for over half of all commissions on other products, jumped 15% year-on-year to €88 million, as a result of strong growth in guarantees and non-life insurance.

The insurance business turned in a great all-round performance in the first six months of the year:

- non-life insurance performed strongly in the first six months of the year, particularly general insurance cover which saw revenues jump 23% to €149 million. Ecureuil IARD consolidated its position as one of France's leading bancassurance specialists providing general insurance cover, with a portfolio of 1.45 million contracts under management;
- the guarantees business also grew on the back of a resilient real estate market. GCE Garanties revenues leapt 29% to €105 million for first-half 2006.

Life insurance – which includes the income generated by Ecureuil Vie and is shown under share of earnings of associates accounted for by the equity method – reported gross inflows of €6.5 billion at end-June 2006, up 22% on end-June 2005. This growth was fuelled by the success of Nuance 3D multi-life insurance products and Ecureuil Vie private life insurance plans. Ecureuil Vie had total managed funds of €76 billion at end-June 2006, up 12% on the same year-ago period.

3.2 Contained 3% growth in total operating expenses

In millions of euros	H1 2005	H1 2006	Change	
			Amount	%
Personnel costs	(1,595)	(1,635)	-40	2%
Taxes other than on income	(78)	(81)	-3	4%
External services	(829)	(860)	-31	4%
Depreciation, amortization and impairment	(146)	(141)	5	-3%
Total operating expenses	(2,648)	(2,717)	-69	3%

Personnel costs – which accounted for 60% of total operating expenses – rose by 2% during the period to more than €1.6 billion, reflecting the dual impact of higher staffing levels and salary costs:

- €24 million of this rise is due to the increase in headcount across all the Group's banners (headcount grew 1.1% in the individual Caisses d'Epargne and in the banking networks) and in most subsidiaries;
- the rise in salary costs was mainly driven by the increase in variable remuneration;
- the rise in personnel costs is also attributable to the first-time consolidation of Orane (Océor group) and the development strategies of La Compagnie 1818 and Banque Palatine.

Other total operating expenses edged up 3% to €1.1 billion. They included:

- taxes other than on income which rose 4% to €81 million;
- external services, which climbed €31 million (4%), to €860 million. The individual Caisses d'Epargne incurred higher rental, research and advertising expenses while the insurance businesses and the Océor group spent more on external services in order to grow their activities. The increase also reflects investments relating to regulatory commitments (particularly Basel II), as well as risk monitoring and management projects;
- depreciation and amortization expense fell 3% over the period to €141 million.

A 28% jump in gross operating income

Gross operating income leapt 28% year-on-year, to €1.1 billion. The Commercial Banking division's **cost/income ratio** improved 4.3 percentage points on first-half 2005 to stand at 70.6%. Similarly, the average cost/income ratio for the aggregate Caisses d'Epargne improved by an impressive 8.4 percentage points and came in at 61.5% for the first six months of the year (source: CNCE parent company financial statements). More than three-quarters of the individual Caisses d'Epargne now have a cost/income ratio below 65%.

3.3 Tight rein on cost of risk

	H1 2005	H1 2006	Change	
			Amount	%
Cost of risk (€millions)	(81)	(62)	19	-24%
Performing loans (€billions)	167.5	184.2	17	10%
Non-performing loans (€billions)	4.8	4.5	0	-6%
Non-performing loans/performing loans	2.8%	2.4%	-	-0.4 pt
Cost of risk/total outstanding loans	0.05%	0.03%	-	-0.01 pt

At end-June 2006, cost of risk amounted to €62 million. This decrease was mainly attributable to a fall of €15 million in provisions for individual recognized risks due to the enhanced risk profile of the individual Caisses d'Epargne. Movements in the cost of risk relating to portfolio-assessed provisions remained limited (-€4 million).

Non-performing loans represented 2.4% of total customer outstandings, down 0.4% on the year-earlier figure. Cost of risk for the first six months of the year as a proportion of aggregate outstanding customer loans remained extremely low, at 0.03% at end-June 2006.

3.4 A 24% leap in income before tax

Income before tax surged 24% to €1.2 billion in first-half 2006. This was due to the combined effects of a lower cost of risk, a fall in net gains on other assets (CFF generated a capital gain of €38 million on the sale of Capri in 2005) and a drop in income from associates accounted for by the equity method, who contributed €131 million in the first half-year (down 3%), mainly due to lower earnings at the life insurance businesses CNP and Ecureuil Vie (interest rate movements had a negative impact on income calculated under IFRS).

3.5 Consolidated net income and return on equity

Income tax expense rose 52% over the period to €342 million, in line with the rise in consolidated income.

Minority interests remained stable over the period and stood at €12 million at end-June 2006. The Commercial Banking division contributed €846 million to the Group's first-half net income versus €730 million in the same year-ago period (up 16%).

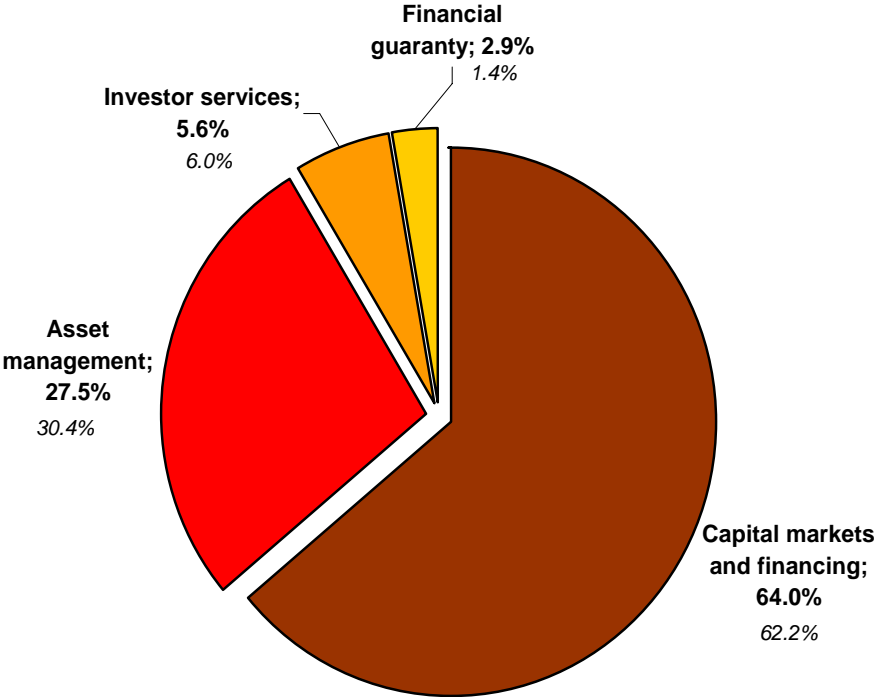
Regulatory return on equity for the Commercial Banking division stood at 16% after tax, based on regulatory capital requirements equivalent to 6% of risk-weighted assets for banking activities and 100% of the solvency margin for insurance business.

4. A great half year for Investment Banking

The Investment Banking business turned in a stellar performance during the first six months of 2006, buoyed by strong results from all of its business lines, and net banking income soared 36%. The rise in general operating expenses reflects the increase in the variable portion of employee compensation paid, resulting from the high level of business and continued investments. The above factors, combined with very low cost of risk, drove a 58% surge in net income.

The capital markets and financing business operated by IXIS CIB remained the largest contributor, generating more than 55% of the division's net banking income and 64% of its net income.

Net income attributable to the equity holders of the parent up 58% to €447 million



% in italics are for first-half 2005

4.1 Capital markets, financing and financial guaranty

4.1.1 Capital markets and financing

in millions of euros	Capital markets and financing		Change	
	H1 2005	H1 2006	Amount	%
Net banking income	700	1,000	300	43%
Total operating expenses	(430)	(563)	-133	31%
Gross operating income	270	437	167	62%
<i>Cost/income ratio</i>	<i>61.4%</i>	<i>56.3%</i>	<i>-5.1 pts</i>	<i>--</i>
Cost of risk	(12)	20	32	ns
Share of earnings of associates accounted for by the equity method	4		-4	ns
Income before tax	262	457	195	74%
Income tax	(82)	(165)	-83	ns
Minority interests	(4)	(6)	-2	37%
Net income attributable to equity holders of the parent	176	286	110	62%
<i>Return on equity based on regulatory capital requirements (*)</i>	<i>--</i>	<i>24%</i>	<i>--</i>	<i>--</i>

(*) Return on allocated equity

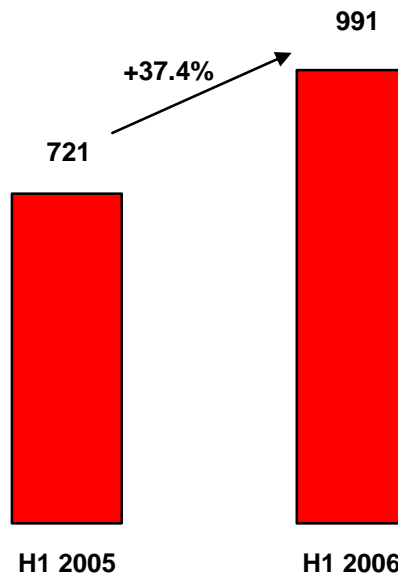
IXIS CIB continued to develop its business activities during the first six months of the year, and:

- finalized its acquisition of 100% of the share capital of Nexgen, which is now a fully consolidated subsidiary (accounted for by the equity method in 2005);
- set up a subsidiary in Dubai;
- consolidated the venture capital mutual fund IXIS Environnement & Infrastructures for the first time.

Economic net banking income⁽¹⁾ for first-half 2006 stood at €991 million, a year-on-year leap of 37%.

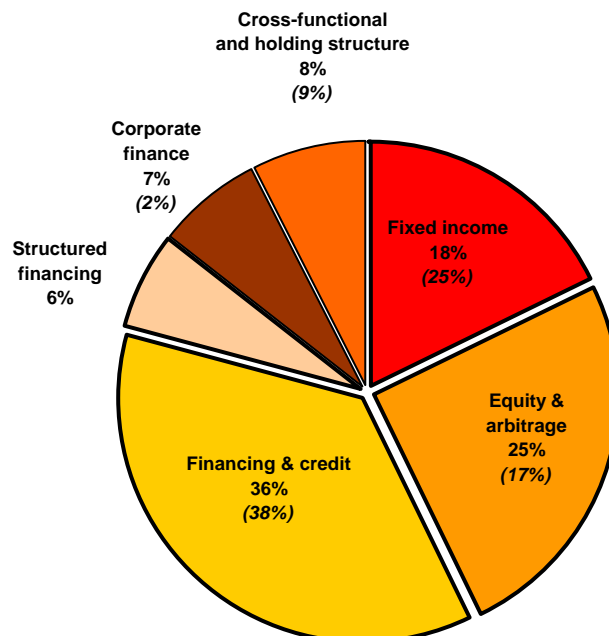
(1) Economic net banking income represents net banking income for the business line, adjusted for operating revenues that are recorded in other income accounts.

*** Economic net banking income**
(in millions of euros)



The European and Asian markets generated the bulk of economic income (76%) while the remaining 24% was generated in the US.

IXIS CIB worldwide business lines all performed strongly: the equity & arbitrage business and financing & credit business accounted for over 60% of economic net banking income. Changes in the relative contributions of the different businesses point to a growth in corporate finance and equity markets.



% in italics are as at June 30, 2005

- Revenues from the **fixed income business** are on a par with first-half 2005.
- **The equity & arbitrage** business had an outstanding six months, with revenues soaring 98% on the back of:
 - equity derivatives, which benefited from the product development strategy (development of new products tailored to the European and Asian markets) and international diversification;
 - arbitrage operations, boosted by a buoyant market for directional options and mergers & acquisitions.
 IXIS Securities also grew its revenues by 26% thanks to a solid performance in the French market.
- **The financing solutions & credit business** put in a robust performance and revenues were up 30% on one year earlier.
 - The credit business fared especially well in Europe and Asia where a buoyant market for structured credit solutions paved the way for a number of major operations using CDOs and securitization.
 - Structured financing now accounts for 47% of the portfolio of total outstandings, excluding business conducted with the local government sector, against 34% at end-June 2005. During the period, IXIS CIB was awarded the role of lead arranger in a number of structured financing deals during the first half of 2006.
- As regards the other businesses, **corporate finance** had a good half-year thanks to the favorable impacts of the Lazard partnership and the first full consolidation of Nexgen's results.

* Total operating expenses

Total operating expenses for the capital markets and financing business rose 31%. The full consolidation of Nexgen accounts for 10% of this increase (Nexgen was accounted for by the equity method in the 2005 consolidated financial statements).

The remainder of the increase was due to:

- a 10% increase in headcount, mostly outside France;
- the higher variable portion of employee compensation resulting from the high level of business;
- investments carried out to support business development.

* **Gross operating income** leapt 62% to €437 million. The cost/income ratio, which improved by 5.1 percentage points, to 56.3%, is one of the lowest in the industry.

* **Cost of risk** amounted to €20 million following the release of portfolio-based collective provisions due to the repayment of loans or improved counterparty ratings.

* **Income before tax** stood at €457 million.

* **Net income attributable to equity holders of the parent** came in at €286 million for first-half 2006, an impressive 62% leap on the year-earlier figure. Regulatory return on equity for the capital markets and financing business stood at 24% after tax (based on equity allocation equal to at least 6% of risk-weighted assets)

4.1.2 Financial guaranty

in millions of euros	Financial guaranty		Change	
	H1 2005	H1 2006	Amount	%
Net banking income	22	36	14	63%
Total operating expenses	(13)	(17)	-4	33%
Gross operating income	9	19	10	ns
<i>Cost/income ratio</i>	<i>59.3%</i>	<i>48.1%</i>	<i>-11.2 pts</i>	<i>--</i>
Net income attributable to equity holders of the parent	4	13	9	ns

CIFG is present in all segments of the financial guaranty market in Europe and the US, namely:

- credit enhancement for infrastructure development and projects, local authorities and sovereign risk: issues guaranteed by CIFG on the primary market represent over 95% of this business;
- structured financing operations (CDO, CLO, credit card securitization, automobile loans, mortgages, ABS, etc.).

There was a surge in guarantees written during the first six months of 2006, resulting in a 33% rise in outstanding guarantees net of portfolio commitments over the half year, to US\$56.9 billion at June 30, 2006.

This US\$56.9 billion portfolio consists of US local government borrowing (27%), US structured products (41%), European local government and infrastructure funding (8%), and European structured products (24%). Nearly two-thirds of the underlying assets are rated "AA" or above.

The Adjusted Gross Premium soared 180% year-on-year, to US\$107 million.

Net banking income surged by more than 60% year-on-year to €36 million, bolstered by the growth in guarantees written. **Net income** advanced significantly, to €13 million.

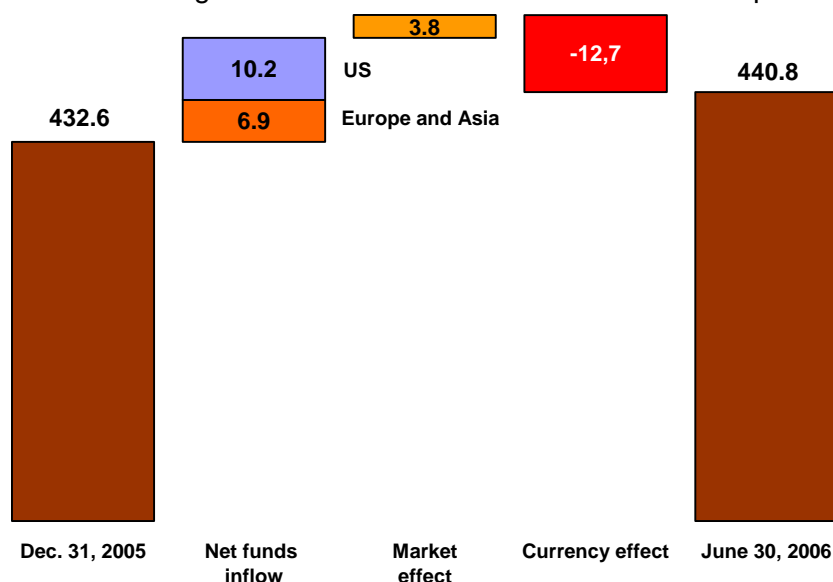
4.2 Asset management, custody and investor services

4.2.1 Asset management

in millions of euros	Asset management		Change	
	H1 2005	H1 2006	Amount	%
Net banking income	530	663	133	25%
Total operating expenses	(380)	(478)	-98	26%
Gross operating income	150	185	35	23%
<i>Cost/income ratio</i>	<i>71.8%</i>	<i>72.2%</i>	<i>0.4 pt</i>	<i>--</i>
Cost of risk	(0)	2	2	ns
Share of earnings of associates accounted for by the equity method	4	7	3	65%
Income before tax	154	194	40	26%
Income tax	(42)	(22)	20	ns
Minority interests(*)	(26)	(49)	-23	85%
Net income attributable to equity holders of the parent	86	123	37	43%

(*) Minority interests rose in December 2005 following the increase of CNP's interest in IAMG

The asset management business delivered an excellent set of results in first-half 2006, with €440.8 billion of assets under management at June 30, 2006. This represents a rise of €8.2 billion over the six-month period (up 2% at current euro rates and up 5% at constant euro rates) and a rise of €31.1 billion compared with the end-June 2005 showing (up 8% at current and constant euro rates). This performance was shaped by a net funds inflow of €17.1 billion, a positive market effect of €3.8 billion and an unfavorable currency impact of €12.7 billion resulting from the 7% fall in the US dollar over the period.



- Total assets under management in **Europe and Asia** rose by €7.7 billion (3%) over the period to €269 billion thanks to a net funds inflow of €7 billion. In view of the mixed stock market performances over the first six months of the year (solid in the first quarter followed by a sharp downturn in the second), the market effect was virtually nil. Growth was mainly driven by life insurance, although bonds and equities also performed well.

- Total assets under management in **North America** increased by US\$17 billion (8%) over the half year, to US\$219.7 billion. This growth resulted mainly from a net funds inflow of US\$13.1 billion. The market effect was relatively weak (US\$3.9 billion, including US\$2.8 billion on securities). Growth in business was fuelled by equities, with a strong performance by Loomis Sayles, and bonds, which were boosted by the successful take-up of Global and Medium Grade bonds.

Net banking income for the asset management business totaled €663 million and was driven by the growth in funds under management, higher performance and transaction commissions and improved average commission rates in Europe.

* **Total operating expenses** rose 26% to €478 million in line with the growth in business and its impact on the variable portion of employee compensation paid.

* **Gross operating income** came in at €185 million. The **cost/income ratio** remains virtually unchanged on a year-on-year basis, at 72.2%.

* **Net income attributable to equity holders of the parent** soared 43% to €123 million, thanks to a robust business performance, low income tax expense (release of a €35.5 million tax provision) and an increase in minority interests (acquisition of a 5.9% stake in the IAM Group by CNP in December 2005).

4.2.2 Custody and investor services

in millions of euros	Custody and investor services		Change	
	H1 2005	H1 2006	Amount	%
Net banking income	81	118	37	47%
Total operating expenses	(55)	(79)	-24	45%
Gross operating income	26	39	13	51%
<i>Cost/income ratio</i>	<i>67.8%</i>	<i>67.0%</i>	<i>-0.8 pt</i>	<i>--</i>
Cost of risk	(2)	(1)	1	-30%
Income before tax	24	38	14	56%
Income tax	(6)	(12)	-6	80%
Minority interests	(1)	(1)	0	68%
Net income attributable to equity holders of the parent	17	25	8	46%

Pursuant to the partnership arrangement announced on December 17, 2004 and finalized on July 4, 2005, Groupe Caisse d'Epargne and Crédit Agricole merged their respective investor service subsidiaries, IXIS Investor Services and Crédit Agricole Investor Services, to form CACEIS (Crédit Agricole Caisse d'Epargne Investor Services).

Accordingly, the financial data reported at June 30, 2006 and at June 30, 2005 does not reflect a constant Group structure:

- June 30, 2006: 50% of first-half 2006 income for the newly created CACEIS group, accounted for by the proportional consolidation method;
- June 30, 2005: 100% of first-half 2005 income for IXIS IS and its subsidiaries (IXIS Urquijo, IXIS Administration de Fonds and Euro Emetteur Finance), fully consolidated.

During the first half of 2006, the reorganization of the businesses continued apace:

- CACEIS Fastnet was created on April 1, 2006, out of the merger of Fastnet France and IXIS AF. CACEIS Fastnet is France's foremost French depositary and custodian bank;
- EEF merged with CA-IS Corporate Trust.

These operations should be completed in the second half of the year with the legal merger of CA-IS Bank and IXIS IS to form CACEIS Bank.

CACEIS performed well in first-half 2006:

- Assets in custody amounted to €1,696 billion at end-June 2006, up 10% on the year-end 2005 figure.
- Administered funds grew 10% over the first six months of 2006 to stand at €822 billion.

Countries outside France (mainly Luxembourg) accounted for a higher proportion of assets in custody, administered funds and net banking income: at June 30, 2006, 12% of assets in custody and 22% of administered funds were located outside France, while 45% of net banking income was generated on non-French activities.

* **Net banking income** for custody and investor services came to €118 million for first-half 2006. The substantial growth in custody fees, which contribute to the core revenue base, mirrored the rise in assets in custody. This positive trend attests to a concerted marketing drive to win new business.

* **Gross operating income** totaled €39 million thanks to the increase in net banking income and controlled operating expenses, which were nevertheless inflated by €6.8 million in restructuring costs generated by the internal reorganization of CACEIS. The **cost/income ratio** was 67%.

* **Net income attributable to equity holders of the parent** for the first six months of the year came in at €25 million.

5. Analysis of the consolidated balance sheet

Analysis of the consolidated balance sheet

in billions of euros	Dec. 31, 2005	June 30, 2006	Change %
Cash and amounts due from central banks and post office banks	8.3	7.2	-14%
Financial assets at fair value through profit or loss	128.7	135.3	5%
Derivatives used for hedging purposes	3.7	0.6	-85%
Available-for-sale financial assets	51.3	45.8	-11%
Loans and receivables due from credit institutions	178.8	156.2	-13%
Loans and receivables due from customers	203.7	217.2	7%
Remeasurement adjustment on interest-rate risk hedged portfolios	0.6	0.3	-55%
Held-to-maturity financial assets	2.2	2.2	0%
Deferred tax assets and other assets	34.0	30.3	-11%
Property, plant and equipment and intangible assets	3.3	3.5	4%
Total assets	614.6	598.6	-3%
Due to central banks and post office banks	0.1	0.1	47%
Financial liabilities at fair value through profit or loss	131.8	122.8	-7%
Derivatives used for hedging purposes	2.7	1.0	-63%
Due to credit institutions	98.8	89.0	-10%
Due to customers	218.6	220.3	1%
Debt securities	102.5	109.5	7%
Remeasurement adjustment on interest-rate risk hedged portfolios	0.3	0.2	-47%
Deferred tax liabilities and other liabilities	26.1	21.1	-19%
Technical reserves of insurance companies	1.5	1.7	15%
Provisions for contingencies and charges	3.2	2.6	-18%
Subordinated debt	8.5	8.9	5%
Equity attributable to equity holders of the parent	20.0	20.9	5%
Minority interests	0.5	0.5	6%
Total liabilities and equity	614.6	598.6	-3%

At June 30, 2006, total consolidated assets of Groupe Caisse d'Epargne stood at €598.6 billion, representing a decrease of €16 billion (3%) on the December 31, 2005 figure. Fluctuations in the euro/dollar exchange rate mainly affected the accounts of IXIS CIB, where they had a negative impact of €3.1 billion on total Group assets.

The most significant reporting change concerns Nexgen, fully consolidated with effect from June 30, 2006: the resulting impact will be €1.8 billion.

Loans and receivables due from customers jumped 7% to €217.2 billion, against €203.7 billion at December 31, 2005, driven by the growth in home purchase loans (up €4.3 billion) on the back of buoyant real estate markets and a 9.5% increase in overdraft facilities granted.

Outstanding customer loans now account for 36.3% of total consolidated assets.

Amounts due to customers rose €1.7 billion compared with end-December 2005, to stand at €220.3 billion. The growth in savings held in demand and term accounts (up €9.2 billion) was offset by both the fall in net inflows to regulated savings accounts (down by €2.4 billion, including a fall of €1.9 billion in home savings plans) and a €5.1 billion decrease in assets sold under repurchase agreements.

At June 30, 2006, **loans and receivables due from credit institutions** totaled €156.2 billion, down €22.6 billion. This mainly reflects a fall in loans repayable on demand (down €18.7 billion) and, to a lesser extent, a decline in loans granted with agreed maturity dates (down €3.9 billion).

Amounts due to credit institutions fell back €9.8 billion to stand at €89 billion at end-June 2006. The increase in term deposits (up 5.4 billion) partially offset the sharp fall in demand deposits (down 15.1 billion).

Debt securities increased by €7 billion to €109.5 billion at June 30, 2006, thanks to a rise in the number of bond issues.

Financial assets at fair value through profit or loss totaled €135.3 billion, which was €6.6 billion higher than at December 31, 2005. This reflects an increase of €5.4 billion in the value of the trading book: €4.4 billion of which was attributable to the performance of interbank and money market securities.

Financial liabilities at fair value through profit or loss fell €9.0 billion to €122.8 billion, due to the combined impact of a fall in financial liabilities held for trading (down €7.3 billion) and amounts due for securities (down €6.9 billion), partially offset by a €5.4 billion increase in derivatives held for trading.

Equity attributable to equity holders of the parent increased by €1.0 billion (up 5%) to €20.9 billion at June 30, 2006, mainly due to:

- reporting changes concerning the Group's scope of consolidation in first-half 2006, which added €1.2 billion;
- payment of the dividend for 2005, totaling €0.3 billion.

6. Regulatory capital and capital adequacy ratio

in millions of euros	Dec. 31, 2005 French GAAP	June 30, 2006 IFRS
TOTAL CAPITAL	24,031	24,626
<i>of which Tier One capital</i>	<i>18,994</i>	<i>19,288</i>
CAPITAL REQUIREMENTS	15,756	16,180
<i>Loan loss risks</i>	<i>13,948</i>	<i>15,275</i>
<i>Market risks</i>	<i>1,808</i>	<i>905</i>
Capital adequacy ratio	153%	152%

In compliance with the provisions of the *Comité de réglementation bancaire et financière* (French Banking Regulations Committee – CRBF) rule 2000-03, as amended, and following approval by the French Banking Commission, networks of entities with a central institution may establish a consolidating entity as provided for by CRC rule 99-07. In the case of the Groupe Caisse d'Épargne, this consolidating entity is the parent company which has been required to respect management ratios on a consolidated basis since July 1, 2002.

The first calculation of the Group's capital adequacy ratio was made on December 31, 2002. As approved by the French Banking Commission, the consolidating entity and scope of the Group for capital adequacy purposes are identical to those adopted for the consolidated accounts of the Groupe Caisse d'Épargne.

For the application of capital adequacy monitoring, the Group's insurance companies are accounted for by the equity method.

Groupe Caisse d'Épargne has prepared its consolidated financial statements at June 30, 2006 under IFRS for the first time and capital adequacy ratios at this date have also been calculated under the new accounting standards.

Tier One capital remains virtually unchanged (up €0.3 billion) due to the application of prudential filters.

The sharp decline in market risk is a function of the narrower basis used to measure this risk. A large portion of securities that were included in trading account securities under French GAAP are classified in available-for sale financial assets under IFRS and thus contribute to credit risk.

7. Recent developments and outlook for second-half 2006

In the second half of 2006, Groupe Caisse d'Épargne will continue to restructure its Commercial Banking core business, through the following operations:

- Signature of a memorandum of understanding concerning the acquisition by Groupe Caisse d'Épargne of a stake in Massira Capital Management (MCM). MCM is a holding company jointly owned by Groupe Caisse de Dépôt et de Gestion (CDG) and Groupe Caisse d'Épargne, with a 67% stake in Crédit Immobilier et Hôtelier (CIH). This project aims to transform CIH, which has traditionally specialized in providing home loans, into a retail bank providing a complete range of leading-edge products and services;
- Launch of the new *CESUs* (multi-purpose employment service checks) to be issued jointly by Accor Services and Caisse d'Épargne;
- Operational roll-out through the individual Caisses d'Épargne of the S'Miles multi-brand loyalty program beginning in September 2006, as a means of rewarding customers and boosting the Caisse d'Épargne brand.
- Opening of a Crédit Foncier branch in London in order to develop the network of business referral agents and brokers;
- Completion of the acquisition by the Group of an 80.1% stake in the French and Luxembourg subsidiaries of Banque BCP. The CNCE will acquire 30% of the capital of the two banks, with Caisse d'Épargne Ile-de-France taking a 50.1% stake in BCP France and Financière Océor a 50.1% stake in BCP Luxembourg. The Millenniumbcp group will hold on to its 19.9% stake in both banks. Groupe Caisse d'Épargne will use this acquisition to bolster its position in the French retail banking sector and develop new market opportunities in Luxembourg.

As regards Investments Banking and IXIS CIB in particular, Nexgen will operate under the IXIS Corporate Solutions brand from the second half of 2006.

During the second half of 2006, negotiations will continue apace between the CNCE and the CDC, and work will continue on the NATIXIS project. The principal milestones will be as follows:

- **Repurchase of the CDC's stake in the CNCE**

The Caisse des Dépôts' stake in the CNCE has been valued at €6.8 billion. This estimate is in line with the various analyses carried out and it includes a premium payable to the CDC in respect of its contractual rights as a strategic shareholder. In addition, the CDC will be paid the dividend to which it is entitled for the 2006 financial year based on its 35% stake in the CNCE.

- **Launch of a new strategic partnership between the two groups, mainly in the insurance and real estate sectors**, in accordance with the terms of the letter of intent.

In life insurance, the agreements between GCE and CNP Assurances will be redefined. The agreements will be renewed until 2015, and may be renegotiated as from 2013 to take account of changes in economic conditions. The CNCE's stake in CNP Assurances remains unchanged.

In real estate, the letter of intent provides that the CNCE transfers a portion of its assets to the CDC, notably its stakes in the semi-public real estate companies Sagi and RIVP, as well as Efidis and its majority shareholding in Lamy-Gestrim. Lamy-Gestrim will be transferred to Icade in exchange for a stake in that company, making GCE its second-largest shareholder. These transactions will be accompanied by a business agreement between GCE and Icade.

The CNCE and the CDC have also entered into other agreements to simplify their business relations in the private equity sector which are not contingent on the completion of the NATIXIS project:

- On September 1, 2006, CDC Entreprises (a wholly-owned subsidiary of the CDC) will transfer its 50% stake in Alliance Entreprendre to the CNCE. The CDC will no longer promote the new funds managed.
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 - On July 17, 2006, the CNCE will sell its minority interest (35%) in CDC Entreprises Capital Investissement (CDC ECI) to CDC Entreprises (a wholly-owned subsidiary of the CDC) for €150.9 million.
- **Continuation of the NATIXIS project**, involving in particular (i) preparation of the merger transactions, which, subject to conditions precedent, will be submitted for shareholders' approval in the autumn at a Natexis Banques Populaires extraordinary general meeting; and (ii) the market transaction scheduled to take place before the end of the year which will ensure that each group holds the agreed equity stake of 34% following their respective asset contributions.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF GROUPE CAISSE
D'EPARGNE for the six months ended June 30, 2006**

CONSOLIDATED BALANCE SHEET

ASSETS

(in millions of euros)	Note	June 30, 2006	Dec. 31, 2005
Cash and amounts due from central banks and post office banks		7,151	8,288
Financial assets at fair value through profit or loss	8.1.1	135,333	128,694
Derivatives used for hedging purposes	8.2	553	3,696
Available-for-sale financial assets	8.3	45,839	51,310
Loans and receivables due from credit institutions	8.4.1	156,208	178,807
Loans and receivables due from customers	8.4.2	217,194	203,660
Remeasurement adjustment on interest-rate risk hedged portfolios		261	580
Held-to-maturity financial assets	8.6	2,168	2,162
Current tax assets		123	677
Deferred tax assets		1,219	1,505
Accrued income and other assets	8.8.1	24,589	27,157
Investments in associates accounted for by the equity method	8.10	2,558	2,729
Investment property	8.9.1	430	447
Property, plant and equipment	8.9.1	2,633	2,499
Intangible assets	8.9.2	405	379
Goodwill	8.11	1,952	1,983
TOTAL ASSETS		598,616	614,573

LIABILITIES AND EQUITY

(in millions of euros)	Note	June 30, 2006	Dec. 31, 2005
Due to central banks and post office banks		69	47
Financial liabilities at fair value through profit or loss	8.1.2	122,764	131,833
Derivatives used for hedging purposes	8.2	1,021	2,741
Due to credit institutions	8.5.1	89,028	98,798
Due to customers	8.5.2	220,329	218,633
Debt securities	8.7.1	109,477	102,533
Remeasurement adjustment on interest-rate risk hedged portfolios		176	333
Current tax liabilities		259	187
Deferred tax liabilities		132	293
Accrued expenses and other liabilities	8.8.2	20,651	25,470
Technical reserves of insurance companies	8.12	1,733	1,506
Provisions for contingencies and charges	8.13	2,620	3,211
Subordinated debt	8.7.2	8,895	8,509
Consolidated equity		21,462	20,479
Attributable to equity holders of the parent		20,915	19,965
Share capital and additional paid-in capital		6,416	6,069
Retained earnings		11,645	10,351
Net income for the period		1,170	1,780
Unrealized or deferred gains and losses		1,684	1,765
Minority interests		547	514
TOTAL LIABILITIES AND EQUITY		598,616	614,573

CONSOLIDATED STATEMENT OF INCOME

(in millions of euros)	Note	First-half 2006	First-half 2005	2005
Interest and similar income	9.1	11,718	11,080	20,089
Interest and similar expense	9.1	(9,346)	(8,654)	(16,006)
Commission income	9.2	2,502	2,239	4,609
Commission expense	9.2	(423)	(449)	(795)
Net gains or losses on financial instruments at fair value through profit or loss	9.3	599	234	1,200
Net gains or losses on available-for-sale financial assets	9.4	384	311	525
Income from other activities	9.5	765	613	1,255
Expense on other activities	9.5	(484)	(390)	(897)
NET BANKING INCOME		5,715	4,984	9,980
Operating expenses	9.6	(3,812)	(3,644)	(7,257)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	9.7	(197)	(194)	(442)
GROSS OPERATING INCOME		1,706	1,146	2,281
Cost of risk	9.8	(46)	(76)	(150)
OPERATING INCOME		1,660	1,070	2,131
Share in net income of companies accounted for by the equity method	8.10	138	143	274
Net gains or losses on other assets	9.9	1	20	137
Changes in value of goodwill		0	0	(1)
INCOME BEFORE TAX		1,799	1,233	2,541
Income tax	9.10	(561)	(337)	(683)
NET INCOME		1,238	896	1,858
Minority interests		(68)	(43)	(78)
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		1,170	853	1,780

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of euros)	Share capital and additional paid-in capital		Retained earnings	Unrealized or deferred gains and losses (net of tax)			Equity attributable to equity holders of the parent	Minority interests	Consolidated equity
	Share capital	Additional paid-in capital		Cumulative translation adjustments	Cumulative change in fair value of financial instruments	Net income attributable to equity holders of the parent			
Consolidated equity at Dec. 31, 2004 under French GAAP	5,018	878	8,372	(519)		1,785	15,534	665	16,199
Changes in accounting policies during 2005 (French GAAP)			(819)				(819)	(5)	(824)
Consolidated equity at Jan. 1, 2005 under French GAAP	5,018	878	7,553	(519)		1,785	14,715	660	15,375
Impact of the transition to IFRS			1,229	493	1,319		3,041	(247)	2,794
Consolidated equity at Jan. 1, 2005 under IFRS	5,018	878	8,782	(26)	1,319	1,785	17,756	413	18,169
Appropriation of 2004 net income			1,785			(1,785)			
Capital increase	136	37					173		173
Dividend paid in 2005 out of net income for 2004			(255)				(255)	(27)	(282)
Total movements arising from relations with shareholders	136	37	(255)				(82)	(27)	(108)
Change in fair value of financial instruments					309		309	4	313
Net income for 2005						1,780	1,780	78	1,858
Sub-total					309	1,780	2,089	82	2,171
Impact of acquisitions and disposals on minority interests								11	11
Other changes			39	163			202	34	236
Consolidated equity at Dec. 31, 2005 under IFRS	5,154	915	10,351	137	1,628	1,780	19,965	514	20,479
Appropriation of net income for 2005			1,780			(1,780)			
Capital increase	147	200	(153)				194		194
Dividend paid in 2006 out of net income for 2005			(295)				(295)	(36)	(331)
Total movements arising from relations with shareholders	147	200	(448)				(101)	(36)	(137)
Change in fair value of financial instruments					1		1	(3)	(2)
Net income for first-half 2006						1,170	1,170	68	1,238
Sub-total					1	1,170	1,171	65	1,236
Impact of acquisitions and disposals on minority interests								28	28
Other changes			(38)	(82)			(120)	(24)	(144)
Consolidated equity at June 30, 2006 under IFRS	5,301	1,115	11,645	55	1,629	1,170	20,915	547	21,462

CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows is prepared using the indirect method.

Investing activities represent cash flows arising from the acquisition and disposal of interests in consolidated companies and held-to-maturity financial assets, as well as property, plant and equipment and intangible assets.

Financing activities arise from changes resulting from transactions with shareholders, subordinated debt and bond debt.

Operating activities include all cash flows that do not fall into the other two categories, and mainly include strategic equity investments recorded within the "Available-for-sale financial assets" portfolio.

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Income before tax	1,799	2,541
Net depreciation and amortization expense on property, plant and equipment and intangible assets	204	463
Net additions to provisions	(315)	(1,032)
Share in net income of companies accounted for by the equity method	19	(123)
Net loss/gain from investing activities	(229)	(417)
Income/expense from financing activities	116	331
Other movements	2,325	(9,446)
Total non-monetary items included in net income before tax	2,120	(10,224)
Net increase in cash and cash equivalents arising from transactions with credit institutions	7,867	5,912
Net decrease in cash and cash equivalents arising from transactions with customers	(16,147)	(6,683)
Net increase in cash and cash equivalents arising from transactions involving financial assets and liabilities	556	4,952
Net increase (decrease) in cash and cash equivalents arising from transactions involving non-financial assets and liabilities	(790)	1,299
Taxes paid	222	(546)
Net increase (decrease) in assets resulting from operating activities	(8,292)	4,934
NET DECREASE IN CASH AND CASH EQUIVALENTS GENERATED BY OPERATING ACTIVITIES (A)	(4,373)	(2,749)
Net increase (decrease) in cash and cash equivalents related to financial assets and consolidated companies	(243)	1,353
Net increase in cash and cash equivalents related to investment property	10	20
Net increase (decrease) in cash and cash equivalents related to property, plant and equipment and intangible assets	(373)	(573)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ARISING FROM INVESTING ACTIVITIES (B)	(606)	800
Net increase (decrease) in cash and cash equivalents arising from transactions with shareholders	(71)	102
Increases in cash and cash equivalents generated by financing activities	410	78
NET INCREASE IN CASH AND CASH EQUIVALENTS ARISING FROM FINANCING ACTIVITIES (C)	339	180
Effect of movements in exchange rates on cash and cash equivalents (D)	125	(332)
NET DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	(4,515)	(2,101)
Cash and equivalents at the start of the period	3,314	5,415
Cash and equivalents at the end of the period	(1,201)	3,314
Net decrease in cash and cash equivalents	(4,515)	(2,101)

ANALYSIS OF CASH AND CASH EQUIVALENTS

Net cash and cash equivalents correspond to cash, amounts due to/from central banks and post office banks, as well as demand accounts (assets and liabilities) with credit institutions.

(in millions of euros)	June 30, 2006		Dec. 31, 2005	
	Receivables	Payables	Receivables	Payables
Net balance of cash accounts	913		913	
Net balance of accounts with central banks and post office banks	6,238	69	7,374	47
Sub-total	7,151	69	8,287	47
Net balance of accounts with credit institutions – repayable on demand	7,435	15,718	25,853	30,779
Net balance of cash and cash equivalents	14,586	15,787	34,140	30,826

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF GROUPE CAISSE D'EPARGNE**

**NOTE 1 – LEGAL AND FINANCIAL FRAMEWORK – SIGNIFICANT EVENTS IN FIRST-HALF
2006**

NOTE 2 – REGULATORY FRAMEWORK

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NOTE 1 – LEGAL AND FINANCIAL FRAMEWORK – SIGNIFICANT EVENTS IN FIRST-HALF 2006

1.1 – LEGAL FRAMEWORK

The Caisses d'Épargne et de Prévoyance together form a financial network organized around a central institution, the Caisse Nationale des Caisses d'Épargne et de Prévoyance. Groupe Caisse d'Épargne consists of a varied body of subsidiaries contributing to the proper management and enhanced sales performance of the network of individual Caisses d'Épargne, as well as that of the universal, full-service bank. A further body, the Fédération Nationale des Caisses d'Épargne et de Prévoyance, was set up pursuant to the act of July 1, 1901 governing not-for-profit associations. This national federation's terms of reference are outlined in article L. 512-99 of the *Code monétaire et financier* (French Monetary and Financial Code).

Caisses d'Épargne et de Prévoyance

The Caisses d'Épargne et de Prévoyance are approved cooperative banks governed by ordinary law whose capital is held by local savings companies. The Caisses d'Épargne et de Prévoyance are limited liability companies (*sociétés anonymes*) with the status of credit institutions authorized to operate as banks, whose capital is divided into members' shares and Cooperative Investment Certificates (CICs).

Local savings companies

The regionally-based local savings companies are cooperative structures with an open-ended capital stock owned by cooperative shareholders. The local savings companies are tasked with coordinating the cooperative shareholder base, within the framework of the general objectives defined by the individual Caisses d'Épargne et de Prévoyance to which they are affiliated. They are not entitled to carry out banking business.

Caisse Nationale des Caisses d'Épargne et de Prévoyance (CNCE)

The CNCE is the central institution of Groupe Caisse d'Épargne as defined by French banking law, and a credit institution authorized to operate as a bank. It is a French limited liability company (*société anonyme*) with a two-tier management structure (Management Board and Supervisory Board) whose capital is held by the individual Caisses d'Épargne and the Caisse des Dépôts et Consignations.

Specifically, the CNCE represents its various affiliates with regard to the supervisory authorities, defines the range of products and services offered by them, organizes depositor protection and approves senior management appointments. It also supervises the coherence of the network as a whole, and oversees the proper management of its affiliated entities.

As the holding company, the CNCE performs the role of Group head, owning and managing the interests in Group subsidiaries, and setting out its development strategy.

In respect of the Group's financial functions, the CNCE is notably responsible for the centralized management of any surplus funds held by the individual Caisses d'Épargne, for carrying out any financial transactions required to develop and refinance the Group, and for choosing the most efficient counterparty for these transactions in the broader interests of the Group. The CNCE also provides banking services to the other Group entities.

Subsidiaries

French subsidiaries

The French subsidiaries are broken down into two main businesses, as follows:

- Commercial Banking, comprising: Banque Palatine, Financière OCEOR and La Compagnie 1818, along with insurance, real estate and specialized services, such as Crédit Foncier;
- Investment Banking, comprising: IXIS Corporate & Investment Bank and CIFG-IXIS Financial Guaranty for capital markets, financing and financial guarantees; and IXIS Asset Management group and CACEIS for asset management, institutional custodian services and investor services.

Specialized IT subsidiaries

Customer transaction processing is carried out by a banking information system organized around three software publishers set up to develop and deploy IT application platforms, and a central IT organization (Cneti).

Direct subsidiaries of the Caisses d'Epargne

The individual Caisses d'Epargne et de Prévoyance are authorized to hold a certain number of their own investments in direct subsidiaries (Regional Development Corporations, finance companies, etc.).

1.2 – GUARANTEE SYSTEM

In accordance with article L. 511-31 of the French Monetary and Financial Code (French Banking Law of January 24, 1984), as amended by article L. 512-96 of the said Code (French Savings Banks Reform Law of June 25, 1999), the CNCE, acting as the central institution, organized a network mutual guarantee and solidarity mechanism within Groupe Caisse d'Epargne to ensure the liquidity and solvency of each entity. The scope of this guarantee system includes not only the entities belonging to the Caisses d'Epargne network as provided for by article L. 512-95 of the French Monetary and Financial Code, but also all the credit institutions subject to French law and affiliated to the CNCE of their own accord, in accordance with the decree of February 9, 2000 promulgating article L. 512-95. More generally, the guarantee system covers all Group entities by virtue of the principle of responsibility based on shareholder links.

The individual Caisses d'Epargne participate in the guarantee system through a *Fonds de garantie et de solidarité du réseau* (Network Mutual Guarantee and Solidarity Fund – FGSR), carried in the books of the CNCE. The FGSR has €250 million worth of funds that can be used immediately if the need arises. This amount is invested in a dedicated mutual fund. Should this prove insufficient to prevent the default of a member, the Management Board of the CNCE can obtain the necessary additional resources via a rapid decision-making process ensuring timely action.

The purpose of this fund is to promote solidarity between the individual Caisses d'Epargne. It may be used by the CNCE, particularly where it has to intervene on behalf of one of its associated entities and where the amount in question exceeds that entity's financial capabilities. In such a case, the intervention of the individual Caisses d'Epargne, organized via the FGSR, would also be supported by the Caisse des Dépôts et Consignations in its capacity as a shareholder and acting as an informed market investor.

The guarantee system's objective of averting default complements the chiefly curative market guarantee systems to which Groupe Caisse d'Epargne also subscribes.

1.3 – SIGNIFICANT EVENTS IN FIRST-HALF 2006

On June 6, 2006, Groupe Caisse d'Epargne and the Banque Populaire group signed the memorandum of understanding that sets out the conditions for the creation of their new joint subsidiary, NATIXIS, which brings together their corporate and investment banking and services businesses.

With a view to establishing NATIXIS, and subject to regulatory approvals, the CNCE will transfer to Natexis Banques Populaires the following assets for an amount of €10.7 billion:

- its entire interest in: La Compagnie 1818, CACEIS, GCE Garanties, Gestitres, IXIS CIB, IXIS AM group, CIFG, CEFI, GCE Affacturage, GCE Bail, Foncier Assurance, GCE Financial Services (for a total of €9.2 billion); and
- €1.5 billion of the CICs issued by the individual Caisses d'Epargne during 2004.

The remaining CICs issued by the Caisses d'Epargne network will be sold to the Banque Populaire group for €3 billion and transferred to Natexis Banques Populaires in order to even out the stake held by the two groups.

A Shareholder Agreement with an initial term of 15 years including commitments to maintain an unchanged level of equity investment for at least 10 years, tacitly renewable for successive five-year periods, will seal the shareholders' partnership within NATIXIS.

Regarding the establishment of NATIXIS, work is currently underway to prepare the merger transactions, which, subject to conditions precedent, will be submitted for shareholders' approval in the autumn at a Natexis Banques Populaires extraordinary general meeting. Preparatory work is also in progress regarding the market transaction scheduled to take place before the end of the year and which will ensure that each group holds the agreed equity stake of 34% following their respective asset contributions.

In parallel, the Banques Populaires will issue CICs representing 20% of their share capital and valued at €4.1 billion, such that NATIXIS will be able to consolidate 20% of the results of each banking network from its creation.

Also on June 6, 2006, the Supervisory Board of the Caisse Nationale des Caisses d'Epargne approved the conditions under which the Caisse des Dépôts et Consignations will withdraw from the capital of the CNCE. Subject to regulatory approvals, this will be completed as quickly as possible following the creation of NATIXIS.

The CNCE's Supervisory Board also examined the terms and conditions of the letter of intent which sets out the organization of the new business partnerships between the two groups outside the banking sector, notably in life insurance and real estate:

- The existing life insurance agreements between GCE and CNP Assurances will be redefined. The agreements will be renewed until 2015, and may be renegotiated as from 2013 to take account of changes in economic conditions. The CNCE's stake in CNP Assurances remains unchanged. Ecureuil Vie, a CNCE subsidiary, will be merged into CNP Assurances.
- In real estate, the letter of intent provides that the CNCE will transfer a portion of its assets to the CDC, notably its stakes in the semi-public real estate companies Sagi and RIVP, as well as Efidis and its majority shareholding in Lamy-Gestrim. Lamy-Gestrim will be transferred to Icade in exchange for a stake in that company, making GCE its second-largest shareholder. These transactions will be accompanied by a business agreement between GCE and Icade.

NOTE 2 – REGULATORY FRAMEWORK

With a view to improving the operation of the internal market, on July 19, 2002 the European Parliament adopted EC regulation No. 1606/2002 requiring companies that are not listed in the European Union but whose debt securities are traded on a regulated market to prepare their consolidated financial statements in compliance with the international accounting standards drawn up by the International Accounting Standards Board (IASB) as adopted for use by the European Union, by 2007 at the latest.

The French Finance Minister's order of December 20, 2004 (order No. 2004/1382) authorizes unlisted companies to prepare their consolidated financial statements using international accounting standards prior to 2007.

Groupe Caisse d'Epargne has elected for early application and prepares its consolidated financial statements under IAS/IFRS as adopted for use by the European Union with effect from January 1, 2006.

Groupe Caisse d'Epargne's date of transition to IFRS is therefore January 1, 2005.

Only those standards published in the Official Journal of the European Union, and applicable as at the balance sheet date, have been used to prepare the opening balance sheet and the interim consolidated financial statements for the six months to June 30, 2006. These standards may be modified by further amendments published before the 2006 year-end.

Standards and interpretations due to come into effect after the 2006 financial year have not been applied. Consequently, IFRS 7 – Financial instruments: Disclosures, and the amendment to IAS 1 relating to capital disclosures, will be applied as from January 1, 2007.

The interim consolidated financial statements for the six months to June 30, 2006 are presented in accordance with *Conseil national de la comptabilité* (French National Accounting Board – CNC) recommendation 99-01, allowing entities to prepare condensed notes to the interim financial statements as permitted by article 221-5 of the general regulations of the *Autorité des marchés financiers* (French stock market authority – AMF).

NOTE 3 – FIRST-TIME ADOPTION OF IFRS

IFRS 1 applies to entities preparing their consolidated financial statements for the first time in accordance with International Financial Reporting Standards.

IFRS 1 provides for retrospective application of IFRS and for the recognition in opening equity at January 1, 2005 (date of the Group's transition to IFRS) of the impact of the new standards in relation to French GAAP, applied by the Group up to December 31, 2004.

However, IFRS 1 provides both optional and mandatory exemptions concerning retrospective application for certain items. The Group has elected to use the following optional exemptions:

Business combinations

The Group has elected not to restate in accordance with IFRS 3 business combinations that took place prior to January 1, 2005. In particular, residual goodwill at this date is not amortized but is tested for impairment.

Assets and liabilities acquired within the scope of a business combination that took place prior to January 1, 2005 must nevertheless meet the general criteria for recognition under IFRS in order to be included in the opening balance sheet. For example, intangible assets acquired such as market share and business goodwill do not qualify as intangible assets under IFRS and have therefore been reclassified under goodwill.

Measurement of property, plant, and equipment at fair value

The Group has elected to continue to carry investment property and property, plant and equipment used in operations at cost, less depreciation and impairment if applicable.

Employee benefits

In accordance with the option available under IFRS 1, the Group has elected to recognize cumulative actuarial gains and losses in equity at the transition date.

Cumulative translation adjustments

The Group has transferred all adjustments arising on the translation of the accounts of foreign subsidiaries at January 1, 2005, to retained earnings. As the reclassification is between two equity accounts, it has no impact on opening equity at January 1, 2005. In the event that these entities are subsequently sold, the gain or loss on disposal will not include translation adjustments prior to January 1, 2005.

Share-based payment

The Group has elected to apply IFRS 2 for equity-settled plans set up after November 7, 2002 and that had not yet vested at January 1, 2005.

Day one profit

The margin generated on structured instruments trading was restated on a prospective basis for transactions entered into after October 25, 2002.

Fair value option

As permitted under the amendment to IAS 39, the Group has elected to recognize all qualifying financial assets and liabilities at fair value.

Hedge accounting

As permitted by IFRS 1, the Group has elected to apply hedge accounting on a prospective basis with effect from January 1, 2005.

Therefore, hedging relationships recognized as such under French GAAP but that do not qualify for hedge accounting under IFRS are not recorded as hedges in the opening balance sheet and are instead reclassified as trading transactions.

Existing hedging relationships that qualify for hedge accounting under IFRS have been recognized in the opening balance sheet as hedging transactions.

NOTE 4 – PRINCIPLES AND METHODS OF CONSOLIDATION

4.1 – SCOPE OF CONSOLIDATION

The consolidated financial statements of Groupe Caisse d'Epargne include the accounts of the individual Caisses d'Epargne, the Caisse Nationale des Caisses d'Epargne, and all subsidiaries and companies over which the Group exercises a controlling or significant influence, the consolidation of which is material to the Group.

Control

Exclusive control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and results from either (i) the direct or indirect ownership of the majority of voting rights; (ii) the power to appoint a majority of the members of the board of directors; (iii) or the right to exercise a dominant influence by virtue of a management contract or under statute.

Joint control is the contractually agreed sharing of control over an economic activity involving a limited number of associates or shareholders, such that the entity's financial and operating policies are determined by agreement between those partners, and exists only when the strategic financial and operating decisions require the unanimous consent of the parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control or joint control over those policies. Significant influence may be exercised through representation on the board of directors or equivalent governing body of the entity, participation in policy-making decisions, material transactions between the Group and the entity, exchanges of managerial personnel or provision of essential technical information. Significant influence is presumed to exist when the Group holds, directly or indirectly, 20% or more of the voting power of an entity.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether control exists. These potential voting rights may result, for example, from share call options traded on the market, debt or equity instruments that are convertible into ordinary shares, or stock subscription options attached to other financial instruments. However, potential voting rights are not considered for the purpose of determining the Group's ownership interest.

Special purpose entities

The Group consolidates special purpose entities (SPEs) formed specifically to manage a transaction or a group of transactions with similar characteristics, even if the Group has no equity interest in the entity, when in substance they are controlled by the Group.

Control is established if, in substance:

- the activities of the SPE are being conducted exclusively on behalf of the Group, such that the Group obtains benefits from those activities;
- the Group has decision-making and management powers over the ordinary activities or the assets of the SPE; or by setting up an "autopilot" mechanism, the entity has delegated these decision-making powers;
- the Group has rights to obtain the majority of the benefits of the SPE;
- the Group is exposed to a majority of the risks incident to the activities of the SPE.

However, entities operating in a fiduciary capacity **and on behalf of third parties**, and in the interests of all of the parties involved, are not consolidated.

In addition, SPEs whose securities are set to be traded in the near future, and have reasonable short-term perspectives of success, are not consolidated.

4.2 – CONSOLIDATION METHODS

Consolidation methods are based on the Group's ability to control an entity, irrespective of the nature of that entity's business activities.

The accounts of entities **under exclusive control** – including entities with different accounting structures – are carried in the Group's accounts as fully consolidated subsidiaries.

Entities that the Group jointly controls with other investors are consolidated on a proportional basis.

Entities over which the Group exercises significant influence are accounted for by the equity method.

4.3 – PRESENTATION OF FINANCIAL STATEMENTS

Since IFRS does not set out a model for the presentation of financial statements, the Group has used the presentation proposed by CNC recommendation 2004-R-03 of October 27, 2004.

4.4 – CONSOLIDATION PRINCIPLES

The interim consolidated financial statements are prepared using uniform accounting policies for reporting like transactions in similar circumstances. Where material, consolidation adjustments are made to ensure the uniformity of the measurement methods of consolidated entities.

Elimination of intragroup balances and transactions

The effect of intragroup transactions and balances on the consolidated balance sheet and consolidated statement of income is eliminated in full on consolidation. Gains and losses on intragroup asset disposals are also eliminated, while intragroup losses representing impairment are maintained.

Foreign currency translation

The Group's consolidated financial statements are presented in euros.

When expressed in a foreign currency, the balance sheet items of consolidated companies are translated using the exchange rate at the balance sheet date. Income and expense items are translated at the average exchange rate for the period.

Differences arising on the translation of balance sheet and income or expense items are recorded in shareholders' equity under "Translation adjustments" for the portion attributable to equity holders of the parent, and under "Minority interests" for the portion attributable to minority shareholders.

Under the optional treatment permitted by IFRS 1, the Group transferred all translation adjustments arising on the translation of the accounts of foreign subsidiaries at January 1, 2005 to retained earnings. In the event that these entities are subsequently sold, the gain or loss on disposal will only include translation adjustments generated on or after January 1, 2005.

4.5 – BUSINESS COMBINATIONS

All business combinations carried out after January 1, 2005 (date of the Group's transition to IFRS) are accounted for by applying the purchase method, except business combinations

involving two or more mutual entities or entities under common control, because those transactions do not fall within the scope of IFRS 3. This exception notably concerns mergers between regional savings banks; such operations are recognized at net carrying value.

The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the entity, plus any costs directly attributable to the business combination.

At the acquisition date, all identifiable assets, liabilities, contingent liabilities and off-balance sheet items of the acquiree are recognized at fair value. The provisional accounting for a business combination may be adjusted within 12 months of the acquisition date.

Goodwill represents the difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is recognized in the acquirer's balance sheet and negative goodwill is recognized immediately in profit or loss.

In the event that the Group increases its interest in an entity it already controls, the transaction gives rise to the recognition of additional goodwill, which is determined by comparing the cost of the shares and the Group's interest in the net assets acquired.

Goodwill is recognized in the functional currency of the acquiree and is translated at the closing exchange rate.

Goodwill is tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

At the acquisition date, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of cash-generating units, that is expected to benefit from the synergies of the combination. Cash-generating units have been defined within the Group's core businesses, and represent the lowest level within an activity used by Management to monitor return on investment. Impairment tests consist in comparing the carrying value of each CGU (including allocated goodwill) with its recoverable amount (the higher of the fair value of the unit and its value in use). Value in use is generally calculated using the estimated future cash flows method, unless another method is deemed more appropriate. An impairment loss is recognized in income if the carrying amount of the unit exceeds the recoverable amount. Impairment losses recognized for goodwill may not be reversed in subsequent periods.

NOTE 5 – ACCOUNTING POLICIES

5.1 – FOREIGN CURRENCY TRANSACTIONS

The method used to account for assets and liabilities relating to foreign currency transactions entered into by the Group depends upon whether the asset or liability in question is classified as a monetary or a non-monetary item.

Monetary assets and liabilities expressed in foreign currencies are translated into euros, the Group's functional currency, at the closing rate on the balance sheet date.

All corresponding translation differences are [recognized in the statement of income](#), except in the following circumstances:

- only the portion of the translation difference calculated based on the amortized cost of available-for-sale financial assets is recognized in income; any additional translation difference is recognized in equity;
- translation differences arising on monetary items designated as cash flow hedges or hedging a net investment in a foreign operation are recognized in equity.

Non-monetary assets are translated using the exchange rate at the transaction date if they are measured at historical cost, while non-monetary assets measured at fair value are translated using the closing rate at the balance sheet date. Translation differences on non-monetary items are recognized in income if gains and losses relating to the items are recorded in income, and in equity if gains and losses relating to the items are recorded in equity.

5.2 – FINANCIAL ASSETS AND LIABILITIES

5.2.1 – LOANS AND RECEIVABLES

Loans and receivables due from credit institutions and customers are generally recorded within "Loans and receivables".

Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts to the net carrying amount of the financial asset. This rate includes any discounts recorded in respect of loans granted at below-market rates, as well as any fees and points paid or received, and transaction costs, which are treated as an adjustment to the effective yield on the loan.

Impairment of loans and receivables

An impairment loss is recognized when, after the inception of the loan, objective evidence of impairment exists whose impact on future cash flows can be measured reliably.

Provisions assessed on an individual basis

Loans are first assessed for impairment on an individual basis. They are considered "at-risk" when it is probable that the Group will not receive all or part of the sums due under the terms of the commitments made by the counterparty, notwithstanding any guarantees or collateral. Loans and receivables are classified as non-performing:

- when one or more of the installments is at least three months (nine months in the case of loans to local authorities) past due;
- when the financial position of the counterparty presents a known risk, irrespective of whether the counterparty has defaulted;
- in the event of litigation.

The amount of impairment is the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the original effective interest rate. Impairment should be calculated taking into account the impact of any collateral. The impairment charge is recorded in the statement of income under “Cost of risk”, and the value of the financial asset is reduced by the same amount.

Expected losses on portfolios composed of small loans and receivables with similar characteristics may be estimated based on statistical methods.

Provisions assessed on a portfolio basis

Counterparties that are not individually impaired are risk-assessed on the basis of portfolios of loans and receivables with similar characteristics. The existence of a known risk on a portfolio of loans and receivables with similar characteristics leads to an impairment loss, even though the risk cannot at this stage be allocated to individual counterparties.

The methodology implemented by the Group to identify at-risk portfolios draws upon an internal rating system based on historical data, combined with an analysis of incident rates and external credit ratings. If necessary, the Group performs a business segment or geographical analysis based on an advanced assessment taking account of various economic factors intrinsic to the loans and receivables in question.

Portfolio-based impairment is calculated based on expected losses on the identified population. The probability of default is assessed at maturity.

5.2.2 – SECURITIES

Securities are classified into four categories as defined by IAS 39:

- financial assets at fair value through profit or loss,
- held-to-maturity financial assets,
- loans and receivables,
- available-for-sale financial assets.

Financial assets at fair value through profit or loss

This asset category includes:

- financial assets held for trading, i.e., securities acquired principally for the purpose of selling or repurchasing them in the near term; and
- financial assets that the Group has opted to recognize at fair value through profit or loss at inception using, the fair value option available under IAS 39.

Securities in this category are measured at fair value at the balance sheet date. Changes in fair value (excluding accrued interest on fixed-income securities) are presented in the statement of income under “Net gains or losses on financial instruments at fair value through profit or loss”.

Held-to-maturity financial assets

Held-to-maturity financial assets are securities with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold until maturity (other than those designated by the Group on initial recognition as financial assets at fair value through profit or loss or available-for-sale assets, and assets qualifying as loans and receivables).

IAS 39 does not permit the sale or transfer of such securities before maturity except in certain specific circumstances. In the event that such securities are sold before maturity, the entity must reclassify all held-to-maturity assets and may not classify any financial assets in the held-to-maturity portfolio for two years.

Hedges contracted to protect assets in this category against interest rate risk do not qualify for hedge accounting under IFRS.

Held-to-maturity financial assets are measured at amortized cost using the effective interest method, including any premiums, discounts and acquisition fees, where material.

An impairment loss is recognized when objective evidence of impairment exists, and is calculated as the difference between the carrying amount of the asset and its recoverable amount, discounted at the original effective interest rate.

Loans and receivables

The loans and receivables portfolio comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Certain securities may be classified in this portfolio under exceptional circumstances, and must then comply with the rules for recognition, measurement and impairment applicable to loans and receivables.

Available-for-sale financial assets

Available-for-sale financial assets are all securities not classified within the previous three categories. In particular, available-for-sale financial assets comprise securities previously classified under French GAAP as **held-for-sale** securities, long-term investments and investments in unconsolidated subsidiaries.

Available-for-sale financial assets are recognized at purchase cost, including transaction costs and accrued interest.

They are remeasured at fair value at the balance sheet date, with changes in fair value (excluding accrued interest) shown on a separate line in equity under "Revaluation reserve". Changes in fair value are taken to income upon disposal of the securities or on recognition of impairment. Impairment recorded against an equity instrument **cannot** subsequently be reversed.

Interest income accrued or receivable on fixed-income securities is recorded under "Interest and similar income", while **income** from variable-income securities is included within "Dividends received".

Impairment

An impairment loss is recognized against securities when there is objective evidence of impairment, with the exception of those classified as financial assets at fair value through profit or loss.

The Group uses the same impairment indicators for debt securities as those used for individually assessing the impairment risk on loans and receivables, irrespective of the portfolio in which the debt securities are ultimately designated.

A prolonged and material decrease in the value of an equity instrument constitutes an objective indication of impairment. Instruments are deemed to have suffered a prolonged and material decline in value when they have lost at least 20% of their value over six consecutive months. However, a case-by-case review of objective impairment indicators may still be carried out, particularly when there has been a sharp decline in value during the period immediately prior to the balance sheet date.

Determination of fair value

Securities designated as financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value.

Quoted market prices in an active market, if available, provide the most reliable estimate of fair value. However, when no quoted market price is available, fair value corresponds to the most recent transaction price, provided that no significant changes in economic conditions have occurred between that transaction and the measurement date.

If the market for a financial instrument is not active, the Group uses valuation models based on objective and verifiable estimates and assumptions consistent with generally accepted valuation techniques used for financial instruments. Such valuation models may be based on recent transaction prices, the price of an instrument with similar characteristics, the discounting of future cash flows, revalued net assets, etc.

Date of recognition

Securities are recorded in the balance sheet on the settlement/delivery date.

5.2.3 – DEBT SECURITIES

Financial instruments issued by the Group qualify as debt instruments if the issuer has a contractual obligation to deliver cash or another financial asset to the holder of the instrument, or to exchange the instrument under conditions that are potentially unfavorable to the Group.

Issues of debt securities (which are not classified as financial liabilities at fair value through profit or loss) are initially recognized at the issue value including transaction costs, and at each balance sheet date are remeasured at amortized cost using the effective interest method.

5.2.4 – DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

All derivative instruments are recognized in the balance sheet on the trade date and measured at fair value [at inception](#). They are remeasured to fair value at each balance sheet date regardless of whether they were acquired for trading or hedging purposes.

Changes in the fair value of derivatives are recognized in income for the period, except those relating to derivatives qualifying as cash flow hedges for accounting purposes.

Derivative financial instruments are classified in one of two categories:

Derivatives held for trading

Derivatives held for trading are recorded in the balance sheet under “financial assets and liabilities at fair value through profit or loss”. Realized and unrealized gains and losses on derivatives held for trading are taken to income on the line “Net gains or losses on financial instruments at fair value through profit or loss”.

Derivatives used for hedging purposes

A hedging relationship qualifies for hedge accounting if, at the inception of the hedge, there is formal documentation of the hedging relationship identifying the hedging strategy, the type of risk covered, the designation and characteristics of the hedged item and the hedging instrument. In addition, the effectiveness of the hedge must be demonstrated at inception and subsequently verified.

Derivatives contracted as part of a hedging relationship are designated according to the purpose of the hedge :

Fair value hedges

Fair value hedges are intended to reduce exposure to changes in the fair value of a financial instrument, in particular the interest rate risk on fixed-rate assets and liabilities.

The gain or loss on remeasurement of derivative instruments is recognized in **profit or loss** on a symmetrical basis with the remeasurement of the hedged item, and at the level of the risk being hedged. The ineffective portion of the hedge, if any, is therefore reflected in income.

Accrued interest on the hedging instrument is carried in income and accounted for on a symmetrical basis with accrued interest on the hedged item.

Where identified assets or liabilities are hedged, the remeasurement of the hedged component is recognized in accordance with the classification of the hedged item.

If a hedging relationship ceases to (sale of the derivative or hedged item before maturity) or no longer fulfils the effectiveness criteria, the hedging instrument is transferred to the trading book.

The remeasurement adjustment recorded in the balance sheet in respect of the hedged item is amortized over the residual life of the instrument using the amortized cost method.

Cash flow hedges

Cash flow hedges are hedges of the exposure to variability in cash flows of a financial instrument, in particular the interest rate risk on variable-rate assets and liabilities.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized on a separate line in equity to be recycled to the income statement, while the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

Accrued interest on the hedging instrument is carried in income and accounted for on a symmetrical basis with accrued interest on the hedged item.

The hedged items continue to be accounted for using the treatment applicable to their specific asset category.

If a hedging relationship ceases to qualify for hedge accounting due to the sale of the derivative or hedged item before maturity, or no longer fulfils the effectiveness criteria, the cumulative amounts recognized in equity are transferred to the income statement either immediately when the hedged item is sold or when the hedge transactions itself impacts profit or loss.

Hedges of a net investment in a foreign operation

Net investment hedges are accounted for in the same manner as cash flow hedges.

Unrealized gains and losses initially recognized in equity are taken to income when the net investment is sold in full or in part.

Portfolio-based hedging (macro-hedging)

The Group applies the so-called "carve-out" from IAS 39 adopted by the European Union to macro-hedging transactions carried out within the scope of managing the Group's overall fixed interest rate exposure.

In particular, the carve-out allows the Group to hedge the interbank interest rate risk associated with customer demand deposits. Only interest rate swaps designated as fair value hedges of the Group's fixed-rate deposits may be used in macro-hedging.

Macro-hedging derivatives are accounted for in the same way as derivatives used to hedge specific transactions, i.e., as fair value hedges (preferred) or cash flow hedges, as appropriate.

In a portfolio hedging relationship, gains and losses on the remeasurement of the hedged item are recorded in "Remeasurement adjustment on interest-rate risk hedged portfolios". If a hedging relationship ceases to qualify for hedge accounting, the remeasurement adjustment is amortized on a straight-line basis over the residual life of the hedge or is taken directly to income if the hedged item is no longer recorded in the balance sheet (notably in the case of prepayment). Derivatives used for macro-hedging are disqualified from hedge accounting when the nominal amount of the hedged instruments falls below the nominal amount of the hedges.

Embedded derivatives

An embedded derivative is a component of a **financial or non-financial** hybrid (combined) instrument that qualifies as a derivative. It must be separated from the host contract and accounted for as a derivative if the hybrid instrument is not measured at fair value through profit or loss, and if the economic characteristics and risks associated with the derivative are not closely related to those of the host contract.

Determining fair value

Fair value is generally defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair value of a financial instrument on initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received).

IFRS sets out a hierarchy for calculating fair value:

- The best evidence of fair value is quoted prices in an active market.
- If the market for a financial instrument is not active, fair value is determined by using valuation techniques drawing on mathematical calculation methods reflecting accepted financial theories, and valuation parameters derived from market conditions at the balance sheet date or determined using statistical estimates or other methods.

In accordance with IAS 39, the initial margin generated when a financial instrument is set up cannot be **recognized in profit or loss** unless the financial instrument can be measured reliably.

Financial instruments that can be measured reliably include those traded in active markets and instruments valued using accepted models drawing only on observable market data.

Instruments traded in an active market

A market for an instrument is regarded as active if quoted prices are readily and regularly available from an exchange, broker, dealer, pricing service or regulatory authority, and those prices represent actual and regularly occurring market transactions conducted at arm's length.

If quoted prices are available, they are used to determine fair value, as is notably the case for securities and derivatives traded in organized markets.

Internal models are based on valuation techniques commonly used by market participants and on observable valuation parameters, and are adjusted for liquidity and credit risk.

Instruments not traded in an active market

When internal valuation models are based on standard models, and the valuation method draws on observable market data, the margin generated when these financial instruments are traded is immediately recognized in **profit or loss**.

Valuation techniques used to price made-to-measure structured products may use certain parameters that are not observable on active markets. On initial recognition of such instruments, the transaction price is taken to reflect the market price, and the margin generated when these instruments are traded (day one profit) is deferred and taken to income over the life of the transaction, or over the period during which the valuation parameters are expected to remain non-observable.

Day one profit on instruments considered non-observable was restated on a prospective basis for transactions entered into after October 25, 2002.

5.2.5 – FINANCIAL ASSETS AND LIABILITIES ACCOUNTED FOR UNDER THE FAIR VALUE OPTION

The amendment to IAS 39 adopted by the European Union on November 15, 2005 allows entities to designate financial assets and liabilities on initial recognition as at fair value through profit or loss. However, an entity's decision to classify a financial asset or liability at fair value through profit or loss under the fair value option may not be reversed.

This option may only be applied in the following circumstances:

Elimination or significant reduction of a measurement or recognition consistency (accounting mismatch)

The option allows:

- the elimination of accounting mismatches stemming from the application of different valuation rules to instruments managed in accordance with a single strategy (e.g., to limit equity volatility in the case of an available-for-sale financial asset where a liability considered related is measured at amortized cost, or within the scope of insurance activities, to ensure consistent accounting treatment for financial assets representing unit-linked policies and the related liabilities),
- the elimination of restrictions concerning the designation, monitoring and analysis of hedge effectiveness in the case of fair value hedges, as the opposite changes in fair value are automatically offset in income (e.g., for a fixed-rate bond combined with a fixed-rate borrower swap).

Harmonization of accounting treatment with performance management and measurement

This option applies in the case of a group of assets and/or liabilities managed and valued on a fair value basis, provided that this is based on a formally documented risk management or investment strategy, and that the internal reporting mechanism is based on fair value measurements.

This option is mainly used in connection with the Group's capital markets activities.

Combined contracts containing one or more embedded derivatives to be separated

This option permits the measurement of the entire instrument at fair value, and therefore avoids the need to extract, recognize and separately measure the embedded derivative.

This accounting treatment applies in particular to structured debt issues containing significant embedded derivatives and structured loan contracts.

5.2.6 – FINANCIAL GUARANTEES AND FINANCING COMMITMENTS

Financial guarantees

A financial guarantee contract qualifies as an insurance contract when it requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These contracts are initially measured at fair value, deemed to equal the premium received (generally nil at inception). A provision is subsequently recorded under liabilities if an outflow of resources embodying economic benefits is probable.

However, guarantees that give rise to a payment resulting from fluctuations in financial variables or another variable (based on credit ratings, for example) must be treated and accounted for as derivatives.

Financing commitments

Financing commitments not accounted for as derivatives are not recorded in the balance sheet.

A provision for contingencies and charges is booked if it becomes probable that the counterparty will default over the term of the commitment.

5.2.7 – DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset (or group of financial assets) is derecognized when the contractual rights to the asset's future cash flows expire or when such rights are transferred to a third party, together with substantially all of the risks and rewards associated with ownership of the asset.

An asset or liability reflecting rights and obligations created or retained as a result of the transfer of the asset (or group of assets) is recorded on a separate line in the balance sheet.

When a financial asset is derecognized in full, a gain or loss on disposal is recorded in **profit or loss** reflecting the difference between the carrying amount of the asset and the consideration received.

If the Group has retained control of the financial asset, the asset continues to be recognized in the balance sheet to the extent of the Group's continuing involvement.

The Group only removes a financial liability (or a part of a financial liability) from its balance sheet when it is extinguished – i.e., when the obligation specified in the contract is discharged or canceled or expires.

5.2.8 – INCOME AND EXPENSE RELATING TO FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Interest income and expense is recognized on all financial instruments measured at amortized cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The effective interest rate calculation takes account of all transaction fees paid or received as well as premiums and discounts. Transaction fees paid or received that are an integral part of the effective interest rate of the contract, such as loan **setup** fees and commissions paid to financial intermediaries, are treated as additional interest.

Commissions are recorded in the statement of income by type of service provided, and according to the method used to recognize the associated financial instrument:

- commissions payable or receivable on recurring services are spread over the period in which the service is provided (payment processing, securities deposit fees, etc.);
- commissions payable or receivable on occasional services are recognized in full in the statement of income when the service is provided (fund transfers, payment penalties, etc.);
- commissions payable or receivable on execution of a significant transaction are recognized in full in the statement of income on completion of the transaction.

5.3 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets are held for use in the production or supply of goods and services, or for administrative purposes. Investment property is property held to earn rentals or for capital appreciation, or both.

Property, plant and equipment and intangible assets are initially recognized at cost plus any directly attributable **acquisition** costs. Software developed internally that fulfils the criteria for recognition as an asset is recognized at its production cost, which includes external charges and the labor costs of employees directly assigned to the project.

The Group applies the component-based approach to all buildings. The depreciable amount of the asset takes account of its residual value where this is material and can be measured reliably.

After initial recognition, property, plant and equipment and intangible assets are measured at cost less any accumulated depreciation, amortization or impairment losses.

Property, plant and equipment and intangible assets are depreciated or amortized in order to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity, which generally corresponds the asset's useful life. Where an asset consists of a number of components that have different uses or patterns of consumption of economic benefits, each component is recognized separately and depreciated over a period appropriate to that component.

The depreciation and amortization periods used by the Group are as follows:

- buildings: 20 to 50 years

- fixtures and fittings: 5 to 20 years
- furniture and special equipment: 4 to 10 years
- computer equipment: 3 to 5 years
- computer software: not more than 5 years

Property, plant and equipment and intangible assets are tested for impairment if there is an indication that they may be impaired at the balance sheet date. The new recoverable amount of the asset is compared with the carrying amount, and if the asset is found to be impaired, an impairment loss is recognized in the statement of income.

This loss is reversed in the event of a change in the estimated recoverable amount or if there is no longer an indication of impairment.

5.4 – LEASES

Leases are analyzed to determine whether in the substance of the transaction and financial reality, they are finance leases or operating leases.

Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset. It is treated as a loan granted by the lessor to the lessee in order to finance the purchase of an asset.

In the lessor's financial statements, a receivable is recorded representing the present value of future lease payments (plus the residual value, in certain cases). Lease payments received are spread over the lease term, and are treated as repayment of principal and finance income, so as to reflect a constant rate of return on the lessor's net investment in the lease. The interest rate used is the rate implicit in the lease.

Impairment losses recognized on these receivables are determined in the same way as for other loans and receivables.

In the lessee's financial statements, finance lease contracts with purchase options are treated as the purchase of an asset financed by a loan.

Operating leases

An operating lease is a lease under which substantially all the risks and rewards of ownership of an asset are not transferred to the lessee.

In the lessor's financial statements, the asset is recognized under property, plant and equipment and depreciated on a straight line basis over the lease term. The depreciable amount does not take into account the residual value of the asset. Lease payments are recognized in income over the lease term.

The operating lease is not recognized in the balance sheet of the lessee. Lease payments are expensed on a straight-line basis over the lease term.

5.5 – PROVISIONS RECORDED UNDER LIABILITIES

Provisions recorded under liabilities (other than those relating to employee benefit obligations, provisions for regulated [savings products](#), [off-balance sheet commitments](#), and insurance contracts) mainly consist of provisions for restructuring, claims and litigation, fines and penalties, and tax risks.

Provisions are liabilities of uncertain timing or amount. They represent a legal or constructive obligation for the Group with regard to third parties, which is likely or certain to result in an outflow of resources embodying economic benefits, [and with no equivalent consideration in return](#).

A liability is only recognized in the event that the amount can be measured with sufficient reliability.

Provisions are discounted when the impact of discounting is material.

Provisions for regulated savings products

Regulated savings accounts (*Comptes épargne logement* – CEL) and **regulated** savings plans (*Plans d'épargne logement* – PEL) are retail products sold in France regulated by the 1965 French home savings law, and subsequent enabling decrees.

Regulated savings plans generate two types of obligations for the Group:

- an obligation to provide a loan to the customer at a future point in time at a rate set on inception of the contract, and
- an obligation to pay interest on the savings for an indefinite period, at a rate set on inception of the contract.

Where the sum of the Group's estimated future obligations for any generation of **regulated savings products** indicates a potentially unfavorable situation for the Group, a provision is recognized by discounting future potential earnings from at-risk outstandings:

- at-risk outstanding savings correspond to the uncertain future level of savings for plans in existence at the date the provision is calculated. This is estimated on a statistical basis for each future period taking account of historical customer behavior patterns, and corresponds to the difference between the probable outstandings and the minimum expected savings;
- at-risk outstanding loans correspond to the outstanding loans granted but not yet due at the calculation date and statistically probably loan outstandings based on historical customer behavior patterns as well as earned and future rights relating to home savings accounts and plans.

Earnings for future periods from the savings phase are estimated for the generation of contracts in question, as the difference between the regulated rate offered and the expected interest accruing on a comparable savings product on the market.

Earnings for future periods from the loan phase are estimated as the difference between the fixed rate agreed at inception and the expected interest rate accruing on home loans in the non-regulated sector.

These provisions are recognized under liabilities in the balance sheet and changes are recorded in net banking income.

5.6 – DISTINCTION BETWEEN DEBT AND EQUITY

Financial instruments issued are classified as either debt or equity according to whether or not the issuer has a contractual obligation to deliver cash or another financial asset to the holder.

Members' shares

IFRIC 2 – Members' Shares in Co-operative Entities and Similar Instruments, clarifies the provisions of IAS 32. In particular, the contractual right of the holder of a financial instrument (including members' shares in co-operative entities) to request redemption does not, in itself, require that financial instrument be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or equity.

Based on this interpretation, members' shares are classified as equity if the entity has an unconditional right to refuse redemption of the members' shares or if local laws, regulations or the entity's **bylaws** unconditionally prohibit the redemption of members' shares.

Based on the existing provisions of the Group's **bylaws** relating to minimum capital requirements, members' shares issued by Groupe Caisse d'Epargne are considered as equity.

Undated deeply subordinated notes

Based on the conditions laid down in IAS 32 for analyzing the substance of these instruments and in light of their intrinsic characteristics, undated deeply subordinated notes issued by the Group qualify as debt instruments.

Commitments to buy back minority interests (written puts)

The Group has entered into commitments with minority shareholders of certain fully consolidated companies to buy back their shares. In accordance with IAS 32, these commitments represent written puts whose exercise price can be determined based on a predefined formula which takes account of the possible changes in the value of the entities concerned, and therefore should be recorded as debt and not equity.

Pending an IFRIC interpretation, the Group has elected to record in equity the difference between the amount of the commitment and the value of the minority interests (representing the [counterpart](#) entry for the debt).

5.7 – EMPLOYEE BENEFITS

Short-term employee benefits

Short-term employee benefits mainly include wages, salaries, paid annual leave, incentive plans, profit-sharing, and bonuses payable within 12 months of the end of the period in which the employee renders the service.

They are recognized as an expense for the period, including amounts remaining due at the balance sheet date.

Long-term employee benefits

Long-term employee benefits are generally linked to long-service awards accruing to current employees and payable 12 months or more after the end of the period in which the employee renders the related service. Long-term employee benefits mainly include jubilee bonuses.

A provision is set aside for the present value of these obligations at the balance sheet date, which are measured using the same actuarial method as that applied to post-employment benefits.

Termination benefits

Termination benefits are granted to employees on termination of their contract before the normal retirement date, either as a result of a decision by the Group to terminate a contract or a decision by an employee to accept voluntary redundancy. A provision is set aside for termination benefits. Termination benefits payable more than 12 months after the balance sheet date are discounted.

Post-employment benefits

Post-employment benefits include lump-sum retirement bonuses, pensions and other post-employment benefits, and fall into two categories: (i) defined-contribution plans, which do not give rise to an obligation for the Group, and (ii) defined-benefit plans, which give rise to an obligation for the Group and are therefore measured and recognized by means of a provision.

The Group's employee benefit obligations are mainly funded by contributions charged to income and paid out to pension funds or insurance companies. A provision is recorded under liabilities for the full amount of any unfunded obligations, particularly those relating to the Group's pension fund.

Post-employment benefit obligations are measured using an actuarial method that takes account of the age, length of service and the probability of the employee being employed by the Group at the retirement age. This calculation also takes into consideration the value of plan assets, and uses the projected unit credit method to allocate the costs over the working life of

the employee.

Actuarial gains and losses on post-employment benefits, arising as a result of changes in actuarial assumptions (early retirement, discount rate, etc.) or experience adjustments (return on plan assets, etc.) are recognized for the portion that exceeds (i) 10% of the present value of the defined-benefit obligation, or (ii) 10% of the fair value of any plan assets (corridor method).

5.8 – SHARE-BASED PAYMENT

Share-based payment transactions are payments based on shares issued by the Group, whether the transaction is settled in the form of equity or cash, whose amount is based on the price trends for the Group's shares.

The Group has elected to apply IFRS 2 for plans set up after November 7, 2002 and that had not yet vested at January 1, 2005.

Share purchase or subscription options granted by certain subsidiaries are measured at fair value, with the cost for the entity charged to income at the [notification](#) date, irrespective of whether the vesting conditions are met or the grantees exercise their options.

The total cost of the plan is determined by multiplying the value of the option by the estimated number of options vested at the end of the vesting period, taking account of the likelihood that the grantees will still be employed by the Group.

The [counterpart](#) entry for this cost is recorded in equity.

5.9 – DEFERRED TAXES

Deferred taxes are recognized when temporary differences arise between the carrying value of assets and liabilities in the balance sheet and their tax base.

Deferred taxes are calculated by the comprehensive method, which takes into account all temporary differences irrespective of when the tax is expected to be recovered or settled.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities and assets are offset at the level of each consolidated entity, provided that the items in question are taxed at the same rate and are expected to be realized and settled simultaneously. Deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future.

Deferred taxes are recognized as tax income or expense in the statement of income, except deferred taxes relating to unrealized gains or losses on available-for-sale assets and to changes in the fair value of derivatives used as cash flow hedges, which are taken to equity.

5.10 – INSURANCE BUSINESS

The financial assets of insurance companies fall within the scope of IAS 39; they are each classified within one of the categories set out in IAS 39, and are subject to the measurement and recognition rules applicable to the [related](#) category.

Pending amendments to IFRS 4, insurance liabilities continue to be measured broadly in line with French GAAP.

In accordance with Phase I of IFRS 4, insurance contracts are classified into three categories:

- Contracts that expose the insurer to a significant insurance risk within the meaning of IFRS 4: this category comprises policies covering personal risk insurance, pensions, property and casualty insurance, as well as unit-linked savings policies carrying a minimum guarantee. These contracts will continue to be measured under the rules provided under French GAAP for measuring technical reserves.

- Investment contracts such as savings schemes that do not expose the insurer to a significant insurance risk are recognized in accordance with IFRS 4 if they contain a discretionary participation feature (contracts in euros or with-profit unit-linked policies also providing access to funds in euros), and will continue to be measured in accordance with the rules for measuring technical reserves provided under French GAAP.

- Investment contracts without a discretionary participation feature such as contracts invested exclusively in units of accounts and without a minimum guarantee, are accounted for in accordance with IAS 39.

The discretionary participation feature grants life insurance policyholders the right to receive a share in the financial income realized, in addition to guaranteed benefits. The reserve for amounts payable in respect of policyholders' surpluses on such contracts is adjusted to include the policyholders' share in the unrealized profits or losses on financial instruments measured at fair value in accordance with IAS 39. The share in the profits attributed to the policyholder is determined based on the characteristics of contracts likely to benefit from them.

In addition, the Group assesses at each balance sheet date whether its recognized insurance liabilities are adequate, based on the present value of future cash flows from its insurance contracts and investment contracts containing a discretionary participation feature. The liability adequacy test shows the economic value of the liabilities corresponding [to the average of the stochastic analysis](#). If the sum of the surrender value and policyholders' surplus is lower than the fair value of the technical reserves, [the](#) shortfall is recognized against income.

Under IFRS, the capitalization reserve set up in the parent company accounts on the sale of amortizable securities in order to defer part of the associated net realized gain and hence maintain the yield-to-maturity of the portfolio, gives rise to a deferred tax liability.

5.11 – USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

Preparation of financial statements requires the use of assumptions and estimates with regard to uncertain future events. Such assumptions and estimates require managers to use their judgement and to make use of information available at the balance sheet date.

The outcome of future events depends on a wide range of factors, including fluctuating interest and foreign exchange rates, the general economic climate, and changing regulatory or legal environments.

The following areas require the use of assumptions and estimates:

- Financial instruments that are not listed on organized markets and that are mostly traded over-the-counter are measured using models that draw on observable market data. The measurement of certain hybrid financial instruments that are not traded in an active market is based on valuation techniques that may incorporate non-observable parameters.
- Financial assets and liabilities that are recognized at cost and whose fair value must be disclosed in the notes to the financial statements.
- Credit risk valuations: individually-assessed provisions are estimated on a discounted basis drawing on a range of parameters (e.g., estimated timing of recovery), or based on economic factors. Portfolio-based provisions require estimates of the probability of default and generally require the advice of independent experts.
- The cost of pensions and future employee benefits is calculated based on various assumptions including discount rates, staff turnover and wage trends. Rates of return on plan assets are also based on estimates.
- Estimates are also involved in determining provisions for contingencies and charges, since they are liabilities of uncertain timing and amount, and an outflow of resources embodying economic benefits is probable or certain in order to settle the obligation, with no equivalent consideration in return.
- Provisions for regulated savings products are assessed based on assumptions relating only to historic customer behavior patterns.
- Impairment tests on goodwill inherently incorporate a certain number of assumptions.

NOTE 6 – IMPACTS OF THE TRANSITION TO IFRS

6.1 – IMPACT OF IFRS ADOPTION ON EQUITY

The Group's transition to International Financial Reporting Standards (IFRS) has a number of impacts on equity, which can be either permanent or temporary.

- The permanent impacts result from the retrospective application of IFRS, whereby:
 - certain items included in the balance sheet under French GAAP are no longer recognized;
 - a number of items specific to IFRS are now reported in the balance sheet.
- The impact of fair value adjustments recorded against "Revaluation reserves" can be recycled to the income statement.
- The impact of adjustments to the period over which income and expenses are recognized in line with IFRS is said to be "amortizable".

6.1.1 – IMPACT OF IFRS ADOPTION AT JANUARY 1, 2005

(in millions of euros) (amounts net of the deferred tax effect)	Unrealized or deferred gains and losses	Other reserves		Equity attributable to equity holders of the parent
	Impacts to be recycled to the income statement	Amortizable impacts	Non-amortizable, non-recyclable impacts	
Equity attributable to equity holders of the parent at Dec. 31, 2004 under French GAAP				15,534
Reserve for General Banking Risks at Dec. 31, 2004 under French GAAP				2,488
Equity attributable to equity holders of the parent (including RGBR) at Dec. 31, 2004 under French GAAP				18,022
Employee benefits			(633)	(633)
Credit risk - Discounting effect on individually-assessed provisions			(123)	(123)
Property, plant and equipment and intangible assets - Components approach		(63)		(63)
Impact of changes in accounting policies in 2005	0	(63)	(756)	(819)
Equity attributable to equity holders of the parent (including RGBR) at Jan. 1, 2005 under French GAAP	0	(63)	(756)	17,203
Remeasurement of available-for-sale securities	953			953
Remeasurement of derivatives used as cash flow hedges	46			46
Loans and commissions		(185)		(185)
Restatement of day one profit		(134)		(134)
Deferred taxes		493		493
Provision on regulated savings products			(535)	(535)
Provisions for performing loans			120	120
Provisions for impairment of securities	(164)		121	(43)
Reclassification to the trading book of non-qualifying hedge derivatives			(128)	(128)
Financial assets and liabilities accounted for under the fair value option			86	86
Commitments to buy back minority interests (written puts)			(145)	(145)
Business combinations			(164)	(164)
Share in net income of companies accounted for by the equity method - Insurance business	484		(343)	141
Other items		(33)	40	7
Group/minority interests share of impacts			41	41
Impact of IFRS adoption	1,319	141	(907)	553
Equity attributable to equity holders of the parent at Jan. 1, 2005 under IFRS				17,756

6.1.2 – IMPACT OF IFRS ADOPTION AT DECEMBER 31, 2005

(in millions of euros)		Dec. 31, 2005
French GAAP	Reserve for General Banking Risks	2,572
	Equity attributable to equity holders of the parent	16,844
Transition	Unrealized or deferred gains and losses	1,628
	Credit risk	116
	Loans	(156)
	Day one profit	(173)
	Deferred taxes	108
	Provision on regulated savings products	(580)
	Financial operations	(5)
	Commitments to buy back minority interests (written puts)	(145)
	Business combinations	(38)
	Share in net income of companies accounted for by the equity method	(258)
	Other items	52
IFRS	Equity attributable to equity holders of the parent under IFRS	19,965

6.2 – RECONCILIATION OF THE BALANCE SHEET UNDER FRENCH GAAP TO THE BALANCE SHEET UNDER IFRS AT JANUARY 1, 2005

(in millions of euros)	Balance sheet under French GAAP	Reclassifications	Balance sheet at Dec. 31 after reclassifications	Restatements	Balance sheet under IFRS
ASSETS					
Cash and amounts due from central banks and post office banks		6,962	6,962		6,962
Financial assets at fair value through profit or loss		111,613	111,613	(186)	111,427
Derivatives used for hedging purposes		1,415	1,415	3,873	5,288
Available-for-sale financial assets		41,456	41,456	1,376	42,832
Loans and receivables due from credit institutions	186,517	(7,048)	179,469	292	179,761
Loans and receivables due from customers	192,368	3,853	196,221	(475)	195,746
Securities portfolio	114,008	(114,008)			
Investments by insurance companies	1,644	(1,644)			
Remeasurement adjustment on interest-rate risk hedged portfolios				693	693
Held-to-maturity financial assets		2,437	2,437	(50)	2,387
Current tax assets		369	369		369
Deferred tax assets		803	803	1,041	1,844
Accrued income and other assets	39,769	(18,170)	21,599	(720)	20,879
Investments in unconsolidated subsidiaries, affiliates accounted for by the equity method and other long-term investments	4,603	(4,603)			
Investments in associates accounted for by the equity method		2,301	2,301	21	2,322
Investment property		330	330	(21)	309
Property, plant and equipment	2,929	(299)	2,630	(46)	2,584
Intangible assets	1,194	(802)	392	(5)	387
Goodwill	879	768	1,647	6	1,653
TOTAL	543,911	25,733	569,644	5,799	575,443
LIABILITIES AND EQUITY					
Due to central banks and post office banks		11	11		11
Financial liabilities at fair value through profit or loss		112,092	112,092	(1,066)	111,026
Derivatives used for hedging purposes		1,566	1,566	2,034	3,600
Due to credit institutions	91,364	(1,154)	90,210	1,888	92,098
Due to customers	214,103	(188)	213,915	(6)	213,909
Debt securities	142,579	(45,364)	97,215	2,014	99,229
Remeasurement adjustment on interest-rate risk hedged portfolios			0	485	485
Current tax liabilities		196	196		196
Deferred tax liabilities		134	134	162	296
Accrued expenses and other liabilities	64,948	(41,174)	23,774	(477)	23,297
Technical reserves of insurance companies	1,106	35	1,141	(1)	1,140
Negative goodwill	35		35	(35)	0
Provisions for contingencies and charges	3,375	(500)	2,875	1,358	4,233
Subordinated debt	7,714	79	7,793	(39)	7,754
Reserve for General Banking Risks	2,488		2,488	(2,488)	0
Minority interests	665		665	(252)	413
Equity attributable to equity holders of the parent (excluding RGBR)	15,534		15,534	2,222	17,756
TOTAL	543,911	25,733	569,644	5,799	575,443

6.2.1 – RECONCILIATION OF THE BALANCE SHEET UNDER FRENCH GAAP TO THE BALANCE SHEET UNDER IFRS - DETAILS OF RECLASSIFICATIONS

(in millions of euros)	Standard reclassifications	Securities	Fair value option	Derivatives	Property, plant and equipment and intangible assets	Other	Reclassifications
ASSETS							
Cash and amounts due from central banks and post office banks	6,962						6,962
Financial assets at fair value through profit or loss		54,896	13,290	44,549		(1,122)	111,613
Derivatives used for hedging purposes				1,415			1,415
Available-for-sale financial assets		47,165	(4,993)			(716)	41,456
Loans and receivables due from credit institutions	(6,962)		(552)			466	(7,048)
Loans and receivables due from customers		11,812	(7,745)			(214)	3,853
Securities portfolio		(114,008)					(114,008)
Investments by insurance companies						(1,644)	(1,644)
Held-to-maturity financial assets		2,437					2,437
Current tax assets						369	369
Deferred tax assets						803	803
Accrued income and other assets		21,345		(45,964)		6,449	(18,170)
Investments in unconsolidated subsidiaries, affiliates accounted for by the equity method and other long-term investments		(4,603)					(4,603)
Investments in associates accounted for by the equity method		2,301					2,301
Investment property					330		330
Property, plant and equipment					(330)	31	(299)
Intangible assets					(739)	(63)	(802)
Goodwill					739	29	768
TOTAL	0	21,345	0	0	0	4,388	25,733
LIABILITIES AND EQUITY							
Due to central banks and post office banks						11	11
Financial liabilities at fair value through profit or loss		21,345	45,987	44,766		(6)	112,092
Derivatives used for hedging purposes				1,566			1,566
Due to credit institutions			(728)			(426)	(1,154)
Due to customers			(371)			183	(188)
Debt securities			(44,888)			(476)	(45,364)
Current tax liabilities						196	196
Deferred tax liabilities						134	134
Accrued expenses and other liabilities				(46,332)		5,158	(41,174)
Technical reserves of insurance companies						35	35
Provisions for contingencies and charges						(500)	(500)
Subordinated debt						79	79
TOTAL	0	21,345	0	0	0	4,388	25,733

6.2.2 – RECONCILIATION OF THE BALANCE SHEET UNDER FRENCH GAAP TO THE BALANCE SHEET UNDER IFRS - DETAILS OF RESTATEMENTS

(in millions of euros)	Employee benefits	Credit risk - Discounting effect on individually-assessed provisions	Property, plant and equipment and intangible assets - Components approach	Remeasurement of available-for-sale securities	Remeasurement of derivatives used as cash flow hedges	Loans and commissions	Restatement of day one profit	Deferred taxes	Provision on regulated savings products	Provisions for performing loans	Financial operations	RGBR	Share in net income of companies accounted for by the equity method - Insurance business	Business combinations	Other	Restatements
ASSETS																
Financial assets at fair value through profit or loss											(186)					(186)
Derivatives used for hedging purposes					112						3,761					3,873
Available-for-sale financial assets				1,318							79				(21)	1,376
Loans and receivables due from credit institutions		(3)				1					293				1	292
Loans and receivables due from customers		(169)				(116)				(269)	85				(6)	(475)
Securities portfolio																0
Remeasurement adjustment on interest-rate risk hedged portfolios											693					693
Held-to-maturity financial assets											(51)				1	(50)
Current tax assets																0
Deferred tax assets	363	59	28	(398)	(24)	80	70	493	281	105	22			(202)	164	1,041
Accrued income and other assets	42	(10)	(10)		1	(149)				(16)	(952)			97	277	(720)
Investments in associates accounted for by the equity method				474									(343)	(102)	(8)	21
Investment property															(21)	(21)
Property, plant and equipment			(82)												36	(46)
Intangible assets			1												(6)	(5)
Goodwill															6	6
TOTAL	405	(123)	(63)	1,394	89	(184)	70	493	281	(180)	3,744	0	(343)	(207)	423	5,799
LIABILITIES AND EQUITY																
Financial liabilities at fair value through profit or loss											(1,066)					(1,066)
Derivatives used for hedging purposes					43						1,991					2,034
Due to credit institutions											1,726				162	1,888
Due to customers						1					(7)					(6)
Debt securities											2,028				(14)	2,014
Remeasurement adjustment on interest-rate risk hedged portfolios											485					485
Deferred tax liabilities								68							94	162
Accrued expenses and other liabilities							204				(1,242)			340	221	(477)
Technical reserves of insurance companies															(1)	(1)
Negative goodwill														(35)		(35)
Provisions for contingencies and charges	1,038							(68)	816	(300)	(90)				(38)	1,358
Subordinated debt											(39)					(39)
Reserve for General Banking Risks												(2,488)				(2,488)
Minority interests														(248)	(4)	(252)
Equity attributable to equity holders of the parent (excluding RGBR)	(633)	(123)	(63)	1,394	46	(185)	(134)	493	(535)	120	(42)	2,488	(343)	(264)	3	2,222
TOTAL	405	(123)	(63)	1,394	89	(184)	70	493	281	(180)	3,744	0	(343)	(207)	423	5,799

6.3 – RECONCILIATION OF 2005 INCOME UNDER FRENCH GAAP TO 2005 INCOME UNDER IFRS

(in millions of euros)	Income under French GAAP	Reclassifications	Restatements	Income under IFRS
Net banking income	10,301	(21)	(300)	9,980
Operating expenses	(7,115)	(208)	66	(7,257)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	(428)	(28)	14	(442)
Gross operating income	2,758	(257)	(220)	2,281
Cost of risk	(192)	44	(2)	(150)
Operating income	2,566	(213)	(222)	2,131
Share in net income of companies accounted for by the equity method	261		13	274
Net gains or losses on other assets	37	34	66	137
Change in value of goodwill	(62)		61	(1)
Exceptional items	(178)	179	(1)	
(Additions to)/releases from the Reserve for General Banking Risks	(83)		83	
Income before tax	2,541	0	0	2,541
Income tax	(390)		(293)	(683)
Net income	2,151	0	(293)	1,858
Minority interests	(80)		2	(78)
Net income attributable to equity holders of the parent	2,071	0	(291)	1,780

6.3.1 – DETAILS OF RECLASSIFICATIONS

(in millions of euros)	Reclassification of the addition to the pension provision set up under the Fillon law	Reclassification of net gains or losses on other assets	Other reclassifications	Total reclassifications
Net banking income		(6)	(15)	(21)
Operating expenses	(149)		(59)	(208)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets		(28)		(28)
Gross operating income	(149)	(34)	(74)	(257)
Cost of risk			44	44
Operating income	(149)	(34)	(30)	(213)
Net gains or losses on other assets		34		34
Exceptional items	149		30	179
Income before tax	0	0	0	0
Net income	0	0	0	0
Net income attributable to equity holders of the parent	0	0	0	0

6.3.2 – DETAILS OF RESTATEMENTS

(in millions of euros)	Loans	Financial operations	Provision on regulated savings products	Day one profit	Deferred taxes	Share in net income of companies accounted for by the equity method	Business combinations	(Additions to)/releases from RGBR	Other restatements	Total restatements
Net banking income	(41)	(121)	(69)	(61)	0	0	(21)	0	13	(300)
Operating expenses	85								(19)	66
Depreciation, amortization and impairment of property, plant and equipment and intangible assets									14	14
Gross operating income	44	(121)	(69)	(61)	0	0	(21)	0	8	(220)
Cost of risk		(3)							1	(2)
Operating income	44	(124)	(69)	(61)	0	0	(21)	0	9	(222)
Share in net income of companies accounted for by the equity method						13				13
Net gains or losses on other assets							70		(2)	66
Change in value of goodwill							62		(1)	61
Exceptional items									(1)	(1)
(Additions to)/releases from the Reserve for General Banking Risks								83		83
Income before tax	44	(126)	(69)	(61)	0	13	111	83	5	0
Income tax	(15)	41	24	21	(385)		20		1	(293)
Net income	29	(85)	(45)	(40)	(385)	13	131	83	6	(293)
Minority interests		1		1			(5)		5	2
Net income attributable to equity holders of the parent	29	(84)	(45)	(39)	(385)	13	126	83	11	(291)

6.4 – RECONCILIATION OF FIRST-HALF 2005 INCOME UNDER FRENCH GAAP TO FIRST-HALF 2005 INCOME UNDER IFRS

(in millions of euros)	Income under French GAAP	Reclassifications	Restatements	Income under IFRS
Net banking income	5,170	(25)	(161)	4,984
Operating expenses	(3,474)	(155)	(15)	(3,644)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	(205)	2	9	(194)
Gross operating income	1,491	(178)	(167)	1,146
Cost of risk	(65)	3	(14)	(76)
Operating income	1,426	(175)	(181)	1,070
Share in net income of companies accounted for by the equity method	122	0	21	143
Net gains or losses on other assets	3	21	(4)	20
Change in value of goodwill	(41)	0	41	0
Exceptional items	(153)	154	(1)	0
(Additions to)/releases from the Reserve for General Banking Risks	(46)	0	46	0
Income before tax	1,311	0	(78)	1,233
Income tax	(237)	0	(100)	(337)
Net income	1,074	0	(178)	896
Minority interests	(44)	0	1	(43)
Net income attributable to equity holders of the parent	1,030	0	(177)	853

6.4.1 – Details of reclassifications

(in millions of euros)	Reclassification of the addition to the pension provision set up under the Fillon law	Reclassification of net gains or losses on other assets	Other reclassifications	Total reclassifications
Net banking income		(25)	0	(25)
Operating expenses	(149)		(6)	(155)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets			2	2
Gross operating income	(149)	(25)	(4)	(178)
Cost of risk			3	3
Operating income	(149)	(25)	(1)	(175)
Net gains or losses on other assets		25	(4)	21
Exceptional items	149		5	154
Income before tax	0	0	0	0
Net income	0	0	0	0
Net income attributable to equity holders of the parent	0	0	0	0

6.4.2 – DETAILS OF RESTATEMENTS

(in millions of euros)	Loans	Provision on regulated savings products	Financial operations	Day one profit	Employee benefits	Portfolio-assessed provisions	Deferred taxes	Business combinations	RGBR	Share in net income of companies accounted for by the equity method	Other restatements	Total restatements
Net banking income	(33)	(38)	(19)	(44)	0	(5)	0	(20)	0	0	(2)	(161)
Operating expenses	34				(35)						(14)	(15)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets											9	9
Gross operating income	1	(38)	(44)	(44)	(35)	(5)	0	(20)	0	0	18	(167)
Cost of risk						(10)					(4)	(14)
Operating income	1	(38)	(44)	(44)	(35)	(15)	0	(20)	0	0	14	(181)
Share in net income of companies accounted for by the equity method										21		21
Net gains or losses on other assets											(4)	(4)
Change in value of goodwill								41				41
Exceptional items											(1)	(1)
(Additions to)/releases from the Reserve for General Banking Risks									46			46
Income before tax	1	(38)	(19)	(44)	(35)	(15)	0	21	46	21	(16)	(78)
Income tax		13	7	15	12	5	(182)	13			17	(100)
Net income	1	(25)	(12)	(29)	(23)	(10)	(182)	34	46	21	1	(178)
Minority interests				1				(2)			2	1
Net income attributable to equity holders of the parent	1	(25)	(12)	(28)	(23)	(10)	(182)	32	46	21	3	(177)

6.5 – REMARKS ON THE IMPACT OF IFRS ADOPTION

6.5.1 – IMPACT OF CHANGES IN ACCOUNTING POLICIES IN 2005

The impacts of the changes in accounting policies described below are the same under French GAAP as under IFRS.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The main impact on property, plant and equipment and intangible assets results from the application of *Comité de la réglementation comptable* (French accounting standard setter – CRC) rule 2002.10, amended by CRC rule 2003.07, which sets out new rules for charging depreciation, amortization and impairment: major **building** components are now accounted for separately and depreciated over their respective useful lives.

CREDIT RISK

In application of the requirements of CRC rule 2002.03, impairment relating to expected losses on non-performing and doubtful loans must now be discounted to present value.

EMPLOYEE BENEFITS

Commitments in respect of post-employment benefits and long-term employee benefits are measured in accordance with CNC recommendation 2003.R.01 relating to the recognition and measurement of pension commitments and other post-employment benefits. Commitments are measured using an actuarial method that takes account of the age, length of service and the likelihood of personnel being employed by the Group until retirement, and of the value of plan assets. Actuarial gains and losses are amortized in accordance with the corridor method.

6.5.2 – IMPACT OF IFRS ADOPTION

RESERVE FOR GENERAL BANKING RISKS (RGRB)

Under IAS 37 dealing with provisions and contingent liabilities, the Reserve for General Banking Risks does not meet the criteria for recognition as a liability. Amounts recorded under this caption are therefore credited to equity at January 1, 2005. Any additions to or releases from the reserve are eliminated from the income statement.

LOANS AND COMMISSIONS

Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts to the net carrying amount of the financial asset. This rate includes any discounts recorded in respect of loans granted at below-market rates, as well as any fees and points paid or received, and transaction costs, which are treated as an adjustment to the effective yield on the loan.

Opening equity was adjusted for the unamortized portion of fees and discounts relating to transactions outstanding at the opening balance sheet date.

PROVISIONS ASSESSED ON A PORTFOLIO BASIS

IAS 39 requires impairment to be assessed on the basis of portfolios of loans with similar characteristics which present objective evidence of collective impairment where it is not possible to identify impaired loans individually.

The general provisions previously recorded by Groupe Caisse d'Epargne are no longer compatible with IFRS.

However, **overall hedges** of credit risks on performing loans are not materially affected by the adoption of the new accounting rules.

PROVISION ON REGULATED SAVINGS PRODUCTS

A provision must be set aside under liabilities when specific commitments arising on regulated savings products (whether in the savings phase or the related borrowing phase) will have an unfavorable impact on the Group.

At January 1, 2005, a €535 million provision was charged against equity, representing the difference between the agreed terms applicable to each of these phases and market conditions.

SECURITIES PORTFOLIO

Analysis of the securities portfolio

IAS 39 introduces new criteria for classifying securities. The bulk of the reclassifications were made according to the following principles:

- “Financial assets at fair value through profit or loss” includes financial assets held for trading, as well as the non-derivative financial assets that the Group has elected to measure at fair value in accordance with the option available under IAS 39. Application guidance regarding the fair value option was provided in the amendment to the standard issued in June 2005.
- “Held-to-maturity financial assets” includes certain securities previously classified as investment securities. However, unlike under French GAAP, these securities may not be hedged against interest rate risk.
- “Available-for-sale financial assets” is the default category that includes securities previously classified as held-for-sale securities and certain investment securities as well as portfolio equity investments, other long-term investments and investments in unconsolidated subsidiaries.

Remeasurement of available-for-sale securities

Changes in the fair value of available-for-sale securities are recorded **with a counterpart** entry to a specific equity account, entitled “Revaluation reserve”. These amounts are only taken to the profit and loss account under net banking income upon disposal of the securities or whenever the securities are deemed to have suffered a **prolonged** decline in value. Impairment recorded against an equity instrument may not be reversed.

HEDGE ACCOUNTING

The impacts of IFRS adoption on hedging are split between: “Remeasurement of derivatives used as cash flow hedges”, “Reclassification to the trading book of non-qualifying hedging derivatives” and “Ineffective portion of hedges”.

Under IAS 39, all derivative financial instruments must be carried in the balance sheet at fair value. Derivatives only qualify for hedge accounting if there is formal documentation of the hedging relationship. The effectiveness of the hedge must be demonstrated at the inception of the contract, and subsequently assessed retrospectively.

The Group has opted to maintain the existing classification of specific hedging relationships (micro hedges) as defined under French GAAP in order to reflect the initial purpose of the hedge **and common business practices** with regard to IFRS. However, under the rules set out in IFRS 1 concerning the treatment of hedging operations at the date of first-time application of IFRS, certain specific hedging derivatives have been reclassified at fair value through profit or loss, particularly those used to hedge investment securities, since IAS 39 prohibits hedging of held-to-maturity financial assets.

In a fair value hedging relationship, the portion relating to the hedged risk will be remeasured at fair value through profit or loss, symmetrically to the remeasurement of the hedging instrument. At January 1, 2005, these adjustments will be recognized in equity. **The** ineffective portion of the hedge will be taken to income.

ASSETS AND LIABILITIES ACCOUNTED FOR UNDER THE FAIR VALUE OPTION

The Group opted to use the exception available under IFRS 1 whereby all financial assets and liabilities meeting the criteria defined by IAS 39 as amended may be designated at fair value [at the transition date](#).

RESTATEMENT OF DAY ONE PROFIT

The initial margin generated when a financial instrument is set up cannot be taken to profit unless the valuation parameters are observable.

In valuing certain structured products, non-observable market parameters are sometimes used. The margin generated when these complex financial instruments are traded (day one profit) is deferred and taken to income as and when the valuation parameters become observable.

Margins previously recorded under French GAAP upon the inception of trading were recognized in equity at January 1, 2005 and will be released to income over the residual life of the financial instruments concerned. Margins on transactions processed on or after October 25, 2002 were restated prospectively.

COMMITMENTS TO BUY BACK MINORITY INTERESTS (WRITTEN PUTS)

The Group has entered into commitments with minority shareholders of certain fully consolidated companies to buy back their shares. These commitments represent written puts whose exercise price can be determined based on a predefined formula which takes account of possible changes in the value of the entities concerned.

In accordance with IAS 32, the minority interests concerned have been reclassified as debt, and equity was reduced accordingly. The largest put was written for an amount of €340 million.

BUSINESS COMBINATIONS AND GOODWILL

Under IFRS 1, entities may choose not to restate business combinations that occurred prior to the date of transition to IFRS. However, assets and liabilities acquired as part of past business combinations may only be recognized in the opening balance sheet provided that they meet the recognition criteria set out in IFRS.

Accordingly, certain intangible assets such as market share and business goodwill that were acquired within the scope of a business combination but do not qualify for recognition as intangible assets under IFRS, have been reclassified within goodwill. Assets that do not meet the identifiability criteria prescribed by IFRS are not reported in the opening balance sheet.

Goodwill is no longer amortized but tested for impairment at least once a year, or whenever there is an indication that it may be impaired.

SCOPE OF CONSOLIDATION

The definition of control under IFRS is broadly similar to that provided by French GAAP. Consequently, the application of IFRS does not have a material impact on the [scope of consolidation](#).

INSURANCE

The non-recyclable, non-amortizable impacts of IFRS adoption on the equity of equity-accounted insurance subsidiaries have been included on a separate line ("Investments in associates accounted for by the equity method").

This caption includes mainly deferred tax recognized on the capitalization reserve.

Financial assets held by insurance companies are recognized in the balance sheet within one of the categories defined by IAS 39, and are measured in accordance with the prescribed treatment.

In accordance with Phase I of IFRS 4, contracts classified as insurance contracts under French GAAP fall into two categories:

- contracts that generate significant insurance risk within the meaning of IFRS 4 will continue to be accounted for under French GAAP, pending Phase II of IFRS 4. The Group will therefore continue to use the rules for measuring technical reserves set out in French GAAP;
- investment contracts that do not generate significant insurance risk, such as savings schemes, are recognized under IFRS 4 if they contain a discretionary participation feature; otherwise they are accounted for in accordance with IAS 39.

Most investment contracts issued by Group entities contain with-profit discretionary participation features; as such, the provision for amounts payable on with-profit policies is adjusted to include the policyholders' share in the unrealized profits or losses on financial instruments measured at fair value under IAS 39.

NOTE 7 – RISK EXPOSURE AND RISK MANAGEMENT

7.1 – ORGANIZATION OF RISK MANAGEMENT: OVERVIEW OF THE MAIN RISK EXPOSURES

7.1.1 – GENERAL RISKS

Groupe Caisse d'Epargne's business involves the following main risks:

- credit or counterparty risks,
- liquidity, interest rate and currency risks, arising primarily from retail banking operations,
- market risks,
- operational risks,
- legal risks,
- operational risk insurance,
- compliance risks.

As the network's central institution, the CNCE is responsible for establishing and maintaining consistent risk management processes across the entire organization, by:

- setting exposure limits for each Group entity and for all significant counterparties representing exposures in excess of the entity-level limit. These limits are decided by a number of decision-making committees and are evidenced in writing;
- monitoring entities' compliance with these limits and tracking any overruns;
- approving and implementing the methods used to rate and compute risks throughout the Group;
- defining risk control, processing and monitoring structures and procedures to be applied by all entities, and overseeing their application.

Most of these functions are performed by Group Risk Management.

7.1.2 – ROLES AND RESPONSIBILITIES OF RISK MANAGEMENT

Within Groupe Caisse d'Epargne's finance and risk management division, Group Risk Management is responsible for defining coordinated risk policies, driving through their implementation and overseeing their application within pre-defined limits. Group Risk Management reports to the CNCE Management Board in compliance with regulatory principles. The department has set up a Risk Management function spanning all Group entities and based on a common organization structure, as well as common risk analysis, tracking and control procedures.

Group Risk Management's responsibilities cover two main areas:

- defining and implementing risk control, monitoring and management processes across the Risk Management function, as defined in CRBF regulation 97-02 (as amended);
- developing procedures to comply with the new Basel II requirements, as incorporated in the European directive and French enabling legislation, and integrating them in the risk monitoring and management process.

7.1.3 – ORGANIZATION OF THE RISK MANAGEMENT FUNCTION

The Risk Management function comprises Group Risk Management and the Risk Management units of the Group (Caisses d'Epargne and subsidiaries).

GROUP RISK MANAGEMENT

Group Risk Management is responsible for monitoring and managing credit, market and operational risks, as well as the Group's overall interest rate and liquidity risk exposure.

It is organized around the following units:

- the Standards & Procedures unit distributes and maintains the body of Risk Management standards and procedures, checks their compliance with regulatory requirements and their application by the entities;
- the Methods Development & Approval unit approves the models used by Group Risk Management to manage risks associated with Investment and Commercial Banking operations, develops specific methods and monitors new banking industry modeling technologies;
- the Commercial Banking Rating Systems unit develops and leads the implementation of Commercial Banking rating systems and risk policies;
- the Major Counterparties Credit Analysis unit analyses and rates major counterparties, including sovereign, bank, corporate and asset-backed securities issuers, in line with the system of exposure limits and with the allocation of responsibilities with IXIS CIB;
- the SME Credit Analysis unit analyses small- and medium-sized business counterparties in line with the system of exposure limits;
- the Market Risks unit measures, monitors and controls market risks;
- the Fund Risks unit measures, monitors and controls fund risks;
- the Project Management unit manages development and acceptance processes for cross-functional projects with a systems component;
- the Risk Information Systems unit is responsible for structuring information system upgrades by incorporating risk management needs;
- the Credit Risk System Implementation & Maintenance unit develops, maintains and configures the Fermat credit risk consolidation and control system;
- the Credit Risk Control & Reporting unit leads the credit risk control process for the Commercial and Investment Banking businesses;
- the Operational Risks unit is responsible for deploying operational risk measurement, monitoring and control processes, as well as for monitoring and controlling operational risks on a consolidated basis.

Group Risk Management ensures that assumed risks are compatible with the entities' financial, human and IT resources, as well as with the Group's profitability and rating targets. It also recommends overall limits on credit, market and other risk exposures, to be assigned to the individual entities and business lines, as well as the levels of authority to be assigned to subsidiaries, in line with the Group's risk policies.

Risks are managed, monitored and controlled by several committees reporting to Group Risk Management:

- the Group Risk Committee, which meets at monthly intervals to set the overall framework for dealing with risk issues, as well as for the development and upgrading of risk management processes;
- the Group Credit committees (Major Counterparties and SMEs), which meet at least twice a month to review commitments in excess of the entities' exposure limits and to set maximum exposures;
- the Group Watchlist & Provisions committees, which meet at quarterly intervals;
- the Group Market Risks and Fund Risks committees, which meet on a monthly basis;
- the Group Operational Risk Committee, which meets twice a year.

The head of Group Risk Management is a voting member of the Group ALM Committee, the Commercial Banking ALM Committee and the CNCE Investment & Finance committees.

The department is also responsible for consolidated credit, market and operational risk reporting to Groupe Caisse d'Epargne's corporate governance structures and the banking regulator.

ENTITY-LEVEL RISK MANAGEMENT UNITS

The organization of risk monitoring and control processes at the individual Caisses d'Epargne and subsidiaries of Groupe Caisse d'Epargne is based on guidelines issued by Group Risk Management.

Each entity's Risk Management unit covers all risk exposures, including credit and counterparty risks, market risks, overall interest rate and currency risks, and liquidity and settlement-delivery risks.

These units perform ex-ante risk analyses based on the exposure limits assigned to the entity, as well as ex-post analyses and controls.

They lead the activities of their entity's Risk Committee, Commitments Committee, Financial Management Committee and Operational Risk Committee, and also participate in meetings of the entity's ALM Committee.

They represent Group Risk Management's local contact and are responsible for rolling out to their entity the national procedures and projects developed or initiated by Group Risk Management.

7.1.4 – MAIN DEVELOPMENTS IN FIRST-HALF 2006

STANDARDS AND PROCEDURES

The Group Risk Procedure Manual went online at the end of 2005 and has since been updated, mainly with regard to rating systems and Group exposure limits. It has also been adapted to take account of the specificities of certain capital market units and the Risk Management function as a whole.

In the first six months of 2006, the Group strengthened its ongoing monitoring procedure designed to oversee entities' application of groupwide risk standards, encourage take-up of the standards and report to the Group's corporate governance structures. A file is prepared for each entity backed by a series of scheduled on-site visits and summary tables.

RATING AND COMMERCIAL BANKING

The rating systems used by the Commercial Banking division were audited by the Internal Audit department and an external firm (Deloitte). The findings of the audit were submitted to the *Commission Bancaire* (French Banking Commission) to enable it to plan its inspection. In parallel, specific action plans were drawn up to address the recommendations relating to Basel II issued by the Internal Audit department.

Upgrades of existing rating tools were rolled out in first-half 2006 as part of the new rating system; specifications have been drafted and tests undertaken ready for implementation during the second half of the year.

The new monitoring procedure for information taken from the National Datawarehouse helped identify the critical parameters for rating models and backtesting.

Lastly, risk exposure limits to be applied by the Group in respect of (i) SMEs and (ii) self-employed professionals, were validated by the Group Risk Committee.

CREDIT RISK CONTROLS AND REPORTING

Credit risk reporting tools were enhanced and their reliability improved pending the production of reports on the Fermat software. The performance charts presented to the Management Board and Group Risk Committee now cover the Investment Banking division's major counterparties split by type of counterparty, geographic area, rating and industry sector. Reporting tools for the Commercial Banking division cover the individual *Caisses d'Epargne*, provisioning rates and the cost of risk, and were enhanced by new schedules for monitoring structured SMEs.

Group third-party and counterparty risk databases were brought on stream for Major Counterparties and certain priority segments, and resulted in improved classification and reliability.

CREDIT RISK MANAGEMENT TOOLS IMPLEMENTATION AND MAINTENANCE

The global exposure monitoring system (Fermat Gem) is now in the pre-implementation phase for both Major Counterparties as well as priority segments of the Commercial Banking division. In parallel, beta tests were run on risk monitoring reports dedicated to Major Counterparties, and the accounting harmonization project was rolled out to all Group users. A presentation was given to the *Commission Bancaire* on the Fermat Gem reporting tool.

MARKET RISKS

Group Risk Management pushed ahead with its drive to implement centralized risk monitoring tools for the Group's various entities. In particular, this involved monitoring the proprietary trading risk incurred by Group entities on a daily basis, preparing the calculation of VaR on medium- and long-term portfolios, and implementing stress scenarios.

New functionalities and specifically adapted procedures have been added to the intranet site set up to manage requests for fund investments.

7.1.5 – RISK MANAGEMENT OBJECTIVES FOR SECOND-HALF 2006

By the end of 2006, Fermat Gem, which will have replaced the existing software tools, should enable the Group to consolidate and manage its credit risk at both Group and entity level. Likewise, the calculation of the Group's credit risk capital requirement on Fermat Cad should be operational for end-2006 data following the two calculations at December 31, 2005 and June 30, 2006.

A number of action plans addressing the recommendations of the Internal Audit department will be finalized in the second half of the year, as part of the regulatory approval process.

An action plan will also be rolled out with the specific aim of identifying and archiving default thresholds in the Group's IT system as per Basel II.

The calculations for analyzing market risk will be enriched.

Lastly, the operational risk management framework will be improved in order to meet the requirements of the Advanced Measurement Approach (AMA).

7.2 – CREDIT OR COUNTERPARTY RISK MANAGEMENT

During the first half of 2006, Group Risk Management continued to build Basel II requirements into procedures and develop compliant credit risk measurement, management and monitoring systems.

7.2.1 – ORGANIZATION

The new credit risk management organization is designed to:

- establish a consolidated risk measurement, management and monitoring structure that complies with French banking regulations (CRBF 97-02 revised);
- implement and document the Basel II rating system developed by the Group and obtain regulatory approval.

These two major strategic projects have been broken down into sixteen sub-projects covering:

- Commercial Banking: rating and scoring system, data quality, processing tools, performance charts;
- Investment Banking: credit rating system, processing tools, performance charts;
- standards and procedures, change management, regulatory watch and ongoing entity-level monitoring;

- Fermat system to manage and calculate Basel II capital requirements and monitor limit overruns, the Group third-party database and other upstream reporting systems;
- internal rating methodology development and validation.

7.2.2 – CREDIT RISK MEASUREMENT AND MANAGEMENT

Group Risk Management organizes consolidated credit risk measurement and management processes by:

- setting exposure limits for all significant counterparties representing exposures in excess of entity-level limits. These limits are defined by a certain number of committees, such as the Group Major Counterparty Credit and Group SME Credit committees;
- developing and maintaining the Group's rating systems;
- validating rating methodologies;
- defining standards and procedures to be applied by all entities.

During the first six months of 2006, Group Risk Management fine-tuned its rating systems for both Commercial Banking and Investment Banking customers, and set out its system for managing exposure limits on SME and self-employed professional segments.

In view of obtaining regulatory approval, Group Risk Management implemented action plans addressing recommendations made by Internal Audit.

7.2.3 – RISK MONITORING

Group Risk Management leads the committees and produces the performance charts used to monitor credit risks on a consolidated basis.

The Major Counterparties Credit Analysis unit performs or oversees expert analyses of credit risks associated with sovereign, bank, insurance, corporate and securitization issuers for the entire Group. These analyses are presented and discussed during meetings of the Major Counterparties Committee or the Risks Committee, as appropriate, providing a basis for the attribution of a rating and Group-level exposure limit to each counterparty. These exposure limits are communicated to the entities and incorporated into the exposure limit monitoring tool.

The SME Credit Analysis unit reviews the ratings attributed to SMEs by the internal rating system and presents its own comparative assessment of the credit risk to the Group SME Credit Committee in line with the allocations of authority.

The Credit Risk Controls & Reporting unit is responsible for developing and enhancing credit risk control procedures, as well as for producing risk monitoring reports submitted to the committees and the Management Board. Structured SMEs were included in these reports in the first half of 2006.

The Commercial Banking Rating Systems unit monitors the quality and pertinence of qualitative and score-based ratings.

The Credit Risk System Implementation & Maintenance unit is tasked with developing and implementing the Group's Fermat exposure limit monitoring system, which is currently being deployed.

7.3 – ASSET/LIABILITY MANAGEMENT RISKS

7.3.1 – ORGANIZATION OF THE ALM UNIT

Group-level organization

Since the end of 2004, Groupe Caisse d'Epargne has been a full-service, universal bank, with operations in commercial banking, corporate and investment banking and insurance. Each business line manages ALM (liquidity, interest rate and currency) risks at various different levels.

To reflect this change, in March 2005 the CNCE set up a Group ALM unit tasked with monitoring ALM risks on a consolidated basis. This extends the work carried out previously to monitor ALM risks at the level of the individual Caisses d'Epargne and the Commercial Banking subsidiaries.

The main objectives of the Group ALM unit are as follows:

- meet regulatory requirements,
- optimize Group-level ALM supervision and management,
- provide information as required.

Its activities are overseen by the Group ALM Committee set up in May 2005. Chaired by the CNCE Management Board member responsible for the Finance and Risks Division, the committee comprises several other Management Board members, the Finance Directors of the main subsidiaries and the officers of the individual Caisses d'Epargne. It meets at quarterly intervals.

Designing and implementing a structure to manage ALM risks on a consolidated basis is a very challenging task in an organization the size of Groupe Caisse d'Epargne, and it has had a profound impact on ALM systems and processes throughout the organization.

To monitor consolidated risks in compliance with the applicable regulations, the Group ALM unit uses ALM simulation and consolidation software to process data generated by the various Group entities.

Following the completion in 2005 of the ALM unit's rules of procedure and the consolidated ALM risk monitoring reports, the main tasks undertaken by Group ALM over the first six months of 2006 were as follows:

- issuing Group-level ALM standards and exposure limits in a reference guide to be published throughout the Group at the end of 2006;
- continuing to integrate Group entities within the ALM system;
- preliminary work on the elimination of intragroup transactions for the ALM system in order to generate consolidated ALM indicators;
- initial analyses of the impacts of the application of IFRS on ALM risk management.

Commercial Banking division ALM organization

The Commercial Banking division – comprising the 29 Caisses d'Epargne and the Commercial Banking subsidiaries of the CNCE – has its own ALM Committee. The committee meets at quarterly intervals to review Commercial Banking interest rate and liquidity exposures.

Since December 2005, a new financial management charter defines the role, organization and supervisory framework of asset/liability management and other financial activities carried out by the Group's Commercial Banking subsidiaries. This charter sets out the rules governing exposures and the monitoring of interest rate, liquidity and currency risks.

All 29 Caisses d'Epargne, as well as Banque Palatine and Financière OCEOR use ALM SIS to manage asset/liability risks. This software has an identical configuration for each entity and allows for entity-level management of ALM, while overall risk exposure is monitored by the CNCE.

Following the end-2005 publication of the new financial management charter, a series of steps were taken in view of its implementation from both an institutional and operational standpoint.

The first half of the year also saw:

- a bilateral review of the current financial management framework at each of the Caisses d'Épargne;
- development and analysis of a worst-case scenario;
- adjustment of behavioral models for home savings plans to reflect the new rules on provisioning prescribed by IFRS;
- continuation of the ALM system overhaul program.

7.3.2 – GROUPWIDE MANAGEMENT OF LIQUIDITY, INTEREST RATE AND CURRENCY RISKS

The Group is exposed to liquidity, currency and interest rate risks. A growing number of indicators are used to monitor these risks and produce a quarterly report.

Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due and replace funds when they are withdrawn. Liquidity risk stems from a mismatch between maturities of assets and liabilities in a given period. Mismatches occur when (i) unexpected liquidity requirements arise that are not matched by liquid assets, or (ii) when other external factors such as market uncertainty mean that the Group is unable to raise capital on the financial markets at a reasonable cost.

Liquidity risk is measured using the following indicators:

- regulatory indicators such as the liquidity ratio or the ratio of shareholders' equity to long-term funding (minimum thresholds);
- ALM indicators such as gap analysis, which models expected maturities of loans and borrowings over a long-term period and can therefore estimate future financing or refinancing requirements.

In terms of liquidity risk management, the CNCE is responsible for the Group's overall liquidity exposure in its capacity as the head of the Group and its central institution. Refinancing for Groupe Caisse d'Épargne is organized by division (Commercial Banking, the CFF sub-group and Investment Banking), with increased oversight and coordination by the CNCE. The CNCE is also the Group's sole issuer of subordinated and deeply subordinated notes, which serve to optimize regulatory capital.

- **Commercial Banking:** the lending activities of the individual Caisses d'Épargne are partially financed by the significant customer deposits generated by the retail banking business. Their remaining financing needs, along with those of the Commercial Banking subsidiaries, are met by the CNCE. As well as maintaining adequate liquid funds for the Group as a whole, the CNCE has specific responsibility for meeting the liquidity needs of the Commercial Banking division and for raising additional funds on the market to finance the development of the Caisses d'Épargne and Commercial Banking subsidiaries.
- **Crédit Foncier sub-group:** short-term financing for the sub-group is raised by Crédit Foncier de France, while two specialist issuers – Compagnie de Financement Foncier and Vauban Mobilisations Garanties (VMG) – are responsible for medium- and long-term financing. These two entities' AAA-rated covered bond issues represent an important new source of financing for the Group as a whole. Compagnie de Financement Foncier also refinances a growing proportion of the Group's local authority loans through an internal securitization program representing some €2 billion in 2005.

- **Investment Banking:** IXIS Corporate & Investment Bank is responsible for refinancing its own capital markets and corporate financing operations.

The Group's overall liquidity position and the liquidity position of each individual entity are monitored at the level of the CNCE. Annual financing plans approved by the Group ALM Committee are drawn up covering the entities' short- and medium-term financing needs based on business forecasts. Short-term financing is allocated to each Commercial Banking entity based on the CNCE's ability to raise short-term funds on the market.

Interest rate risk

Interest rate risk is the risk that unfavorable changes in interest rates will lead to earnings instability. The Group's exposure to interest rate risk affects the amount of interest paid/received on loans/borrowings and financial instruments. It impacts the mismatch margin (ordinary operations) and net asset value, and therefore has an impact on equity.

Interest rate risk is measured using a combination of the following indicators:

- Interest rate gap analysis, which models mismatches between assets and liabilities at fixed/variable rates over a given period of time. These indicators highlight any risks incurred on (i) fixed-rate exposure, and (ii) variable-rate exposures.
- Indicators gauging the sensitivity of the interest margin to changes in interest rates. These indicators make it possible to assess the impact on earnings of interest rate volatility.
- Indicator calculating the sensitivity of net present value. This tool allows the Group to assess the sensitivity of the bank's market value to interest rate exposure.
- All of the Group's asset/liability indicators help to define a framework for the Group ALM unit in managing ALM risk, and provide a series of observable and measurable parameters. To anchor the Group's financial management procedure, gap limits should be applied to certain indicators to reflect the objectives of the different Group ALM risk management frameworks. These groupwide gap limits will be set during the first half of 2007 for GCE's scope of consolidation, and will enhance the framework currently in place at entity level.

Commercial Banking subsidiaries' exposure to interest rate risk is assessed using a variety of complementary approaches, based on the scope chosen for the analysis.

- A static repricing approach is used to model interest rates on existing loans and borrowings, with a view to computing entities' mismatch positions.
- A dynamic repricing approach which takes account of business forecasts for the current year and three subsequent years is used to assess the sensitivity of forecast earnings to changes in interest rates.

A series of indicators and exposure limits is defined within the scope of these two approaches, including economic value and gross operating income sensitivity limits.

Currency risk

Currency risk is the risk of losses resulting from changes in exchange rates.

A fall in exchange rates may lead to the impairment of foreign currency assets, while a rise in exchange rates may increase the euro-equivalent value of foreign currency liabilities.

Currency risk is monitored using regulatory indicators prescribed by capital adequacy regulations.

7.4 – MARKET RISKS

All Group entities are exposed to market risks and fund-related risks (mutual funds and unregulated funds other than private equity funds). Risks are analyzed at the level of the

Investment and Commercial Banking divisions – comprising the individual Caisses d'Epargne, the specialist subsidiaries (Crédit Foncier de France, Banque Palatine, Financière OCEOR, GCE Garantie and La Compagnie 1818) – and also at that of the CNCE.

In the first six months of 2006, the Market Risks unit continued to roll out Group-level market risk monitoring tools, starting with the entities' proprietary trading activities. The market risk management process and the improvements made in this area in first-half 2006 are described below. The Market Risks unit also undertook an analysis of second-tier controls regarding ALM's management of overall interest rate exposure.

Investing in regulated and unregulated funds accounts for a significant portion of the entities' financial operations, and the risks associated with these investments are not limited to market risks. As a result, they are included in the market risk management process but are also subject to special treatment.

7.4.1 – STRUCTURE OF THE COMMERCIAL BANKING MARKET RISK MANAGEMENT PROCESS

Upstream operations: providing a risk management framework for new products

Two procedures are designed to ensure that the use of financial products is covered by appropriate operational safeguards, in compliance with the applicable regulations and Group risk management standards. These include the list of authorized financial products and the new product approval procedure, which govern the work undertaken by the New Products & Financial Operations Committee. As an example, some 50 products developed by the Commercial Banking subsidiaries were analyzed and an opinion issued in the first half of 2006.

Financial transaction monitoring and control: using standard market risk management tools throughout the Group

A process has been developed to analyze consolidated and entity-level exposures using standard indicators that are calculated by the same methods throughout the Group. Daily VaR calculations are performed for proprietary trading operations carried out by the Commercial Banking division (CNCE, Caisses d'Epargne and subsidiaries), and the Investment Banking business. Groupwide VaR calculations are based on Scénarisk software, which was developed by IXIS CIB and validated as an internal measurement tool for Investment Banking operations.

Over the first six months of 2006, calculations of VaR were backed by a series of historical and hypothetical stress scenarios that were implemented for the Commercial Banking division's proprietary trading activities. These were deployed based on the same principles as those applied by IXIS CIB. This approach was validated by the Group Risk Committee in March 2006. Economists from IXIS CIB's research unit calibrated the various scenarios identified and the initial findings of their work were presented to the Group Risk Committee in June 2006.

These global risk measurement tools are rolled out in the form of operational risk indicators under the responsibility of the individual entities.

Exposure management: setting exposure limits

The system of exposure limits reflects the segmentation of Commercial Banking financial operations between proprietary trading on the one hand and ALM and the management of medium- and long-term positions on the other. A Financial Charter describing risk management and monitoring principles applied to these activities was approved at the end of 2005. An overall VaR limit has been set for all proprietary trading activities, while gross operating income sensitivity limits and volume limits have been set for ALM and medium- and long-term positions. These limits are determined at national level and then allocated among the Group entities.

Compliance control: reporting

The reporting system is designed to track and control exposures to ensure that they comply with the operational principles defined by the Group's risk policy and are consistent with allocated exposure limits. It is organized around:

- daily reporting of proprietary trading VaR by the Group entities. These reports are used to monitor changes in Commercial Banking and Investment Banking (IXIS CIB) VaR compared with their respective exposure limits;
- weekly reporting of changes in VaR over one week, including detailed analyses and historical data;
- detailed monthly reporting of investments in mutual funds and other funds and the related VaR, by entity;
- monthly management reports, summaries of which are submitted to the Management Board, as well as full reports made available to the Market Risks committees and Fund Risks committees.

7.4.2 – COMMERCIAL BANKING PROCEDURES

As mentioned above, the list of authorized products and operational guidelines for the New Products & Financial Operations Committee were approved, along with the criteria for authorizing purchases of fund units and the related fast-track procedure. A procedure setting out guidelines for managing exposure limit overruns also came into effect.

The Market Risks committees and Fund Risks committees are responsible for tracking and overseeing financial transactions and validating exposure limits prior to their submission to the Group Risk Committee.

7.4.3 – MARKET RISK MEASUREMENT AND EXPOSURE LIMITS

Structure of the exposure limits system

The structure of the exposure limits system is based on the joint use of gross operating income and VaR indicators in order to take into account the following two main types of market risk exposures:

- the potential variability of cash flows and net interest margins;
- the sensitivity of the fair value of the securities portfolio, the related hedges and isolated open positions.

Based on the definition of proprietary trading, consolidated 1-day VaR based on a 99% confidence level may not exceed €7 million for the Caisses d'Epargne taken together. This exposure limit was rolled down to the various entities based on capital and earnings criteria. The allocation of exposure limits by entity is reviewed each year and the last review took place in June 2006.

Over the period, the proprietary trading operations carried out by the Group's specialist subsidiaries respected an exposure limit of €0.5 million (1-day VaR based on a 99% confidence level).

Tools and methods

VaR estimates are performed on Scénarisk software, which is already used by IXIS CIB. Calculations of VaR for entities operating in the Commercial Banking division are performed at national level. This involves an initial stage whereby data is recovered on positions taken by individual entities and a second stage in which data is fed into Scénarisk to generate the actual risk exposure, taking into account the effect of portfolio diversification across the Caisses d'Epargne and specialist subsidiaries.

Scénarisk was rolled out to the entities, thereby enabling them to check actual VaR in real time and simulate the VaR impact of future transactions.

7.4.4 – SPECIFIC TREATMENT OF MUTUAL FUNDS AND UNREGULATED FUNDS

A specific methodology for the inclusion of these funds in overall VaR was implemented in 2005, and enhanced by a review of the main risk areas at the beginning of January 2006, as well as the integration of risk areas in Scénarisk at end-March 2006. Other upgrades are scheduled for the second half of the year.

Since the end of December 2005, requests for fund investments are managed via a dedicated intranet site (ABIS).

The new functionalities developed in first-half 2006 and available on ABIS are as follows:

- management of requests for fund investments (batch 1 of the internet project):
 - tracking of outstanding requests (traceability),
 - sending of automatic mails to the various parties concerned.
- access to GRM fund scoring systems and analysis;
- option for entities to compute own score-based system;
- management of investment reports concerning investments approved under the fast-track procedure;
- access to Group reports on entities: allocation by asset class, details of fund portfolios, fund VaR and backtesting;
- access to fund statistics at Group level;
- access to tracking of fast-track criteria based on note 149/C/06/097 (batch 2 of the internet project),
- access to the ABIS user guide,
- access to fund manager analyses, as well as analyses performed by GRM and GFM of funds requiring approval.

A score-based method for analyzing funds (validated by the Fund Risks Committee in June 2005) is applied to each investment request made by Group entities on the ABIS site.

Procedures & Fund Risks Committee

A procedure establishing the rules to be followed by Group entities for investments in funds was introduced in April 2006.

The Fund Risks Committee set up in June 2005 meets at monthly intervals.

Specific exposure limits and controls

Specific exposure limits have been set for investments in mutual funds and unregulated funds (other than private equity funds), covering the combination of market and operational risks incurred when the Group delegates responsibility for managing part of its assets to fund managers. Management companies must be approved by the Fund Risks Committee and comply with exposure limits applicable to the assets managed on the Group's behalf.

These exposure limits are reviewed each year by the Fund Risks Committee based on analyses produced by IXIS CIB's credit analysts.

The above procedure also includes exposure limits covering liquidity, country and currency risks.

To ensure that Group entities comply with the procedure for investments in mutual funds and alternative investment funds, monthly controls over movements in the Group's portfolio over the first half of 2006 were implemented.

Specific reporting systems

A system has been set up for the detailed monthly reporting of investments in mutual funds and unregulated funds, together with the related VaR, to the Fund Risks Committee. The reports include:

- an analysis of investments by asset class;
- the list of funds and the 1-day VaR with a 99% confidence level for each fund;
- the list of approved fund managers and details of their actual and maximum VaR;
- details of significant movements and the largest asset classes.

Similar reports are now also available on a daily basis from each entity and posted on the intranet set up to manage requests for fund investments.

Specific monthly reports are also sent to IXIS AM.

NOTE 8 – NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 – FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value through profit or loss include instruments held for trading, including derivatives, and certain assets and liabilities that the Group has opted to account for under the fair value option at the date of acquisition or issue.

Financial assets in the trading portfolio mainly include securities transactions, repurchase agreements and derivative instruments contracted by the Group to manage its risk exposure. Financial liabilities at fair value through profit or loss include securities borrowing and short selling transactions, repurchase agreements and derivative instruments.

Financial assets accounted for under the fair value option mainly consist of assets containing embedded derivatives, such as certain structured loan agreements. Financial liabilities accounted for under the fair value option mainly consist of structured debt issues containing embedded derivatives. Groups of financial assets and financial liabilities managed and evaluated on a fair value basis in the Group's capital markets business are also accounted for under the fair value option.

8.1.1 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(in millions of euros)	June 30, 2006			Dec. 31, 2005		
	Trading book	Fair value option	Total	Trading book	Fair value option	Total
Treasury bills and similar securities	17,538	690	18,228	18,362	1,516	19,878
Bonds	16,844	6,786	23,630	16,385	2,356	18,741
Subordinated notes	0	62	62	5	81	86
Mutual funds	3,696	2,513	6,209	2,833	5,320	8,153
Interbank and other money market securities	7,296	1,119	8,415	2,849	896	3,745
Total fixed-income securities	45,374	11,170	56,544	40,434	10,169	50,603
Equities and other variable-income securities	20,074	2,508	22,582	21,478	2,463	23,941
Total variable-income securities	20,074	2,508	22,582	21,478	2,463	23,941
Loans to credit institutions	627	162	789	12	395	407
Loans to customers	0	10,424	10,424	0	10,021	10,021
Total loan book	627	10,586	11,213	12	10,416	10,428
Total derivatives held for trading	44,994		44,994	43,722		43,722
Financial assets at fair value through profit or loss	111,069	24,264	135,333	105,646	23,048	128,694

8.1.2 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Total financial liabilities held for trading	28,939	36,266
Total derivatives held for trading	47,276	41,900
Interbank term accounts and loans	0	213
Customer term accounts and loans	265	294
Debt securities	46,284	53,160
Total financial liabilities accounted for under the fair value option	46,549	53,667
Financial liabilities at fair value through profit or loss	122,764	131,833

8.1.3 – DERIVATIVES HELD FOR TRADING

The notional amounts of derivative instruments are merely an indication of the volume of the Group's activities in financial instruments markets, and do not reflect the market risks associated with such instruments. The positive and negative fair values represent the replacement value of these instruments, which may fluctuate significantly in response to changes in market parameters.

(in millions of euros)	June 30, 2006			Dec. 31, 2005		
	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value
Futures	4,609,849	37,518	39,605	3,879,541	37,653	35,754
Interest rate	4,066,137	35,612	36,634	3,408,562	36,178	33,460
Equity	6,548	28	17	1,400	0	40
Currency	529,813	1,878	1,951	462,885	1,464	1,931
Other	7,351	0	1,003	6,694	11	323
Options	2,043,700	6,196	6,591	1,156,482	5,475	5,542
Interest rate	1,911,580	1,236	1,789	1,062,188	1,112	2,272
Equity	86,970	3,215	3,827	64,599	2,963	2,988
Currency	12,801	298	165	12,246	245	190
Other	32,349	1,447	810	17,449	1,155	92
Credit derivatives	282,292	1,280	1,080	171,380	594	604
TOTAL DERIVATIVES HELD FOR TRADING	6,935,841	44,994	47,276	5,207,403	43,722	41,900

8.2 – DERIVATIVES USED FOR HEDGING PURPOSES

Under IAS 39, at the inception of each hedge, there must be formal designation and documentation of the hedging relationship, setting out the entity's risk management objective and strategy for undertaking the hedge, and the methods to be used to assess the hedging instrument's effectiveness.

(in millions of euros)	June 30, 2006			Dec. 31, 2005		
	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value
Fair value hedges	91,891	551	1,019	98,603	3,696	2,740
Futures	82,282	509	1,012	88,916	3,653	2,716
Interest rate	69,205	385	1,011	78,070	3,653	2,574
Currency	13,007	124	1	10,846	0	142
Other	70	0	0	0	0	0
Options	6,829	35	3	6,357	43	24
Interest rate	5,693	34	3	6,204	43	24
Currency	0	0	0	153	0	0
Other	1,136	1	0	0	0	0
Credit derivatives	2,780	7	4	3,330	0	0
Cash flow hedges	22	2	2	13	0	1
Options	22	2	2	13	0	1
Interest rate	22	2	2	13	0	1
TOTAL	91,913	553	1,021	98,616	3,696	2,741

8.3 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Treasury bills and similar securities	687	814
Bonds	17,147	20,409
Subordinated notes	612	1,081
Mutual funds	5,685	7,404
Interbank and other money market securities	6,366	9,253
Total fixed-income securities	30,497	38,961
Loans to credit institutions	43	10
Loans to customers	262	306
Total loans	305	316
Equities and other variable-income securities	15,021	12,014
Non-performing bond debt and other fixed-income securities	92	96
Available-for-sale financial assets, gross	45,915	51,387
Provisions for impairment of non-performing assets	(76)	(77)
Available-for-sale financial assets	45,839	51,310

8.4 – LOANS AND RECEIVABLES

8.4.1 – LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Current accounts	83,974	100,174
Overnight deposits and loans	1,598	3,850
Securities purchased under resale agreements	1,575	1,841
Due from credit institutions – repayable on demand	87,147	105,865
Term deposits and loans	10,104	13,447
Securities purchased under resale agreements	58,608	59,212
Subordinated loans	206	128
Due from credit institutions – repayable at agreed maturity dates	68,918	72,787
Finance leases	29	36
Unlisted fixed-income securities	132	143
Non-performing loans	12	19
Loans and receivables due from credit institutions, gross	156,238	178,850
Impairment	(30)	(43)
Loans and receivables due from credit institutions	156,208	178,807

8.4.2 – LOANS AND RECEIVABLES DUE FROM CUSTOMERS

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Current accounts in debit	4,368	4,297
Loans to financial institutions	3,822	3,833
Short-term credit facilities	18,641	17,029
Equipment loans	38,679	39,501
Home loans	107,930	103,670
Other	9,787	8,732
Securities purchased under resale agreements	14,524	13,926
Subordinated loans	478	476
Other customer loans	193,861	187,167
Finance leases	4,074	4,013
Insurance-related receivables	155	124
Unlisted fixed-income securities	12,877	6,215
Non-performing loans	4,581	4,622
Loans and receivables due from customers, gross	219,916	206,438
Impairment	(2,722)	(2,778)
Loans and receivables due from customers	217,194	203,660

8.5 – DUE TO CREDIT INSTITUTIONS AND CUSTOMERS

8.5.1 – DUE TO CREDIT INSTITUTIONS

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Demand deposits	13,574	27,154
Securities sold under repurchase agreements	2,144	3,625
Accrued interest	12	94
Due to credit institutions – repayable on demand	15,730	30,873
Term deposits and loans	41,109	40,930
Repurchase agreements	31,729	26,783
Accrued interest	460	212
Due to credit institutions – repayable at agreed maturity dates	73,298	67,925
Due to credit institutions	89,028	98,798

8.5.2 – DUE TO CUSTOMERS

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Current accounts	33,858	31,082
Other demand and term deposits	27,239	20,782
Regulated savings accounts	148,518	150,954
<i>Livret A</i>	65,209	65,424
<i>Livret jeune</i>	1,727	1,775
<i>Livret B</i>	10,173	9,966
<i>PEL</i>	39,628	41,541
<i>CEL</i>	4,817	4,840
<i>Codevi</i>	6,411	6,254
<i>PEP</i>	2,976	3,469
Other	17,577	17,685
Repurchase agreements	10,698	15,787
Insurance-related liabilities	16	28
Due to customers	220,329	218,633

8.6 – HELD-TO-MATURITY FINANCIAL ASSETS

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Treasury bills and similar securities	295	273
Bonds	1,776	1,791
Subordinated debt	2	2
Mutual funds	15	16
Interbank and other money market securities	80	80
Held-to-maturity financial assets, gross	2,168	2,162

8.7 – DEBT SECURITIES AND SUBORDINATED DEBT

8.7.1 – DEBT SECURITIES

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Retail certificates of deposit	656	722
Interbank and money market securities and certificates of deposit	37,078	35,580
Bonds	71,589	66,078
Other debt securities	154	153
Debt securities	109,477	102,533

8.7.2 – SUBORDINATED DEBT

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Dated subordinated debt	6,315	6,450
Undated subordinated debt	2,580	2,059
Subordinated debt	8,895	8,509

Details of the main issues carried out in the first six months of 2006 are as follows:

	Amount (in millions of euros)	Currency	Interest rate
Undated subordinated debt	350	EUR	3-month Euribor
Undated subordinated debt	300	USD	Fixed rate

8.8 – ACCRUAL ACCOUNTS AND OTHER ASSETS AND LIABILITIES

8.8.1 – ACCRUED INCOME AND OTHER ASSETS

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Prepaid expenses	227	112
Accrued income	3,458	2,352
Other accruals	9,479	13,063
Total accrual accounts	13,164	15,527
Securities settlement accounts	1,096	1,646
Other debtors	10,329	9,984
Total other assets	11,425	11,630
Accrued income and other assets	24,589	27,157

8.8.2 – ACCRUED EXPENSES AND OTHER LIABILITIES

(in millions of euros)	June 30, 2006	Dec. 31, 2005
Accounts payable	1,342	1,665
Unearned income	1,038	904
Items in the course of collection	2,837	4,114
Other accruals	4,012	5,050
Total accrual accounts	9,229	11,733
Securities settlement accounts	1,874	1,941
Other liabilities	9,548	11,796
Total other liabilities	11,422	13,737
Accrued expenses and other liabilities	20,651	25,470

8.9 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

8.9.1 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(in millions of euros)	Investment property	Land and buildings	Operating leases	Equipment, furniture and other property, plant and equipment	Total property, plant and equipment
Gross value at Jan. 1, 2006	654	3,092	139	2,287	5,518
Acquisitions	4	198	6	153	357
Disposals, retirements and assets classified as held for sale (IFRS 5)	(14)	(47)	(14)	(155)	(216)
Other movements	(10)	(2)	31	(3)	26
Gross value at June 30, 2006	634	3,241	162	2,282	5,685

(in millions of euros)	Investment property	Land and buildings	Operating leases	Equipment, furniture and other property, plant and equipment	Total property, plant and equipment
Accumulated depreciation and impairment at Jan. 1, 2006	(207)	(1,358)	(63)	(1,598)	(3,019)
Depreciation expense	(8)	(104)	(5)	(55)	(164)
Disposals, retirements and assets classified as held for sale (IFRS 5)	7	31	7	98	136
Impairment charged/reversed	4	8	2	1	11
Other movements	0	19	(20)	(15)	(16)
Accumulated depreciation and impairment at June 30, 2006	(204)	(1,404)	(79)	(1,569)	(3,052)

NET BOOK VALUE AT JUNE 30, 2006	430	1,837	83	713	2,633
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8.9.2 – INTANGIBLE ASSETS

	Leasehold rights	Software	Other intangible assets	Total intangible assets
(in millions of euros)				
Gross value at Jan. 1, 2006	163	671	195	1,029
Acquisitions	4	62	10	76
Disposals, retirements and assets classified as held for sale (IFRS 5)	(2)	(66)	(2)	(70)
Other movements	2	3	(3)	2
Gross value at June 30, 2006	167	670	200	1,037

	Leasehold rights	Software	Other intangible assets	Total intangible assets
(in millions of euros)				
Accumulated amortization and impairment at Jan. 1, 2006	(28)	(525)	(97)	(650)
Amortization expense	0	(36)	(11)	(47)
Impairment charged/reversed	(2)	2	0	0
Reversal of amortization following disposal or retirement	0	66	1	67
Other movements	0	(2)	0	(2)
Accumulated amortization and impairment at June 30, 2006	(30)	(495)	(107)	(632)

NET BOOK VALUE AT JUNE 30, 2006	137	175	93	405
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8.10 – INVESTMENTS IN ASSOCIATES ACCOUNTED FOR BY THE EQUITY METHOD

	June 30, 2006			Dec. 31, 2005		
	Value of equity-accounted companies in the consolidated balance sheet	o/w goodwill	Share in net income of companies accounted for by the equity method	Value of equity-accounted companies in the consolidated balance sheet	o/w goodwill	Share in net income of companies accounted for by the equity method
(in millions of euros)						
Caisse Nationale de Prévoyance (group)	1,273	0	42	1,281	0	150
Ecureuil Vie	877	0	52	942	0	96
GCE Immobilier (group)	224	0	33	193	0	3
CDC Entreprises Capital Investissement	111	0	0	116	0	5
Nexgen Financial Holding	0	0	0	85	0	1
Other	73	16	11	112	16	19
TOTAL	2,558	16	138	2,729	16	274

8.11 – GOODWILL

(in millions of euros)	June 30, 2006	Dec. 31, 2005
BOOK VALUE AT THE BEGINNING OF PERIOD	1,983	1,653
Acquisitions and adjustments	65	165
Disposals	(2)	(2)
Translation adjustments	(94)	167
NET BOOK VALUE AT END OF PERIOD	1,952	1,983

Breakdown of the main items of goodwill

(in millions of euros)	Net book value	
	June 30, 2006	Dec. 31, 2005
IXIS Asset Management (group)	1,188	1,283
New Foundations agreement	296	296
Banque Palatine	177	177
CACEIS	150	150
Orane	41	0
Crédit Foncier	32	32
Nexgen	22	0
Other	46	45
TOTAL	1,952	1,983

8.12 – TECHNICAL RESERVES OF INSURANCE COMPANIES

(in millions of euros)	Dec. 31, 2005	Additions	Reversals (surplus provisions)	Reversals (utilized provisions)	Other movements	June 30, 2006
Unit-linked insurance policies	140	52	0	0	0	192
Life	461	4	0	0	(16)	449
Non-life	905	870	(261)	(427)	5	1,092
Technical reserves of insurance companies	1,506	926	(261)	(427)	(11)	1,733

8.13 – PROVISIONS FOR CONTINGENCIES AND CHARGES

(in millions of euros)	Dec. 31, 2005	Additions	Reversals	Other movements	June 30, 2006
Employee benefit obligations	1,493	23	(414)	(42)	1,060
Other provisions	1,718	70	(194)	(34)	1,560
Provision on regulated savings products	889	2	(74)	0	817
Off-balance sheet commitments	235	12	(30)	18	235
Provision for restructuring	109	8	(21)	(5)	91
Provisions for claims and litigation	201	21	(31)	17	208
Other	284	27	(38)	(64)	209
Provisions for contingencies and charges	3,211	93	(608)	(76)	2,620

NOTE 9 – NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

9.1 – INTEREST AND SIMILAR INCOME AND EXPENSE

This line item comprises interest income and expense – calculated using the effective interest method – on financial assets and liabilities measured at amortized cost, i.e., interbank and customer items, held-to-maturity assets, debt securities and subordinated debt.

It also includes interest receivable on fixed-income securities classified as available-for-sale financial assets and derivatives used for hedging purposes. However, interest receivable on derivatives used as cash flow hedges is taken to income on a symmetrical basis with interest accrued on the hedged item.

(in millions of euros)	First-half 2006			First-half 2005			2005		
	Income	Expense	Net	Income	Expense	Net	Income	Expense	Net
Derivatives used for hedging purposes	2,231	(1,445)	786	1,712	(1,186)	526	3,170	(2,483)	687
Available-for-sale financial assets	762	0	762	545	0	545	1,170	0	1,170
Interbank items	3,671	(2,546)	1,125	4,446	(2,587)	1,859	6,854	(3,672)	3,182
Customer items	4,877	(2,696)	2,181	4,163	(2,661)	1,502	8,548	(5,349)	3,199
Demand and term accounts, loans and borrowings (excluding regulated savings products) and repurchase agreements	4,836	(721)	4,115	4,203	(640)	3,563	8,612	(1,369)	7,243
Regulated savings products	41	(1,975)	(1,934)	(40)	(2,021)	(2,061)	(64)	(3,980)	(4,044)
Finance leases	122	0	122	104	0	104	252	0	252
Held-to-maturity financial assets	48	0	48	109	0	109	87	0	87
Debt securities and subordinated debt	0	(2,525)	(2,525)	0	(2,159)	(2,159)	0	(4,346)	(4,346)
Certificates of deposit and other securities	0	(875)	(875)	0	(319)	(319)	0	(1,537)	(1,537)
Bonds	0	(1,534)	(1,534)	0	(1,648)	(1,648)	0	(2,478)	(2,478)
Participating and subordinated debt	0	(116)	(116)	0	(192)	(192)	0	(331)	(331)
Other	7	(134)	(127)	1	(61)	(60)	8	(156)	(148)
TOTAL INTEREST AND SIMILAR INCOME AND EXPENSE	11,718	(9,346)	2,372	11,080	(8,654)	2,426	20,089	(16,006)	4,083

9.2 – COMMISSION INCOME AND EXPENSE

Commissions are recorded by type of service rendered and based on the method of accounting for the financial instrument to which the service relates.

In particular, this line includes commissions receivable or payable on recurring services (payment processing, custody fees, etc.) and occasional services (fund transfers, payment penalties, etc.), and commissions receivable or payable on execution of a significant transaction.

However, commissions that form an integral part of the effective yield of a contract are recorded under “Net interest income”.

(in millions of euros)	First-half 2006			First-half 2005			2005		
	Income	Expense	Net	Income	Expense	Net	Income	Expense	Net
Cash and interbank items	86	(4)	82	2	(9)	(7)	23	(12)	11
Customer items	483	(16)	467	395	(17)	378	908	(35)	873
Financial services	207	(83)	124	182	(61)	121	361	(166)	195
Sales of life insurance products	390	0	390	355	0	355	672	0	672
Payment services	272	(114)	158	257	(120)	137	503	(227)	276
Securities transactions	980	(60)	920	973	(39)	934	1,960	(81)	1,879
Other	84	(146)	(62)	75	(203)	(128)	182	(274)	(92)
TOTAL COMMISSION INCOME AND EXPENSE	2,502	(423)	2,079	2,239	(449)	1,790	4,609	(795)	3,814

9.3 – NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

This line includes gains and losses (including the related interest) on financial assets and liabilities classified as held for trading or designated at fair value through profit or loss under the fair value option.

“Hedging transactions” includes changes in value of derivatives used as fair value hedges, as well as the symmetrical remeasurement of the hedged item, the remeasurement at fair value of the macro-hedged portfolio and the ineffective portion of cash flow hedges.

(in millions of euros)	First-half 2006	First-half 2005	2005
Non-derivative financial assets held for trading	1,437	606	(83)
Financial assets accounted for under the fair value option	751	605	1,210
Non-derivative financial liabilities held for trading	(29)	(194)	(43)
Financial liabilities accounted for under the fair value option	(978)	(952)	(576)
Derivatives held for trading	(1,579)	1,335	1,373
Hedging transactions	1,411	(186)	(17)
Foreign exchange transactions	(414)	(980)	(664)
NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	599	234	1,200

9.4 – NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

This item records dividends from variable-income securities, gains and losses on the sale of available-for-sale financial assets and impairment losses on variable-income securities.

(in millions of euros)	First-half 2006	First-half 2005	2005
Fixed-income securities	27	56	121
Gains or losses on disposals	27	56	121
Equities and other variable-income securities	352	243	410
Gains or losses on disposals	220	153	296
Dividends received	157	111	142
Impairment losses	(25)	(21)	(28)
Available-for-sale loans	(1)	17	(2)
Gains or losses on disposals	(1)	17	(2)
Other	6	(5)	(4)
Net gains or losses on available-for-sale financial assets	384	311	525

9.5 – INCOME AND EXPENSE ON OTHER ACTIVITIES

This item mainly comprises income and expense on investment property (rental income and charges, gains and losses on disposals, depreciation and impairment provisions), income and expense resulting from the Group's insurance business (notably premium income, paid benefits and claims and changes in technical reserves of insurance companies), and income and expense relating to operating leases.

(in millions of euros)	First-half 2006			First-half 2005			2005		
	Income	Expense	Net	Income	Expense	Net	Income	Expense	Net
Gains on disposals of investment property	17		17	4		4	11		11
Additions to and reversals from depreciation, amortization and impairment of investment property	4	(9)	(5)	2	(8)	(6)	8	(19)	(11)
Income and expense on investment property	34	(4)	30	24	(6)	18	52	(7)	45
Total income and expense on investment property	55	(13)	42	30	(14)	16	71	(26)	45
Premium income	358	(63)	295	287	(50)	237	567	(109)	458
Paid benefit and claims	28	(91)	(63)	12	(73)	(61)	23	(152)	(129)
Changes in technical reserves of insurance companies	2	(126)	(124)	5	(106)	(101)	3	(141)	(138)
Other income and expense on insurance activities	15	(3)	12	17	1	18	19	10	29
Total income and expense on insurance activities	403	(283)	120	321	(228)	93	612	(392)	220
Gains on disposals							1		1
Additions to and reversals from provisions for impairment	2	(6)	(4)	1	(7)	(6)		(10)	(10)
Other income and expense on operating leases	15		15	18		18	31	(1)	30
Total income and expense on operating leases	17	(6)	11	19	(7)	12	31	(11)	20
Share of common transactions	43	(49)	(6)	17	(21)	(4)	85	(93)	(8)
Rebilled expenses, income paid back to suppliers	15	(4)	11	10	(1)	9	40	(2)	38
Other operating income and expense	191	(96)	95	158	(77)	81	298	(251)	47
Additions to and reversals from provisions	41	(33)	8	58	(42)	16	118	(122)	(4)
Other operating income and expense	290	(182)	108	243	(141)	102	541	(468)	73
TOTAL INCOME AND EXPENSE ON OTHER ACTIVITIES	765	(484)	281	613	(390)	223	1,255	(897)	358

9.6 – OPERATING EXPENSES

(in millions of euros)	First-half 2006	First-half 2005	2005
Taxes other than on income	(118)	(97)	(195)
External services	(1,237)	(1,150)	(2,371)
Other administrative costs	(1,355)	(1,247)	(2,566)
Wages and salaries	(1,584)	(1,390)	(2,859)
Expense on defined-benefit and defined-contribution plans	(185)	(377)	(570)
Other social security charges and payroll-based taxes	(570)	(538)	(1,047)
Profit-sharing and incentive plans	(118)	(92)	(215)
Personnel costs	(2,457)	(2,397)	(4,691)
TOTAL OPERATING EXPENSES	(3,812)	(3,644)	(7,257)

9.7 – DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(in millions of euros)	First-half 2006	First-half 2005	2005
Net depreciation and amortization expense	(206)	(190)	(414)
Additions to provisions for impairment	(3)	(11)	(38)
Reversals from provisions for impairment	12	7	10
Net additions to/(reversals from) provisions for impairment	9	(4)	(28)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	(197)	(194)	(442)

9.8 – CREDIT RISK

9.8.1 – TOTAL CREDIT RISK EXPOSURE

(in millions of euros)	June 30, 2006			Dec. 31, 2005
	Performing loans	Non-performing loans	GROSS	GROSS
Interbank items	156,270	22	156,292	178,867
Customer items	215,595	4,626	220,221	206,786
Other financial assets	32,665	38	32,703	41,165
Off-balance sheet commitments			113,357	117,135
TOTAL CREDIT RISK EXPOSURE	404,530	4,686	522,573	543,953

9.8.2 – COST OF RISK

This line records impairment charges for credit risks, and includes both individually-assessed and portfolio-assessed provisions.

(in millions of euros)	First-half 2006	First-half 2005	2005
Interbank items	(1)	(1)	(13)
Customer items	(394)	(401)	(735)
Other financial assets	(1)	(4)	(15)
Other receivables	(2)	(1)	(5)
Off-balance sheet commitments	(12)	(7)	(18)
Additions to impairment provisions	(410)	(414)	(786)
Interbank items	12	2	14
Customer items	447	412	840
Other financial assets	5	5	30
Other receivables	5	3	4
Off-balance sheet commitments	30	11	25
Reversals of impairment provisions	499	433	913
Losses on irrecoverable loans and receivables	(150)	(124)	(334)
Recoveries of loans and receivables previously written off	15	29	57
Net loan losses	(135)	(95)	(277)
COST OF RISK	(46)	(76)	(150)

9.8.3 – IMPAIRMENT CHARGE FOR CREDIT RISK

(in millions of euros)	Dec. 31, 2005	Additions	Reversals	Utilizations	Other changes	June 30, 2006
Interbank items	50	1	(7)	(4)	(0)	40
Customer items	2,808	394	(347)	(101)	(2)	2,752
<i>Portfolio-assessed impairment</i>	582	37	(42)	0	12	589
<i>Individually-assessed impairment</i>	2,074	330	(288)	(101)	(16)	1,999
<i>Finance leases</i>	152	27	(17)	0	2	164
Other financial assets	57	3	(6)	(4)	5	55
Total impairment provisions deducted from assets	2,915	398	(360)	(109)	3	2,847
Off-balance sheet commitments	235	12	(29)	(1)	18	235
Total impairment provisions recognized as liabilities	235	12	(29)	(1)	18	235
Total impairment provisions	3,150	410	(389)	(110)	21	3,082

9.9 – GAINS OR LOSSES ON OTHER ASSETS

This item includes gains and losses on disposals of property, plant and equipment and intangible assets, as well as gains and losses on disposals of investments in consolidated companies.

(in millions of euros)	First-half 2006	First-half 2005	2005
Gains and losses on disposals of property, plant and equipment and intangible assets	1	(6)	(21)
Gains and losses on disposals of investments in consolidated companies	3	26	165
Other	(3)	0	(7)
TOTAL GAINS OR LOSSES ON OTHER ASSETS	1	20	137

In 2005, the Group sold Capri Résidences, and partially disposed of IXIS Investor Services (50%) and IXIS Asset Management (5%).

9.10 – INCOME TAX

(in millions of euros)	First-half 2006	2005
Current income tax expense	(405)	(310)
Deferred income tax expense	(155)	(336)
Impact of tax credit reducing current income tax expense	4	9
Other	(5)	(46)
TOTAL INCOME TAX EXPENSE	(561)	(683)

Analysis of effective tax rate

(in millions of euros)	First-half 2006
Net income attributable to equity holders of the parent	1,170
Minority interests	68
Share in net income of companies accounted for by the equity method	(138)
Income tax expense	562
Net income before tax and impairment of goodwill (A)	1,662
Standard income tax rate in France (B)	34.43%
Theoretical income tax expense in France (A*B)	(572)
Impact of the reduction in deferred tax assets	(1)
Impact of permanent differences	10
Impact of items taxed at reduced tax rates	5
Impact of tax rates applicable to foreign entities	(9)
Other items	6
Income tax expense	(561)
Effective tax rate (income tax expense divided by taxable income)	33.75%

NOTE 10 – SEGMENT INFORMATION

Groupe Caisse d'Epargne has a matrix structure organized around two core divisions (Commercial Banking and Investment Banking) and a number of cross-functional departments.

The Commercial Banking division comprises:

- all operations related to lending, savings, and other banking services carried out by the individual Caisses d'Epargne and other networks operating within the Group, including Banque Palatine, OCEOR and La Compagnie 1818;
- the management of surplus customer deposits and equity, as well as any related refinancing;
- the Group's insurance subsidiaries, in particular CNP, Ecureuil Vie, Ecureuil IARD and GCE Garanties;
- the specialized banking and financial institutions, in particular Crédit Foncier and CEFi.

The Investment Banking division is structured around four business lines:

- IXIS Corporate & Investment Bank, the Group's capital markets and financing arm. Based in Paris, this division operates on an international scale through subsidiaries in New York, Hong Kong and Luxembourg, as well as branch offices in Frankfurt, London, Tokyo and Milan;
- IXIS Asset Management group, responsible for financial and real-estate asset management in Europe, Asia and North America;
- CACEIS, providing custody, fund administration and institutional investor services in Europe;
- IXIS Financial Guaranty (CIFG), which spearheads the Group's financial guaranty operations, mainly in the United States.

A holding structure completes the lineup, encompassing proprietary trading operations; central financing operations conducted by the CNCE on behalf of the entire network of the individual Caisses d'Epargne; CNCE support functions, excluding those directly relating to the management of the Group's business lines; managing investments in unconsolidated undertakings; and investing any surplus capital funds of the individual Caisses d'Epargne.

Tax savings generated by the tax group headed by the CNCE are also recorded under the holding structure.

The breakdown by business segment is aimed at providing a clearer picture of the earnings and profitability of the Group's different divisions. Inter-segment transactions are conducted at market price.

The geographical breakdown of earnings is based on the country in which the relevant activity is booked.

NOTE 10.1 – INFORMATION BY BUSINESS SEGMENT

in millions of euros	Commercial Banking		Investment Banking		Holding structure		Groupe Caisse d'Epargne		Change	
	First-half 2005	First-half 2006	First-half 2005	First-half 2006	First-half 2005	First-half 2006	First-half 2005	First-half 2006	in millions of euros	%
Net banking income	3,537	3,851	1,333	1,817	114	47	4,984	5,715	731	15%
Total operating expenses	(2,648)	(2,717)	(878)	(1,137)	(312)	(155)	(3,838)	(4,009)	(171)	4%
Gross operating income	889	1,134	455	680	(198)	(108)	1,146	1,706	560	49%
Cost/income ratio	74.9%	70.6%	65.9%	62.6%	ns	ns	77.0%	70.1%	-6.9 pts	--
Cost of risk	(81)	(62)	(14)	21	19	(5)	(76)	(46)	30	-39%
Share in net income of companies accounted for by the equity method	135	131	8	7			143	138	(5)	-3%
Net gains or losses on other assets	24	(3)	0	0	(4)	4	20	1	(19)	ns
Income before tax	967	1,200	449	708	(183)	(109)	1,233	1,799	566	46%
Income tax	(225)	(342)	(135)	(205)	23	(14)	(337)	(561)	(224)	66%
Minority interests	(12)	(12)	(31)	(56)	0	0	(43)	(68)	(25)	59%
Net income attributable to equity holders of the parent	730	846	283	447	(160)	(123)	853	1,170	317	37%

NOTE 10.2 – INFORMATION BY GEOGRAPHICAL SEGMENT

Net banking income by geographical segment

(in millions of euros)	First-half 2006	First-half 2005	2005
France	5,330	4,640	9,364
Europe (excluding France)	93	75	118
United States	228	226	408
Asia/Pacific	47	42	87
Rest of world	17	1	3
Total	5,715	4,984	9,980

NOTE 11 – COMMITMENTS GIVEN AND RECEIVED

(in millions of euros)	June 30, 2006	Dec. 31, 2005
COMMITMENTS GIVEN	177,004	160,334
<i>Financing commitments</i>	<i>52,377</i>	<i>57,477</i>
given to credit institutions	2,094	9,938
given to customers	50,283	47,539
<i>Guarantee commitments</i>	<i>60,980</i>	<i>59,657</i>
given to credit institutions	3,594	8,954
given to customers	57,386	50,703
<i>Commitments related to securities to be delivered</i>	<i>7,958</i>	<i>2,033</i>
<i>Other commitments given</i>	<i>55,689</i>	<i>41,167</i>
COMMITMENTS RECEIVED	103,669	98,776
<i>Financing commitments</i>	<i>7,247</i>	<i>3,507</i>
received from credit institutions	7,154	3,438
received from customers	93	69
<i>Guarantee commitments</i>	<i>84,181</i>	<i>92,365</i>
received from credit institutions	28,804	38,286
received from customers	55,377	54,079
<i>Commitments related to securities to be received</i>	<i>11,738</i>	<i>2,156</i>
<i>Other commitments received</i>	<i>503</i>	<i>748</i>

NOTE 12 – SCOPE OF CONSOLIDATION

12.1 – CHANGES IN THE SCOPE OF CONSOLIDATION DURING FIRST-HALF 2006

The main changes in the scope of consolidation concern:

- the full consolidation of Nexgen. This transaction generated goodwill amounting to €22 million.
- the acquisition of ORANE by Financière OCEOR for €45 million. This transaction generated goodwill amounting to €41 million.

12.2 – SCOPE OF CONSOLIDATION AT JUNE 30, 2006

Consolidating entities

Caisse d'Epargne des Alpes	Caisse d'Epargne Languedoc-Roussillon
Caisse d'Epargne d'Alsace	Caisse d'Epargne Loire Drôme Ardèche
Caisse d'Epargne Aquitaine-Nord	Caisse d'Epargne de Lorraine
Caisse d'Epargne d'Auvergne et du Limousin	Caisse d'Epargne de Midi-Pyrénées
Caisse d'Epargne de Basse-Normandie	Caisse d'Epargne du Pas de Calais
Caisse d'Epargne de Bourgogne et de Franche-Comté	Caisse d'Epargne des Pays de l'Adour
Caisse d'Epargne de Bretagne	Caisse d'Epargne des Pays de la Loire
Caisse d'Epargne Centre-Val de Loire	Caisse d'Epargne des Pays du Hainaut
Caisse d'Epargne Champagne-Ardenne	Caisse d'Epargne de Picardie
Caisse d'Epargne Côte d'azur	Caisse d'Epargne Poitou-Charentes
Caisse d'Epargne de Flandre	Caisse d'Epargne Provence-Alpes-Corse
Caisse d'Epargne de Haute-Normandie	Caisse d'Epargne Rhône Alpes Lyon
Caisse d'Epargne Ile de France-Nord	Caisse d'Epargne du Val de France Orléanais
Caisse d'Epargne Ile de France-Ouest	Caisse d'Epargne de Martinique
Caisse d'Epargne Ile de France-Paris	Caisse Nationale des Caisses d'Epargne et de Prévoyance

Consolidated entities	(2)	June 30, 2006			December 31, 2005		
		Consolidation method (1)	% consolidation	% interest	Consolidation method (1)	% consolidation	% interest
Banking and credit institutions							
Banque Inchauspé	1	-	-	-	Full	100.00%	100.00%
Batimap		Full	100.00%	92.63%	Full	100.00%	92.63%
Batimur		Full	100.00%	97.05%	Full	100.00%	97.05%
Batiroc Pays de Loire		Full	100.00%	99.87%	Full	100.00%	99.87%
Caisse d'Epargne Financement		Full	100.00%	67.00%	Full	100.00%	67.00%
Capitole France		Full	100.00%	100.00%	Full	100.00%	100.00%
Expanso		Full	100.00%	91.16%	Full	100.00%	91.16%
Picardie Bail		Full	100.00%	100.00%	Full	100.00%	100.00%
Sebadour		Full	100.00%	80.40%	Full	100.00%	80.40%
Sodero		Full	100.00%	100.00%	Full	100.00%	100.00%
Sud Ouest Bail		Full	100.00%	91.16%	Full	100.00%	91.16%
Tofinso Investissements		Full	100.00%	100.00%	Full	100.00%	100.00%
Holassure group							
Holassure		Full	100.00%	100.00%	Full	100.00%	100.00%
Sopassure		Prop.	49.98%	49.98%	Prop.	49.98%	49.98%
Caisse Nationale de Prévoyance (group)		Equity	15.76%	15.76%	Equity	15.76%	15.76%
OCEOR group							
Financière OCEOR		Full	100.00%	100.00%	Full	100.00%	100.00%
ALYSEOR		Full	100.00%	97.95%	Full	100.00%	100.00%
Banque de la Réunion		Full	100.00%	82.14%	Full	100.00%	81.97%
Banque de Nouvelle-Calédonie		Full	100.00%	95.89%	Full	100.00%	95.89%
Banque de Tahiti		Full	100.00%	95.63%	Full	100.00%	95.63%
Banque des Antilles Françaises		Full	100.00%	98.47%	Full	100.00%	98.15%
Banque des Iles Saint-Pierre-et-Miquelon		Full	100.00%	97.22%	Full	100.00%	97.15%
Caisse d'Epargne de Nouvelle-Calédonie		Full	100.00%	100.00%	Full	100.00%	100.00%
Crédit Saint Pierreais		Equity	47.12%	47.12%	Equity	47.12%	47.12%
GIE OCEOR Informatique		Full	100.00%	84.60%	Full	100.00%	84.50%
Mascareigne Investors Services Ltd		Full	100.00%	94.55%	Full	100.00%	94.50%
OCEOR Lease		Full	100.00%	96.97%	Full	100.00%	96.94%
OCEOR Lease Nouméa (formerly Crédit Commercial de Nouméa)		Full	100.00%	90.69%	Full	100.00%	90.68%
OCEOR Lease Réunion (formerly Slibail Réunion)		Full	100.00%	87.30%	Full	100.00%	87.18%
OCEOR Lease Tahiti (formerly Credipac Polynésie)		Full	100.00%	96.10%	Full	100.00%	90.30%
ORANE	2	Full	100.00%	100.00%	-	-	-
Société Havraise Calédonienne		Full	100.00%	85.44%	Full	100.00%	85.44%
Banque Palatine group							
Banque Palatine		Full	100.00%	100.00%	Full	100.00%	100.00%
Banque Michel Inchauspé		Equity	20.00%	20.00%	Equity	20.00%	20.00%
Conservateur Finance		Equity	20.00%	20.00%	Equity	20.00%	20.00%
Eurosic Sicomi SA	3	Full	100.00%	88.81%	Full	100.00%	88.81%
GCE Affacturage		Full	100.00%	100.00%	Full	100.00%	100.00%
GCE Bail		Full	100.00%	100.00%	Full	100.00%	100.00%
Sanpaolo Asset Management		Full	100.00%	100.00%	Full	100.00%	100.00%
Palatine Mur SNC	1	-	-	-	Full	100.00%	100.00%
Socavie SNC		Full	100.00%	100.00%	Full	100.00%	100.00%
Société Foncière d'Investissement		Full	100.00%	100.00%	Full	100.00%	100.00%
Société Foncière Joseph Vallot		Full	100.00%	100.00%	Full	100.00%	100.00%
Société Immobilière d'Investissement		Full	100.00%	100.00%	Full	100.00%	100.00%
Thiriet Gestion		Equity	33.40%	33.40%	Equity	33.40%	33.40%

(1) – Consolidation method: **Full** = full consolidation; **Prop.** = proportional consolidation; **Equity** = equity method.

(2) – Reason for change in scope during first-half 2006
1 – Merger
2 – Newly consolidated
3 – Partial asset transfer
4 – Deconsolidated

Consolidated entities	(2)	June 30, 2006			December 31, 2005		
		Consolidation method (1)	% consolidation	% interest	Consolidation method (1)	% consolidation	% interest
IT technical centres and software houses							
Arpège Investissement		Full	100.00%	100.00%	Full	100.00%	100.00%
Créti		Full	100.00%	96.12%	Full	100.00%	96.01%
GEMO RSI		Full	100.00%	100.00%	Full	100.00%	100.00%
GIRCE Ingénierie		Full	100.00%	99.74%	Full	100.00%	99.74%
GIRCE Stratégie		Full	100.00%	99.51%	Full	100.00%	99.51%
IRICE	4	-	-	-	Full	100.00%	100.00%
SED Arpège		Full	100.00%	100.00%	Full	100.00%	100.00%
SED RSI		Full	100.00%	100.00%	Full	100.00%	100.00%
SNC Sersim		Full	100.00%	100.00%	Full	100.00%	100.00%
Vivalis Investissements		Full	100.00%	100.00%	Full	100.00%	100.00%
IXIS Corporate & Investment Bank group							
IXIS Corporate & Investment Bank		Full	100.00%	97.55%	Full	100.00%	97.55%
CDC Holding Trust		Full	100.00%	97.55%	Full	100.00%	97.55%
CLEA2		Full	100.00%	97.55%	Full	100.00%	97.55%
ICMNA International Holding		Full	100.00%	97.55%	Full	100.00%	97.55%
ICMNA Australia Holding Inc.-Macquarie	2	Full	100.00%	97.55%	-	-	-
ICMNA Australia Holding Inc.-St Georges	2	Full	100.00%	97.55%	-	-	-
IXIS Asia Limited		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Capital Market North America		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Commercial Paper Corp.		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Environnement et Infrastructures	2	Full	100.00%	97.55%	-	-	-
IXIS Derivatives Inc.		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Financial Instruments Ltd		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Financial Products Inc.		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Funding Corp.		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Innov		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Investment Management Corp.		Full	100.00%	97.16%	Full	100.00%	97.20%
IXIS Luxembourg Investissements		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Municipall Products Inc.		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS North America		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Real Estate Capital Inc.		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Securities		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Securities North America Inc.		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Securitization Corp.		Full	100.00%	97.55%	Full	100.00%	97.55%
IXIS Structured Products Ltd		Full	100.00%	97.55%	Full	100.00%	97.55%
Master Financial Inc.	2	Full	100.00%	-	-	-	-
PARLP Onshore	2	Full	100.00%	95.70%	-	-	-
PAR Master Fund	2	Full	100.00%	86.60%	-	-	-
Nexgen (group)		Full	100.00%	97.55%	Equity	37.75%	37.75%
SNC Tolbiac Finance		Full	100.00%	97.55%	Full	100.00%	97.55%
CACEIS group							
CACEIS Holding		Prop.	50.00%	50.00%	Prop.	50.00%	50.00%
CACEIS Bank Espana		Prop.	50.00%	25.50%	Prop.	50.00%	25.50%
CACEIS Corporate Trust		Prop.	50.00%	50.00%	Prop.	50.00%	50.00%
CACEIS Bank Luxembourg		Prop.	50.00%	50.00%	Prop.	50.00%	50.00%
CACEIS Bank Paris		Prop.	50.00%	50.00%	Prop.	50.00%	50.00%
Euro Emetteurs Finance	1	-	-	-	Prop.	50.00%	50.00%
Fastnet France		Prop.	50.00%	34.71%	Prop.	50.00%	25.00%
Fastnet Luxembourg		Prop.	50.00%	22.50%	Prop.	50.00%	22.50%
IXIS Investor Services		Prop.	50.00%	50.00%	Prop.	50.00%	50.00%
IXIS Administration de Fonds	1	-	-	-	Prop.	50.00%	50.00%

(1) – Consolidation method: **Full** = full consolidation; **Prop.** = proportional consolidation; **Equity** = equity method.

(2) – Reason for change in scope during first-half 2006
1 – Merger
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4 – Deconsolidated

Consolidated entities	June 30, 2006			December 31, 2005		
	(2) Consolidation method (1)	% consolidation	% interest	Consolidation method (1)	% consolidation	% interest
Crédit Foncier group						
Crédit Foncier de France	Full	100.00%	100.00%	Full	100.00%	100.00%
Auxiliaire du CFF	Full	100.00%	100.00%	Full	100.00%	99.99%
CFCAL Banque	Full	100.00%	67.33%	Full	100.00%	67.33%
CFCAL SCF	Full	100.00%	67.33%	Full	100.00%	67.33%
Cicobail	Full	100.00%	98.93%	Full	100.00%	99.76%
Cinergie	Full	100.00%	98.93%	Full	100.00%	99.75%
Cofimab	Full	100.00%	100.00%	Full	100.00%	99.99%
Compagnie de Financement Foncier	Full	100.00%	100.00%	Full	100.00%	99.99%
Compagnie Financière de Garantie	Full	100.00%	99.99%	Full	100.00%	99.99%
Compagnie Foncière de Crédit	Full	100.00%	100.00%	Full	100.00%	99.98%
Crédit Foncier Assurance Courtage	Full	100.00%	99.88%	Full	100.00%	99.88%
Ecu foncier	Full	100.00%	100.00%	Full	100.00%	100.00%
Entenial Conseil	1	-	-	Full	100.00%	100.00%
Environnement Titrisation Entenial	Full	100.00%	100.00%	Full	100.00%	100.00%
FCC Teddy	Full	100.00%	100.00%	Full	100.00%	100.00%
Financière Desvieux	Full	100.00%	99.99%	Full	100.00%	99.99%
Foncier Assurance	Full	100.00%	100.00%	Full	100.00%	99.99%
Foncier Bail	1	-	-	Full	100.00%	99.98%
Foncier Participations	Full	100.00%	100.00%	Full	100.00%	100.00%
Foncier Services Immobiliers	Full	100.00%	100.00%	Full	100.00%	100.00%
Gramat Balard	Full	100.00%	79.88%	Full	100.00%	79.88%
Investimur	1	-	-	Full	100.00%	100.00%
Mur Ecuveuil	1	-	-	Full	100.00%	99.75%
Quatrinvest	Full	100.00%	100.00%	Full	100.00%	100.00%
RIVP	Equity	27.64%	27.64%	Equity	27.64%	27.64%
Secundis Finance	Equity	35.00%	35.00%	Equity	35.00%	35.00%
Soclim	Full	100.00%	100.00%	Full	100.00%	99.99%
Tritrisation	1	-	-	Full	100.00%	100.00%
Vendôme Investissements	Full	100.00%	100.00%	Full	100.00%	100.00%
VMG	Full	100.00%	99.98%	Full	100.00%	100.00%
Socfim group						
Socfim	Full	100.00%	100.00%	Full	100.00%	100.00%
Socfim Transaction	Full	100.00%	100.00%	Full	100.00%	100.00%
Socfim Participations Immobilières	Full	100.00%	100.00%	Full	100.00%	100.00%
GCE Garanties group						
GCE Garanties	Full	100.00%	100.00%	Full	100.00%	100.00%
Cegi	Full	100.00%	100.00%	Full	100.00%	100.00%
Financière CEGI	Full	100.00%	100.00%	Full	100.00%	100.00%
Saccef	Full	100.00%	100.00%	Full	100.00%	100.00%
Socamab	Full	100.00%	60.00%	Full	100.00%	60.00%
SCI Saccef Champs Elysées	Full	100.00%	100.00%	Full	100.00%	100.00%
SCI Saccef Immobilier	Full	100.00%	100.00%	Full	100.00%	100.00%
SCI Saccef La Boétie	Full	100.00%	100.00%	Full	100.00%	100.00%

(1) – Consolidation method: **Full** = full consolidation; **Prop.** = proportional consolidation; **Equity** = equity method.

(2) – Reason for change in scope during first-half 2006

- 1 – Merger
- 2 – Newly consolidated
- 3 – Partial asset transfer
- 4 – Deconsolidated

Consolidated entities	(2)	June 30, 2006			December 31, 2005		
		Consolidation method (1)	% consolidation	% interest	Consolidation method (1)	% consolidation	% interest
Other entities							
Auto Location Toulouse		Full	100.00%	99.50%	Full	100.00%	100.00%
Beaulieu Immo		Full	100.00%	100.00%	Full	100.00%	100.00%
CDC Entreprises Capital Investissement		Equity	35.00%	35.00%	Equity	35.00%	35.00%
Compagnie IXIS Financial Garantie		Full	100.00%	100.00%	Full	100.00%	100.00%
La Compagnie 1818		Full	100.00%	94.11%	Full	100.00%	93.78%
Ecureuil Assurance IARD		Full	100.00%	65.00%	Full	100.00%	65.00%
Ecureuil Lease		Full	100.00%	100.00%	Full	100.00%	99.95%
Ecureuil Négoce		Full	100.00%	100.00%	Full	100.00%	100.00%
Ecureuil Participations		Full	100.00%	100.00%	Full	100.00%	100.00%
Ecureuil Proximité	1	-	-	-	Full	100.00%	99.84%
Ecureuil Service		Full	100.00%	100.00%	Full	100.00%	100.00%
Ecureuil Vie		Equity	50.00%	50.00%	Equity	50.00%	50.00%
Expanso Investissements		Full	100.00%	99.55%	Full	100.00%	99.55%
GCE Habitat	2	Full	100.00%	100.00%	-	-	-
GCE Immobilier		Equity	100.00%	100.00%	Equity	100.00%	100.00%
GCE Newtech		Full	100.00%	100.00%	Full	100.00%	100.00%
Gestitres		Full	100.00%	66.00%	Full	100.00%	66.00%
GIE Direct Ecureuil		Full	100.00%	100.00%	Full	100.00%	100.00%
Holgest		Full	100.00%	100.00%	Full	100.00%	100.00%
IXIS Asset Management group		Full	100.00%	68.00%	Full	100.00%	68.00%
Mifcos (formerly Socfim Participations)		Full	100.00%	100.00%	Full	100.00%	100.00%
Muracef		Full	100.00%	100.00%	Full	100.00%	100.00%
Primaveris		Full	100.00%	37.62%	Full	100.00%	37.62%
Proencia		Full	100.00%	52.61%	Full	100.00%	52.61%
Proxipaca		Full	100.00%	40.19%	Full	100.00%	40.19%
Quai de Seine Gestion et Location		Full	100.00%	100.00%	Full	100.00%	100.00%
Samenar		Full	100.00%	38.38%	Full	100.00%	38.38%
SARL Méditerranée	4	-	-	-	Full	100.00%	100.00%
SAS Foncière Ecureuil		Full	100.00%	93.49%	Full	100.00%	93.52%
SCI Avant Seine 1		Full	100.00%	100.00%	Full	100.00%	100.00%
SCI Avant Seine 2		Full	100.00%	100.00%	Full	100.00%	100.00%
SCI du Conservatoire		Full	100.00%	99.00%	Full	100.00%	99.00%
SCI Ecureuil Exploitation		Full	100.00%	99.99%	Full	100.00%	99.99%
SCI Ecureuil Réunion		Full	100.00%	100.00%	Full	100.00%	100.00%
SCI Foncière 1		Full	100.00%	93.49%	Full	100.00%	93.52%
SCI Foncière 2		Full	100.00%	93.49%	Full	100.00%	93.52%
SCI GPE	4	-	-	-	Full	100.00%	100.00%
SCI GPE2	4	-	-	-	Full	100.00%	100.00%
SCI Midaix		Full	100.00%	99.00%	Full	100.00%	99.00%
SCI Midi Patrimoine		Full	100.00%	99.00%	Full	100.00%	99.00%
SCI Midoccitane		Full	100.00%	100.00%	Full	100.00%	100.00%
SCI Tournon		Full	100.00%	100.00%	Full	100.00%	100.00%
SNC Participations Ecureuil		Full	100.00%	100.00%	Full	100.00%	100.00%
SNC SEI Logement		Full	100.00%	100.00%	Full	100.00%	100.00%
SNC SEI Tertiaire		Full	100.00%	100.00%	Full	100.00%	100.00%
Société Européenne d'Investissement		Full	100.00%	100.00%	Full	100.00%	100.00%
Sodero Gestion	4	-	-	-	Full	100.00%	100.00%
Sodero Participations	4	-	-	-	Full	100.00%	48.12%
Sorepar		Full	100.00%	100.00%	Full	100.00%	100.00%
Surassur		Full	100.00%	89.88%	Full	100.00%	86.13%
Viveris		Full	100.00%	66.69%	Full	100.00%	66.69%
Walter Spanghero		Full	100.00%	99.50%	Full	100.00%	100.00%

(1) – Consolidation method: **Full** = full consolidation; **Prop.** = proportional consolidation; **Equity** = equity method.

(2) – Reason for change in scope during first-half 2006
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**STATUTORY AUDITORS' REVIEW REPORT
ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2006**

This is a free translation into English of the Statutory Auditors' review 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 auditing standards applicable in France.

GROUPE CAISSE D'EPARGNE

5 rue Masseran
75007 Paris

To the shareholders,

As requested, and in our capacity as Statutory Auditors of Caisse Nationale des Caisses d'Epargne et de Prévoyance, we have:

- performed a review of the accompanying interim consolidated financial statements of Groupe Caisse d'Epargne for the period from January 1, 2006 to June 30, 2006;
- examined the information given in the interim report.

These interim consolidated financial statements have been drawn up under the responsibility of your Management Board. Our responsibility, based on our review, is to report our conclusions on these interim financial statements.

As part of the conversion to International Financial Reporting Standards (IFRS) as adopted within the European Union for the preparation of the 2006 consolidated financial statements, the interim consolidated financial statements have been prepared by applying: (i) the presentation and disclosure rules defined in the General Regulations issued by the *Autorité des Marchés Financiers* (AMF), and (ii) for the first time, the principles of recognition and measurement set out in the IFRS adopted within the European Union, as described in the notes to the interim consolidated financial statements. They include comparative data for full-year 2005 and first-half 2005 restated according to the same methods.

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not presented fairly, in all material respects, in accordance with (i) the rules governing presentation and disclosure defined in the General Regulations issued by the AMF, and (ii) the principles of recognition and measurement set out in the IFRS adopted within the European Union, as described in the notes to the interim consolidated financial statements.

Without qualifying our conclusion, we draw your attention to:

- Note 2 ("Regulatory framework") to the interim consolidated financial statements, which sets out the reasons why the comparative information that will be presented in the consolidated financial statements for the year ending December 31, 2006 and in the interim consolidated financial statements for the six months ending June 30, 2007 may differ from the information presented in the accompanying interim consolidated financial statements.

In accordance with the professional standards applicable in France, we have also examined the information given in the interim report on the interim consolidated financial statements that were the subject of our review.

We have no comments to make as to its fair presentation and its conformity with the interim consolidated financial statements.

Neuilly sur Seine and Paris La Défense, October 30, 2006

The Statutory Auditors

<i>PricewaterhouseCoopers Audit</i>		<i>Mazars & Guérard</i>	
Anik Chaumartin	Patrice Morot	Michel Barbet-Massin	Charles de Boisriou

Risk management

1. Organization of risk management: overview of the main risk exposures

1.1 Main risk exposures of Groupe Caisse d'Epargne

Groupe Caisse d'Epargne's business involves the following main risks:

- credit or counterparty risks,
- liquidity, interest rate and currency risks, arising primarily from retail banking operations,
- market risks,
- operational risks,
- legal risks,
- compliance risks.

As the network's central institution, the CNCE is responsible for establishing and maintaining consistent risk management processes across the entire organization, by:

- setting exposure limits for each Group entity and for all significant counterparties representing exposures in excess of the entity-level limit. These limits are decided by a number of decision-making committees and are evidenced in writing;
- monitoring entities' compliance with these limits and tracking any overruns;
- approving and implementing the methods used to rate and compute risks throughout the Group;
- defining risk control, processing and monitoring structures and procedures to be applied by all entities, and overseeing their application.

Most of these functions are performed by Group Risk Management.

1.2 Role and responsibilities of Risk Management

Within Groupe Caisse d'Epargne's finance and risk management division, Group Risk Management is responsible for defining coordinated risk policies, driving through their implementation and overseeing their application within pre-defined limits. Group Risk Management reports to the CNCE Management Board in compliance with regulatory principles. The department has set up a Risk Management function spanning all Group entities and based on a common organization structure, as well as common risk analysis, tracking and control procedures.

Group Risk Management's responsibilities cover two main areas:

- defining and implementing risk control, monitoring and management processes across the Risk Management function, as defined in CRBF regulation 97-02 (as amended);
- developing procedures to comply with the new Basel II requirements, as incorporated in the European directive and French enabling legislation, and integrating them in the risk monitoring and management process.

1.3 Organization of the Risk Management function

The Risk Management function comprises Group Risk Management and the Risk Management units of the Group (Caisses d'Epargne and subsidiaries).

1.3.1 Group Risk Management

Group Risk Management is responsible for monitoring and managing credit, market and operational risks, as well as the Group's overall interest rate and liquidity risk exposure.

It is organized around the following units:

- the Standards & Procedures unit distributes and maintains the body of Risk Management standards and procedures, checks their compliance with regulatory requirements and their application by the entities;
- the Methods Development & Approval unit approves the models used by Group Risk Management to manage risks associated with Investment and Commercial Banking operations, develops specific methods and monitors new banking industry modeling technologies;
- the Commercial Banking Rating Systems unit develops and leads the implementation of Commercial Banking rating systems and risk policies;
- the Major Counterparties Credit Analysis unit analyses and rates major counterparties, including sovereign, bank, corporate and asset-backed securities issuers, in line with the system of exposure limits and with the allocation of responsibilities with IXIS CIB;
- the SME Credit Analysis unit analyses small- and medium-sized business counterparties in line with the system of exposure limits;
- the Market Risks unit measures, monitors and controls market risks;
- the Fund Risks unit measures, monitors and controls fund risks;
- the Project Management unit manages development and acceptance processes for cross-functional projects with a systems component;
- the Risk Information Systems unit is responsible for structuring information system upgrades by incorporating risk management needs;
- the Credit Risk System Implementation and Maintenance unit develops, maintains and configures the Fermat credit risk consolidation and control system;
- the Credit Risk Control and Reporting unit leads the credit risk control process for the Commercial and Investment Banking businesses;
- the Operational Risks unit is responsible for deploying operational risk measurement, monitoring and control processes, as well as for monitoring and controlling operational risks on a consolidated basis.

Group Risk Management ensures that assumed risks are compatible with the entities' financial, human and IT resources, as well as with the Group's profitability and rating targets. It also recommends overall limits on credit, market and other risk exposures, to be assigned to the individual entities and business lines, as well as the levels of authority to be assigned to subsidiaries, in line with the Group's risk policies.

Risks are managed, monitored and controlled by several committees reporting to Group Risk Management:

- the Group Risk Committee, which meets at monthly intervals to set the overall framework for dealing with risk issues, as well as for the development and upgrading of risk management processes;
- the Group Credit committees (Major Counterparties and SMEs), which meet at least twice a month to review commitments in excess of the entities' exposure limits and to set maximum exposures;
- the Group Watchlist & Provisions committees, which meet at quarterly intervals;
- the Group Market Risks and Fund Risks committees, which meet on a monthly basis;
- the Group Operational Risk Committee, which meets twice a year.

The head of Group Risk Management is a voting member of the Group ALM Committee, the Commercial Banking ALM Committee and the CNCE Investment & Finance committees.

Group Risk Management is also responsible for consolidated credit, market and operational risk reporting to Groupe Caisse d'Epargne's corporate governance structures and the banking regulator.

1.3.2 Entity-level Risk Management units

The organization of risk monitoring and control processes at the individual Caisses d'Epargne and subsidiaries of Groupe Caisse d'Epargne is based on guidelines issued by Group Risk Management.

Each entity's Risk Management unit covers all risk exposures, including credit and counterparty risks, market risks, overall interest rate and currency risks, and liquidity and settlement-delivery risks.

These units perform ex-ante risk analyses based on the exposure limits assigned to the entity, as well as ex-post analyses and controls.

They lead the activities of their entity's Risk Committee, Commitments Committee, Financial Management Committee and Operational Risk Committee, and also participate in meetings of the entity's ALM Committee.

They represent Group Risk Management's local contact and are responsible for rolling out to their entity the national procedures and projects developed or initiated by Group Risk Management.

1.4 Main developments in first-half 2006

1.4.1 Standards and procedures

The Group Risk Procedure manual went online at the end of 2005, and has since been updated, mainly with regard to rating systems, Group exposure limits, specific issues concerning capital market units and the Risk Management function as a whole.

In the first six months of 2006, the Group strengthened its ongoing monitoring procedure designed to oversee entities' application of groupwide risk standards, encourage take-up of the standards and report to the Group's corporate governance structures. A file is prepared for each entity backed by a series of scheduled on-site visits and summary tables.

1.4.2 Rating and Commercial Banking

The rating systems used by the Commercial Banking division were audited by the Internal Audit department and an external firm (Deloitte). The findings of the audit were submitted to the *Commission Bancaire* (French banking authorities) to enable it to plan its inspection. In parallel, specific action plans were drawn up to address the recommendations relating to Basel II issued by the Internal Audit department.

Upgrades of existing rating tools were rolled out in first-half 2006 as part of the new rating system; specifications have been drafted and tests undertaken ready for implementation during the second half of the year.

The new monitoring procedure for information taken from the National Datawarehouse helped identify the critical parameters for rating models and backtesting.

Lastly, risk exposure limits to be applied by the Group in respect of (i) SMEs and (ii) self-employed professionals, were validated by the Group Risk Committee.

1.4.3 Credit risk controls and reporting

Credit risk reporting tools were enhanced and their reliability improved pending the production of reports on the Fermat software. The performance charts presented to the Management Board and Group Risk Committee now cover the Investment Banking division's major counterparties split by type of counterparty, geographic area, rating and industry sector. Reporting tools for the Commercial Banking division cover the individual Caisses

d'Epargne, provisioning rates and the cost of risk, and were enhanced by new schedules for monitoring structured SMEs.⁶

Group third-party and counterparty risk databases were brought on stream for Major Counterparties and certain priority segments, and resulted in improved classification and reliability.

1.4.4 Credit risk management tools implementation and maintenance

The global exposure monitoring system (Fermat Gem) is now in the pre-implementation phase for both Major Counterparties as well as priority segments of the Commercial Banking division. In parallel, beta tests were run on risk monitoring reports dedicated to Major Counterparties, and the accounting harmonization project was rolled out to all Group users. A presentation was given to the French Banking Commission (*Commission Bancaire*) on the Fermat Gem reporting tool.

1.4.5 Market risks

Group Risk Management pushed ahead with its drive to implement centralized risk monitoring tools for the Group's various entities. In particular, this involved monitoring the proprietary trading risk incurred by Group entities on a daily basis, preparing the calculation of VaR on medium- and long-term portfolios, and implementing stress scenarios. New functionalities and specifically adapted procedures have been added to the intranet site set up to manage requests for fund investments.

1.4.6 Operational risks

Following the roll-out of ORiS, the Group entities have reviewed their operational risk framework and generated performance charts. Regular use of ORiS allows Group Risk Management to generate preliminary analyses of the overall exposure to operational risk, test data quality, and prepare for the transition to the Advanced Measurement Approach (AMA).

1.5 Risk Management objectives for second-half 2006

By the end of 2006, Fermat Gem, which will have replaced the existing software tools, should enable the Group to consolidate and manage its credit risk at both Group and entity level. Likewise, the calculation of the Group's credit risk capital requirement on Fermat Cad should be operational for end-2006 data following the two calculations at December 31, 2005 and June 30, 2006.

A number of action plans addressing the recommendations of the Internal Audit department will be finalized in the second half of the year, as part of the regulatory approval process.

An action plan will also be rolled out with the specific aim of identifying and archiving default thresholds in the Group's IT system as per Basel II.

The calculations for analyzing market risk will be enriched.

Lastly, the operational risk management framework will be improved in order to meet the requirements of the Advanced Measurement Approach (AMA).

⁶ SMEs with revenues of over €15 million.

2. Credit or counterparty risk management

During the first half of 2006, Group Risk Management continued to build Basel II requirements into procedures and develop compliant credit risk measurement, management and monitoring systems.

2.1 Organization

The new credit risk management organization is designed to:

- establish a consolidated risk measurement, management and monitoring structure that complies with French banking regulations (CRBF 97-02 revised);
- implement and document the Basel II rating system developed by the Group and obtain regulatory approval.

These two major strategic projects have been broken down into sixteen sub-projects covering:

- Commercial Banking: rating system, data quality, processing tools, performance charts;
- Investment Banking: credit rating system, processing tools, performance charts;
- standards and procedures, change management, regulatory watch and ongoing entity-level monitoring;
- Fermat system to manage and calculate Basel II capital requirements and monitor limit overruns, the Group Third-Party Database and other upstream reporting systems;
- internal rating methodology development and validation.

2.2 Credit risk measurement and management

Group Risk Management organizes consolidated credit risk measurement and management processes by:

- setting exposure limits for all significant counterparties representing exposures in excess of entity-level limits. These limits are defined by a certain number of committees, such as the Group Major Counterparty Credit Committee and Group SME Credit Committees;
- developing and maintaining the Group's rating systems;
- validating rating methodologies;
- defining standards and procedures to be applied by all entities.

During the first six months of 2006, Group Risk Management fine-tuned its rating systems for both Commercial Banking and Investment Banking customers, and set out its system for managing exposure limits on SME and self-employed professional segments.

In view of obtaining regulatory approval, Group Risk Management implemented action plans addressing recommendations made by Internal Audit.

2.3 Risk monitoring

Group Risk Management leads the committees and produces the performance charts used to monitor credit risks on a consolidated basis.

The Major Counterparties Credit Analysis unit performs or oversees expert analyses of credit risks associated with sovereign, bank, insurance, corporate and securitization issuers for the entire Group. These analyses are presented and discussed during meetings of the Major Counterparties Committee or the Risks Committee, as appropriate, providing a basis for the attribution of a rating and Group-level exposure limit to each counterparty. These exposure limits are communicated to the entities and incorporated into the exposure limit monitoring tool.

The SME Credit Analysis unit reviews the ratings attributed to SMEs by the internal rating system and presents its own comparative assessment of the credit risk to the Group SME Credit Committee in line with the allocations of authority.

The Credit Risk Controls & Reporting unit is responsible for developing and enhancing credit risk control procedures, as well as for producing risk monitoring reports submitted to the committees and the Management Board. Structured SMEs were included in these reports in the first half of 2006.

The Commercial Banking Rating Systems unit monitors the quality and pertinence of qualitative and score-based ratings.

The Credit Risk System Implementation and Maintenance unit is tasked with developing and implementing the Group's Fermat exposure limit monitoring system, which is currently being deployed.

2.4 Breakdown of commitments at June 30, 2006

2.4.1 Major Counterparties

Banks and other financial institutions represent 32% of total loans and commitments to the Group entities that do business with major counterparties, due to the high volume of off-balance sheet transactions with these counterparties. Corporates represent 25% and asset-backed securities issuers 24%. Asset-backed securities are held primarily by IXIS CIB and Crédit Foncier (table 1).

By region, France continues to account for the majority of commitments (37% of the total), compared with 41% for other European Economic Area countries and 16% for North America (table 2).

Over 92% of the portfolio is rated investment grade, with over 50% rated AAA and AA+ (table 3).

In the corporates segment, 15.5% of loans and commitments are to the real estate sector, 10% to utilities and 8% to insurance companies (table 4).

- Analysis of loans and commitments by type of counterparty (table 1)

(in millions of euros)

Type of counterparty

Type of counterparty	June 30, 2006				
	Balance sheet	Off-balance sheet (1)		Total	
	GCE inc. IXIS CIB	GCE excl. ICIB	IXIS CIB	TOTAL	%
Sovereigns (including CB)	10,251		601	10,852	6.9%
Banks (including BMD)	28,853	8,020	14,398	51,271	32.4%
Corporates	37,718	25	2,030	39,772	25.2%
Asset-backed securities issuers	32,736		4,871	37,607	23.8%
Specialized financing	7,418	5	529	7,952	5.0%
Regulated and non-regulated funds	8,999	9	824	9,832	6.2%
Financial intermediaries	698		50	748	0.5%
	126,672	8,059	23,301	158,033	100.0%

(1): portion relating to capital market transactions

- Analysis of loans and commitments by geographic area (table 2)

(in millions of euros)	June 30, 2006			
	Balance sheet	Off-balance sheet	TOTAL	%
France	51,198	8,025	59,223	37.48%
Other European Economic Area	48,989	15,889	64,878	41.05%
Other European countries	1,095	601	1,696	1.07%
North America (US and Canada)	20,592	4,731	25,323	16.02%
Africa/Middle East	35	43	78	0.05%
Central and South America (includnig Mexico)	3,333	331	3,665	2.32%
Asia (excluding Japan)	98	45	143	0.09%
Japan	208	85	293	0.19%
Pacific	776	412	1,188	0.75%
Supranational	324	1,197	1,521	0.96%
Other	25		25	0.02%
	126,672	31,360	158,033	100.00%

- Analysis of loans and commitments by rating (table 3)

(in millions of euros) June 30, 2006

Internal rating	Balance sheet	Off-balance sheet	TOTAL	%	Cumulative rating (%)
AAA	20,675	7,598	28,274	21.97%	21.97%
AA	24,689	11,844	36,533	28.39%	50.36%
A	23,360	8,446	31,806	24.72%	75.08%
BBB	20,529	2,131	22,659	17.61%	92.69%
BB	6,831	79	6,910	5.37%	98.06%
B	1,649	435	2,084	1.62%	99.68%
C/D	409	2	412	0.32%	100.00%
Sub-total	98,142	30,536	128,677	100.00%	
Unrated and other ratings	28,494	825	29,319		
Total	126,672	31,360	158,033		

- Analysis of corporate loans and commitments by sector (table 4)

(in millions of euros)

Sector		June 30, 2006	
		Total	%
Sovereigns (incl. CB)		10,852	9.18%
Banks (incl. BMD)		51,271	43.35%
Asset-backed securities issuers		37,607	31.80%
Specialized financing		7,952	6.72%
Regulated and non-regulated funds		9,832	8.31%
Financial intermediaries		748	0.63%
Sub-total		118,261	100.00%
C O R P O R A T E S E C T O R S	Real estate	6,166	15.50%
	Utilities	4,101	10.31%
	Insurance	3,047	7.66%
	B2B services	2,987	7.51%
	Telecoms	2,752	6.92%
	Retail	2,422	6.09%
	Automotive	2,156	5.42%
	Chemicals/Pharmaceuticals	2,123	5.34%
	Media	2,008	5.05%
	Hotels/Leisure	1,574	3.96%
	Building materials	1,473	3.70%
	Construction and public works	1,458	3.67%
	Other	1,058	2.66%
	Oil	1,004	2.52%
	Agri-foodstuffs	930	2.34%
	Capital goods	889	2.24%
	Aviation/Aerospace/Defense	739	1.86%
	Transport	667	1.68%
	Consumer goods and services	652	1.64%
	Air transport	573	1.44%
Holding company	470	1.18%	
Financial institutions and services	440	1.11%	
Corporate banks	83	0.21%	
Total corporates		39,772	100.00%

2.4.2 Analysis of loans and provisions by segment

Non-performing loans represented a low 2.1% of total customer loans at June 30, 2006, down 0.4 points on December 31, 2005. Specific provisions are booked for non-performing loans at 46.5% of their value. Portfolio-based provisions provide additional cover and amounted to €589 million at June 30, 2006. At end-June 2006, cost of risk as a proportion of total customer loans fell 0.02 points compared with June 30, 2005, to 0.02%.

3. Asset/Liability Management risks

3.1 Organization of the ALM unit

3.1.1 Group-level organization

Since the end of 2004, Groupe Caisse d'Epargne has been a full-service, universal bank, with operations in commercial banking, corporate and investment banking and insurance. Each business line manages ALM (liquidity, interest rate and currency) risks at various different levels.

To reflect this change, in March 2005 the CNCE set up a Group ALM unit tasked with monitoring ALM risks on a consolidated basis. This extends the work carried out previously to monitor ALM risks at the level of the individual Caisses d'Epargne and the Commercial Banking subsidiaries. The main objectives of the Group ALM unit created in March 2005 are as follows:

- meeting regulatory requirements,
- optimize Group-level ALM supervision and management,
- provide information as required.

Its activities are overseen by the Group ALM Committee set up in May 2005. Chaired by the CNCE Management Board member responsible for the Finance and Risks division, the committee comprises several other Management Board members, the Finance Directors of the main subsidiaries and the officers of the individual Caisses d'Epargne. It meets at quarterly intervals.

Designing and implementing a structure to manage ALM risks on a consolidated basis is a very challenging task in an organization the size of Groupe Caisse d'Epargne, and it has had a profound impact on ALM systems and processes throughout the organization.

To monitor consolidated risks in compliance with the applicable regulations, the Group ALM unit uses ALM simulation and consolidation software to process data generated by the various Group entities.

Following the completion in 2005 of the ALM unit's rules of procedure and the consolidated ALM risk monitoring reports, the main tasks undertaken by Group ALM over the first six months of 2006 were as follows:

- issuing Group-level ALM standards and exposure limits in a reference guide to be published throughout the Group at the end of 2006;
- continuing to integrate Group entities within the ALM system;
- preliminary work on the elimination of intragroup transactions for the ALM system in order to generate consolidated ALM indicators;
- initial analyses of the impacts of the application of IFRS on ALM risk management.

3.1.2 Commercial Banking division ALM organization

The Commercial Banking division – comprising the 29 Caisses d'Epargne and the Commercial Banking subsidiaries of the CNCE – has its own ALM Committee. The committee meets at quarterly intervals to review Commercial Banking interest rate and liquidity exposures. The Commercial Banking division's exposure to currency risk is negligible.

Since December 2005, a new financial management charter defines the role, organization and supervisory framework of asset/liability management and other financial activities carried

out by the Group's Commercial Banking subsidiaries. This charter sets out the rules governing exposures and the monitoring of interest rate, liquidity and currency risks.

All 29 Caisses d'Epargne, as well as Banque Palatine and Financière OCEOR use ALM SIS to manage asset/liability risks. This tool has an identical configuration for each entity and allows for entity-level management of ALM, while overall risk exposure is monitored by the CNCE.

Following the end-2005 publication of the new financial management charter, a series of steps were taken in view of its implementation from both an institutional and operational standpoint.

The first half of the year also saw:

- a bilateral review of the current financial management framework at each of the Caisses d'Epargne;
- development and analysis of a worst-case scenario;
- adjustment of behavioral models for home savings plans to reflect the new rules on provisioning prescribed by IFRS;
- continuation of the ALM system overhaul program.

3.2 Liquidity risk management

3.2.1 Group financing organization and liquidity risk management

In terms of liquidity risk management, the CNCE is responsible for the Group's overall liquidity exposure in its capacity as the head of the Group and its central institution. Refinancing for Groupe Caisse d'Epargne is organized by division (Commercial Banking, the Crédit Foncier sub-group and Investment Banking), with increased oversight and coordination by the CNCE. The CNCE is also the Group's sole issuer of subordinated and deeply subordinated notes, which serve to optimize regulatory capital.

- Commercial Banking division: the lending activities of the Caisses d'Epargne are partially financed by the significant customer deposits generated by the retail banking business. Their remaining financing needs, along with those of the Commercial Banking subsidiaries, are met by the CNCE. As well as maintaining adequate liquid funds for the Group as a whole, the CNCE has specific responsibility for meeting the liquidity needs of the Commercial Banking division and for raising additional funds on the market to finance the development of the Caisses d'Epargne and Commercial Banking subsidiaries.
- Crédit Foncier sub-group: short-term financing for the sub-group is raised by Crédit Foncier, while two specialist issuers – Compagnie de Financement Foncier and Vauban Mobilisations Garanties (VMG) – are responsible for medium- and long-term financing. These two entities' AAA-rated covered bond issues represent an important new source of financing for the Group as a whole. Compagnie de Financement Foncier also refinances a growing proportion of the Group's local authority loans through an internal securitization program.
- Investment Banking: IXIS Corporate & Investment Bank is responsible for refinancing its own capital markets and corporate financing operations.

The Group's overall liquidity position and the liquidity position of each individual entity are monitored at the level of the CNCE. Annual financing plans approved by the Group ALM Committee are drawn up covering the entities' short- and medium-term financing needs based on business forecasts. Short-term financing is allocated to each Commercial Banking entity based on the CNCE's ability to raise short-term funds on the market.

In the first half of 2006, the rating agencies reviewed the issuer ratings of Groupe Caisse d'Epargne and the CNCE following the announcement of (i) a merger between the wholesale banking and financial services activities of Groupe Caisse d'Epargne and the Banque Populaire Group to form NATIXIS and (ii) the withdrawal of the Caisse des Dépôts from the CNCE's share capital.

Standard & Poor's and FitchRatings confirmed their long-term ratings for Groupe Caisse d'Epargne and the CNCE (respectively, AA and AA with a stable outlook in both cases).

Moody's, adopting a different approach, placed its long-term Aa2 rating under credit watch with a possible downgrade risk further to the CDC's announcement that it was to withdraw from the share capital of the CNCE.

The Group continues to boast one of the highest long-term ratings in the French banking industry. This credit quality allowed the CNCE to carry out a two-tranche issue of perpetual deeply subordinated notes (USD 300 million and EUR 350 million). The issues were launched in January 2006 and both attracted considerable investor interest.

Regarding the Commercial Banking division (excluding Crédit Foncier), the CNCE continued to implement its balanced policy of raising the funds needed to support business growth at the lowest possible cost, while at the same time diversifying its sources of financing in terms of instruments, investors and geographical regions:

- The partnership with the European Investment Bank (EIB) was further extended in the area of very long-term financing. In addition to financing small- and medium-sized local authority projects (€400 million paid over in 2006), an amount of €50 million was earmarked for the second hospitals program (Hôpitaux de France 2) and €26 million for the hospital in Clermont Ferrand.
- More than €580 million of long-term (12 year) bonds issued by the CNCE at June 30, 2006 were sold to retail banking customers of the individual Caisses d'Epargne.
- The take-up rate of the Group's short-dated notes among European, US and Asia institutional investors was high. Investors in the United States were able to invest more heavily in CNCE short-term commercial paper (with average maturities of less than three months) through the US Commercial Paper program, while the EMTN program continued to attract considerable investor interest, with €1.830 billion placed with European and Asian institutions during the first six months of 2006.

3.2.2 Liquidity position of the main Group entities

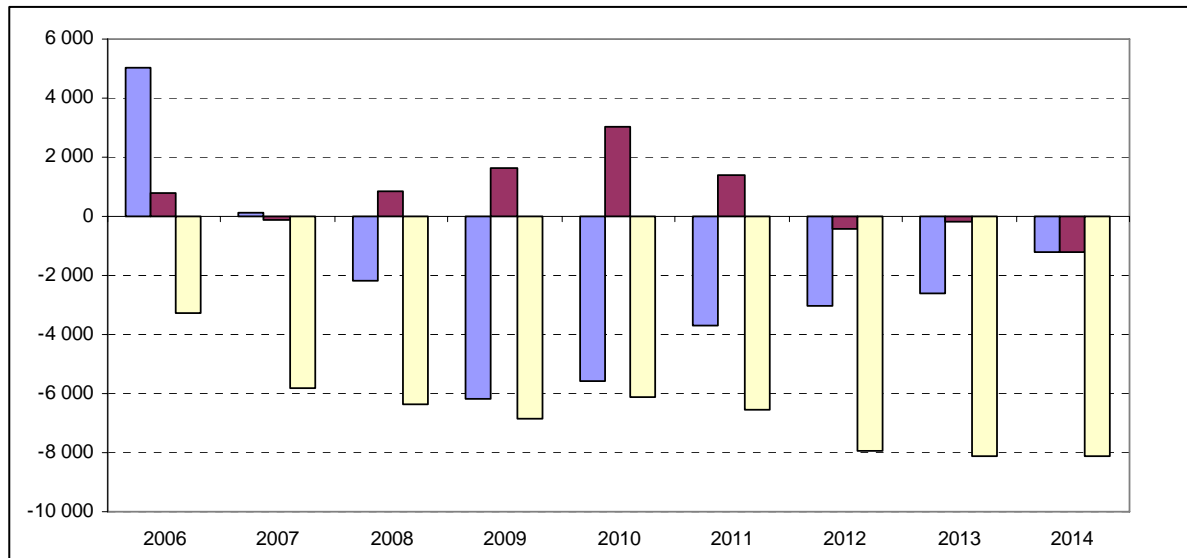
3.2.2.1 Liquidity ratio

Limit: 100%

	Dec. 31, 2005	March 31, 2006	June 30, 2006
CNCE	160	183	154
IXIS CIB	347	464	359
CREDIT FONCIER	119	138	129
CEP	157	162	165
CEFI	117	118	113
OCEOR	137	144	210
PALATINE	140	153	159
COMPAGNIE 1818	187	232	214

3.2.2.2 Liquidity gap

Liquidity gaps at December 31, 2005 (in millions of euros)



- **Caisses d'Epargne and Commercial Banking subsidiaries**
- **Crédit Foncier**
- **IXIS CIB**

Convention: positive gap = financing shortfall; negative gap = financing surplus – outstanding loans at period-end

The Caisses d'Epargne's liquidity gaps are very reasonable in volume and limited in duration (24 months), thanks largely to the short-term financing provided by the CNCE. Beyond twenty-four months, their overall position is a financing surplus.

The static liquidity gap of the Crédit Foncier group shows an overall financing shortfall over the first six years, and a financing surplus from 2012.

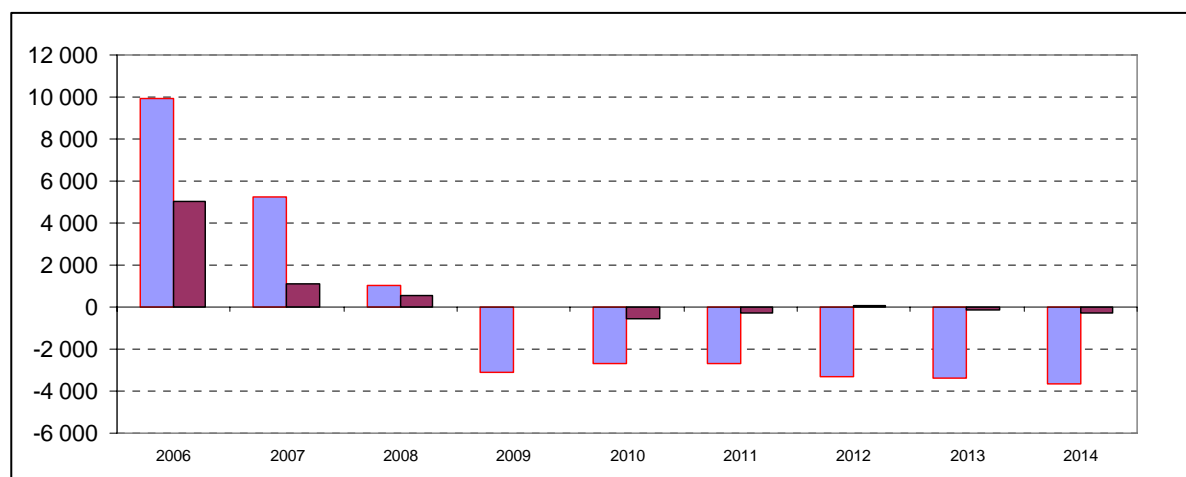
As shown in the above table, IXIS CIB (excluding subsidiaries) has a financing surplus across all maturities, ranging from €3 billion to €8 billion.

At Group level, liquidity gaps are satisfactory, with a financing surplus as from 2007.

3.3 Interest rate risk management

Interest rate risks arise from changes in interest rates affecting fixed or variable rate loans or borrowings. Interest rate positions are measured in terms of gaps, taking into account both on- and off-balance sheet positions. Gap calculations serve to determine a position's sensitivity to interest rate changes.

Fixed rate gaps at December 31, 2005 (in millions of euros)



■ *Caisses d'Epargne and Commercial Banking subsidiaries (1)*

■ *Crédit Foncier*

Convention: positive gap = financing shortfall; negative gap = financing surplus – outstanding loans at period-end

The Commercial Banking subsidiaries are exposed to the risk of a rise in interest rates over a fairly short period of three years. Beyond three years, they are generally exposed to the risk of a fall in rates ; however the amounts of the exposures are limited.

The static fixed rate gap of the Crédit Foncier group shows an overall fixed rate financing shortfall until 2008, followed by a structural fixed rate financing surplus as from 2009.

IXIS CIB's positions are managed directly by the business lines, based on VaR limits assigned to each business. Interest rate risks are systematically hedged using micro-hedging techniques, with the result that IXIS CIB does not have a structural interest rate position.

The Group's fixed rate financing surplus as from 2009 exposes it to the risk of a fall in interest rates. In view of the amounts involved, this position is limited.

3.4 Currency risk management

The Group's foreign currency positions are very small, because substantially all foreign currency assets are match funded in the same currency.

At Group level, the capital required to cover currency risks consistently represents less than €10 million, amounting to €5.9 million at June 30, 2006 and €4.1 million at December 31, 2005.

4. Market risks

All Group entities are exposed to market risks and fund-related risks (mutual funds and unregulated funds other than private equity funds). Risks are analyzed at the level of the Investment and Commercial Banking divisions – comprising the individual Caisses d'Epargne, the Group's specialist subsidiaries (Crédit Foncier, Banque Palatine, Financière OCEOR, GCE Garanties and La Compagnie 1818) – and also at that of the CNCE.

In the first six months of 2006, the Market Risks Department continued to roll out Group-level market risk monitoring tools, starting with the entities' proprietary trading activities. The market risk management process and the improvements made in this area in first-half 2006

are described below. The Market Risks unit also undertook an analysis of second-tier controls regarding ALM's management of overall interest rate exposure.

Investing in regulated and unregulated funds accounts for a significant portion of the entities' financial operations, and the risks associated with these investments are not limited to market risks. As a result, they are included in the market risk management process but are also subject to special treatment.

4.1 Commercial Banking

4.1.1 Structure of the Commercial Banking market risk management process

Two procedures are designed to ensure that the use of financial products is covered by appropriate operational safeguards, in compliance with the applicable regulations and Group risk management standards. These include the list of authorized financial products and the new product approval procedure, which govern the work undertaken by the New Products & Financial Operations Committee. As an example, some 50 products developed by the Commercial Banking subsidiaries were analyzed and an opinion issued in the first half of 2006.

Financial transaction monitoring and control: using standard market risk management tools throughout the Group

A process has been developed to analyze consolidated and entity-level exposures using standard indicators that are calculated by the same methods throughout the Group. Daily VaR calculations are performed for proprietary trading operations carried out by the Commercial Banking division (CNCE, Caisses d'Epargne and subsidiaries), and the Investment Banking business. Groupwide VaR calculations are based on Scénarisk software, which was developed by IXIS CIB and validated an internal measurement tool for Investment Banking operations.

Over the first six months of 2006, calculations of VaR were backed by a series of historical and hypothetical stress scenarios that were implemented for the Commercial Banking division's proprietary trading activities. These were deployed based on the same principles as those applied by IXIS CIB. This methodology was validated by the Group Risk Committee in March 2006. Economists from IXIS CIB's research unit calibrated the various scenarios identified and the initial findings of their work were presented to the Group Risk Committee in June 2006.

These global risk measurement tools are rolled out in the form of operational risk indicators under the responsibility of the individual entities.

Exposure management: setting exposure limits

The system of exposure limits reflects the segmentation of Commercial Banking financial operations between proprietary trading on the one hand and ALM and the management of medium- and long-term positions on the other. A Financial Charter describing risk management and monitoring principles applied to these activities was approved at the end of 2005. An overall VaR limit has been set for all proprietary trading activities, while gross operating income sensitivity limits and volume limits have been set for ALM and medium- and long-term positions. These limits are determined at national level and then allocated among the Group entities.

Upstream operations: providing a risk management framework for new products

Compliance control: reporting

The reporting system is designed to track and control exposures to ensure that they comply with the operational principles defined by the Group's risk policy and are consistent with allocated exposure limits. It is organized around:

- daily reporting of proprietary trading VaR by the Group entities. These reports are used to monitor changes in Commercial Banking and Investment Banking (IXIS CIB) VaR compared with their respective exposure limits;
- weekly reporting of changes in VaR over one week, including detailed analyses and historical data;
- detailed monthly reporting of investments in mutual funds and other funds and the related VaR, by entity;
- monthly reports submitted to the Management Board and also to the Market Risks committees and Fund Risks committees.

4.1.2 Commercial Banking procedures

As mentioned above, the list of authorized products and operational guidelines for the New Products & Financial Operations Committee were approved, along with the criteria for authorizing purchases of fund units and the related fast-track procedure. A procedure setting out guidelines for managing exposure limit overruns also came into effect.

The Market Risks committees and Fund Risks committees are responsible for tracking and overseeing financial transactions and validating exposure limits prior to their submission to the Group Risk Committee.

4.1.3 Market risk measurement and exposure limits for the Commercial Banking division

Structure of the exposure limits system

The structure of the exposure limits system is based on the joint use of gross operating income and VaR indicators in order to take into account the following two main types of market risk exposures:

- the potential variability of cash flows and net interest margins;
- the sensitivity of the fair value of the securities portfolio, the related hedges and isolated open positions.

Based on the definition of proprietary trading, consolidated 1-day VaR based on a 99% confidence level may not exceed €7 million for the Caisses d'Epargne taken together. This exposure limit was rolled down to the various entities based on capital and earnings criteria. The allocation of exposure limits by entity is reviewed each year and the last review took place in June 2006.

Over the first six months of 2006, individual Caisses d'Epargne's average consolidated VaR amounted to €6.44million, with a high of €7.4 million and a low of €5.86 million. The highest VaR was the only overrun reported in first-half 2006, and was disclosed at the Group Risk Committee meeting.

Over the period, the proprietary trading operations carried out by the Group's specialized subsidiaries respected a limit of 1-day VaR based on a 99% confidence level of €0.5 million.

Tools and methods

VaR estimates are performed on Scénarisk software, which is already used by IXIS CIB. Calculations of VaR for entities operating in the Commercial Banking division are performed at national level. This involves an initial stage whereby data is recovered on positions taken

by individual entities and a second stage in which data is fed into Scénarisk to generate the actual risk exposure, taking into account the effect of portfolio diversification across the Caisses d'Épargne and specialist subsidiaries.

Scénarisk was rolled out to the entities, thereby enabling them to check actual VaR in real time and simulate the VaR impact of future transactions.

4.1.4 Specific treatment of mutual funds and unregulated funds

At June 30, 2006, the fund units held by the CNCE, the Caisses d'Épargne and subsidiaries represented over €10 billion, spread across more than 540 funds.

Fund units by asset class

Asset class	€ millions
Hedge funds	3,638
Dynamic money market funds	2,488
Money market funds	1,554
Bond funds	1,143
Equity funds	798
Dedicated funds	212
Convertible bond funds	216
Diversified funds	268
Guaranteed funds	65
TOTAL	10,382

A specific methodology for the inclusion of these funds in overall VaR was implemented in 2005, and enhanced by a review of the main risk areas at the beginning of January 2006, as well as the integration of risk areas in Scénarisk at end-March 2006. Other upgrades are scheduled for the second half of the year.

Since the end of December 2005, requests for fund investments are managed via a dedicated intranet site (ABIS).

The new functionalities developed in first-half 2006 and available on ABIS are as follows:

- management of requests for fund investments (batch 1 of the internet project):
 - tracking of outstanding requests (traceability),
 - sending of automatic mails to the various parties concerned.
- access to GRM fund scoring systems and analysis;
- option for entities to compute own score-based system;
- management of investment reports concerning investments approved under the fast-track procedure;
- access to Group reports on entities: allocation by asset class, details of fund portfolios, fund VaR and backtesting;
- access to fund statistics at Group level;
- access to tracking of fast-track criteria based on note 149/C/06/097 (batch 2 of the internet project);
- access to the ABIS user guide;
- access to fund manager analyses, as well as analyses performed by GRM and GFM of funds requiring approval.

A score-based method for analyzing funds (validated by the Fund Risks Committee in June 2005) is applied to each investment request made by Group entities on the ABIS site.

Procedures & Fund Risks Committee

A procedure establishing the rules to be followed by Group entities for investments in funds was introduced in April 2006.

The Fund Risks Committee set up in June 2005 meets at monthly intervals.

Specific exposure limits and controls

Specific exposure limits have been set for investments in mutual funds and unregulated funds (other than private equity funds), covering the combination of market and operational risks incurred when the Group delegates responsibility for managing part of its assets to fund managers.

Management companies must be approved by the Fund Risks Committee and comply with exposure limits applicable to the assets managed on the Group's behalf.

These exposure limits are reviewed each year by the Fund Risks Committee based on analyses produced by IXIS CIB's credit analysts.

The above procedure also includes exposure limits covering liquidity, country and currency risks.

To ensure that Group entities comply with the procedure for investments in mutual funds and alternative investment funds, monthly controls over movements in the Group's portfolio over the first half of 2006 were implemented.

Specific reporting systems

A system has been set up for the detailed monthly reporting of investments in mutual funds and unregulated funds, together with the related VaR, to the Fund Risks Committee. The reports include:

- an analysis of investments by asset class;
- the list of funds and the 1-day VaR with a 99% confidence level for each fund;
- the list of approved fund managers and details of their actual and maximum VaR;
- details of significant movements and the largest asset classes.

Similar reports are now also available from each entity and posted on the intranet site designed to manage requests for fund investments.

Specific monthly reports are also sent to IXIS AM.

4.2 Investment Banking

The IXIS Corporate & Investment Bank Market Risks department defines the principles to be applied to measure market risks, independently from the operating units and in line with Group standards. It also sets out and monitors the corresponding exposure limits. The department reports directly to the Risk Director.

Changes in market indicators, such as interest and exchange rates, share prices and issuer spreads, and the implicit volatility of each of these indicators (and, potentially, any other market indicator) may have a direct positive or negative impact on the value of outstanding transactions recorded in the Bank's accounts. The potential loss generated by these changes constitutes the market risk incurred by IXIS Corporate & Investment Bank and also by all of the Group's capital markets units, including those in New York, Tokyo, Frankfurt, Milan and London.

Management of market risks is based on a sophisticated measurement system, detailed procedures and close monitoring.

The entire system is overseen by the Market Risk Committee chaired by the Chairman of the Management Board. The Committee is responsible for:

- examining risk exposures;
- defining exposure limits and assigning responsibility for authorizing exposures;
- validating measurement methods and monitoring procedures;
- overseeing compliance with market risk procedures.

The Market Risk Committee meets at monthly intervals.

Market risk assessment

Market risks are assessed by three methods:

- synthetic Value at Risk (VaR) calculations that determine potential losses from each activity at a given confidence level (for example 99%) and a given holding period (for example 1 day). The calculation is performed and monitored daily for all of the Group's trading activities. For calculation purposes, the joint behavior of market parameters that determine portfolio values is modeled using statistical data covering 365 calendar days. Around 2,950 market risk factors are currently modeled and used by the Scénarisk software. Since the end of November 2004, IXIS Corporate & Investment Bank has been calculating VaR based on digital simulations, using a Monte Carlo methodology which takes into account possible non-linear portfolio returns based on the different risk factors ;

- stress-testing, which consists of measuring potential losses on portfolios based on extreme market configurations. These configurations are developed from scenarios based on historical data (economic scenarios) and hypothetical scenarios which are specific to each portfolio;

- analyses of operating indicators that set limits for all capital markets activities and/or for groups of comparable activities, based on directly observable figures such as nominal amounts, sensitivities, stop-loss limits, diversification indicators and market share indicators. The exposure limits determined from these operational indicators are applied alongside the VaR and stress test limits. All three limits are determined on a consistent basis, particularly when they correspond to front office exposures. This is the case in particular for stop-loss limits, which trigger warnings about loss-making strategies and are set for each individual trader. Stop-loss limits are constantly monitored and if any overrun is detected, management is required to make a decision as to whether to close, hedge or maintain the position.

Ex-post controls

Ex-post controls consist of comparing these risk assessments with the corresponding exposure limits, which must be complied with at all times. The exposure limits are set annually by the Management Board and may be revised during the year on request. The VaR limits represent the economic capital allocated to the activity and are defined based on observed or expected yield/risk pairings. Economic capital allocations are determined based on 10-day VAR with a 99% confidence level and a variance ratio of 4.

The controls are evidenced in daily and weekly performance charts examined by the Management Board and the Executive Committee. In addition, reports are submitted to the Chairman of the Management Board on a weekly basis and to the Market Risk Committee on a monthly basis analyzing actual market risks and changes since the last report.

In line with French banking regulations (CRBF regulation 95-02), IXIS Corporate & Investment Bank is required to report its overall risk coverage ratio to the *Commission*

Bancaire. Since 1997, it has been authorized to use its Scénarisk internal risk monitoring model to track general interest rate, equity and currency risks and specific equity risks.

Other responsibilities

The Market Risks department is also responsible for:

- second-level validation of results produced by the Results unit;
- validating pricing models;
- determining provision policies and deductions for liquidity risks, statistical risks, model risks, parameters that cannot be covered by the system and other items.

Quantitative market risk information

Since January 1, 2006, the 1-day VaR at a 99% confidence level for IXIS Corporate & Investment Bank's trading portfolios averaged €13.4 million, with a high of €17.5 million. This was below the average limit of €20 million and the absolute limit of €25 million set by the Group.

The robustness of the VaR indicator is regularly assessed by comparing the potential daily loss represented by the VaR with actual daily losses (ex-ante/ex-post comparisons).

At June 30, 2006, the 1-day VaR at a 99% confidence level by risk category was as follows (in millions of euros):

1-day VaR, 99% confidence level (in millions of euros)	June 30, 2006	First-half 2006 average
Interest rate risk	5.1	6.2
Equity risk	4.8	6.0
Specific equity risk	1.8	2.3
Specific interest rate risk	7.7	8.7
Currency risk	1.3	1.4
Effect of netting	-9.4	-11.3
Consolidated VaR	11.3	13.4

5. Intermediation risk

IXIS CIB systematically acts as counterparty on over-the-counter markets. It does not carry out any intermediation transactions on regulated markets.

As a result, intermediation risks are taken into account in the measurement of market, credit and operational risks.

6. Other risks

6.1 Operational risks

By the end of 2005, the Group had achieved its aim of rolling out the operational risk monitoring and management tool (ORiS) to all Group entities. At end-June 2006, there were more than 5,000 registered ORiS users.

Since January 2006, a quarterly operational risk performance chart has been generated by each entity. These performance charts are designed to provide the Operational Risk Committees with a regular overview of entities' risk profiles, and enable them to monitor any actions undertaken.

The operational risk performance chart is generated by ORiS and provides:

- an assessment of the entity's system for tracking and managing operational risk;
- an overview of key risks based on risk maps;
- an analysis of risk incidents and predictive indicators;
- a follow-up to any action plans;
- an overview of operational risk insurance cover and the extent to which it is used.

The policy set out by the Group Operational Risks Committee in the 2005 report on "Operational Risk Management Governance Guidelines" came into force on January 1, 2006 and is being rolled out to each entity, which is in turn responsible for drafting its own operational risk policy and compiling comprehensive operational risk documentation.

Concerning the Operational Risk unit, the operational risk managers held a meeting to take stock of the progress of the operational risk project, and identify the next steps to be taken for obtaining approval of the Advanced Measurement Approach (AMA).

At this meeting, the findings of the QCB questionnaire on operational risk were presented for each reporting segment. This made it possible to identify developments in the operational risk management framework over the last six months as well as areas for improvement and possible action points.

At the level of the CNCE, the second Group Operational Risk Committee meeting was held in March 2006. The committee validated the timeframe for achieving AMA approval (Basel II capital requirements in respect of operational risk) and defined the mission-critical scenarios to be analyzed. These key scenarios will be integrated within the operational risk measurement model currently being finalized.

The capital measurement project was launched at the end of 2005 and a working model has been created that meets internal advanced measurement approach requirements. The model has so far been tested on a restricted population sample, but will gradually be rolled out to the entire Group by the end of 2006.

Quantitative and qualitative external incident databases should also help enrich key scenario analysis and provide a benchmark for internal incident data.

In parallel, work is being carried out in conjunction with Group Management Control to generate a breakdown of net banking income by business line, as required for the standardized measurement approach, and seen as a first step towards advanced measurement approaches).

6.2 Legal risks

The CNCE's Legal department reports to the Corporate Secretary, whose role consists of managing the corporate departments responsible for Group legal affairs, human resources management, budgets, CNCE efficiency improvements, real estate and general services, as well as the various support functions.

The Legal department, which comprises four units, assisted and advised the CNCE corporate departments on all matters related to banking and financial law, contract law (investor relations, purchasing, real estate and other departments), company law and intellectual property law (with over 50 registered trademarks). It also provided secretarial support to the CNCE's management bodies.

The department also participated in discussions of matters affecting the French banking industry and defended the Group's interests in Brussels, particularly with regard to the Single European Payments Area (SEPA) project.

In addition, it partnered and advised the Group on its development and partnership projects, including with regard to competition issues.

The main CNCE subsidiaries also have their own Legal department.

* Exceptional events, claims and litigation

Other than as described in the notes to the consolidated financial statements, there are currently no exceptional events or claims or litigation that could have a material adverse effect on Groupe Caisse d'Epargne's business, results of operations or financial position.

However, in June 2006 the European Commission launched an investigation to determine whether the special distribution rights over *Livret A* and *Livret bleu* passbook accounts granted to the network of Caisses d'Epargne, La Banque Postale and Crédit Mutuel (responsible for the *Livret bleu*) were compatible with European regulations governing the freedom of establishment and freedom to provide services.

7. Compliance risk

The Compliance function has three units organized around the CNCE, the Caisses d'Epargne network and the subsidiaries.

The Compliance framework has also been strengthened by the CNCE's newly created Group Security and Compliance unit, which drafts and circulates Group standards, prepares and centralizes reporting, conducts ongoing controls via compliance reviews and oversees the compliance effort on behalf of affiliated entities.

Compliance units exist or have been set up within the individual Caisses d'Epargne and subsidiaries. The financial and human resources assigned to these units are adapted to the size of each entity and its business activities, and include an anti-money laundering unit.

Each entity's Compliance unit has endeavored to set up a framework for compliance issues in line with CRBF rule 97-02 as amended. This has involved mapping compliance risk; organizing ongoing compliance controls; approving new commercial products; providing training and raising awareness of compliance issues; monitoring regulatory changes; acting to prevent money laundering, the financing of terrorism and fraud; liaising with regulators; and introducing warning procedures that allow employees to flag up any irregularities.

7.1 Anti-money laundering processes

Group Caisse d'Epargne has a duty to combat money laundering and the financing of terrorism, and the Group's corporate culture and processes have evolved with this priority in mind.

All sales and after-sales personnel, managers and directors have built various screening and processing procedures into their daily work. These procedures are constantly evolving, attesting to the Group's proactiveness in this area.

The continuing quantitative and qualitative increase in the number of suspicious transactions reported by Group entities to Tracfin testifies to the effectiveness of the Group's process and the culture of civic duty among the numerous players concerned.

The combined impact of a widespread awareness of these issues and sharpened expertise has made anti-money laundering a function in its own right.

The Group's increasingly standardized anti-money laundering efforts are led by close to 200 staff members, most of whom are on full-time contracts.

As a bank serving the public interest, Groupe Caisse d'Epargne has invested in resources, structures and procedures that allow it to meet its obligations, notably by screening transactions in real time.

