

Annual
report



2017



A MESSAGE FROM THE EXECUTIVE MANAGEMENT TEAM

2017 was an excellent year for Crédit Logement.

It combined exceptional results, both in guarantees and debt collection, and significant headway in perpetuating the guarantee model that is applied in France.

At more than €105 billion, total guaranteed production exceeded the €100 billion mark for the third year in a row. As a result, more than 500,000 transactions were completed thanks to the Crédit Logement guarantee.

In a very low interest rate context, the dynamics observed throughout the course of the year were not constant, with the first half proving stronger than the second. This saw a sharp drop in loan refinancing by comparison with 2016, although it remained above what could be considered as its structural level.

Stripping out loan refinancing, guaranteed production rose in 2017, in a reflection of growth in the property market.

In addition to arranging guarantees to cover the risk of loss, Crédit Logement also provides debt collection services at no extra cost.

In what was a more favourable economic context in 2017, Crédit Logement observed a decrease of around 10% in the number of loans entering debt collection procedures. At the same time, the risk managed fell by 3% during the year.

Guaranteed loans amounted to more than €325 billion as at 31 December 2017, representing a €100 billion increase on the level observed five years ago.

Although loan volumes have been steadily increasing, it is important to stress that the risk is decreasing. This stems not only from the economic situation but also Crédit Logement's effective risk selection capacity.

2017 also lent weight to the guarantee model for residential property loans.

This was reflected in two stand-out events during the year.

To begin with, at the end of the spring, the ACPR (Autorité de Contrôle Prudentiel et de Résolution - French prudential supervision and resolution authority) revised the Pillar 2 own funds requirement for Crédit Logement by setting a standard overall own funds requirement for guarantee activities representing 2% of the guaranteed loans.

The ACPR deems this standard level sufficient to enable the providers of guarantees to withstand strong levels of stress, such as those applied in the European Banking Authority's stress tests.

It applies to all undertakings that arrange residential property loan guarantees, be they financing companies or insurance firms.

Secondly, in December 2017, as part of the Basel III agreements, significant legislation came into force in favour of guarantee activities. This notably involved the recognition of guaranteed property loans as being equivalent to mortgage loans under prudential regulations applicable to banks. In order to benefit from this provision, institutions providing guarantees must satisfy a certain number of conditions. Crédit Logement already satisfies these conditions.

This headway is recognition of the performance and the quality of the guarantee model that is applied to residential property loans.

The guarantee system is universally recognised. It only remains for these advances to be incorporated into European law.

With all this in mind, Crédit Logement is facing 2018 with determination and confidence.

Confidence, because the property market is still boasting healthy fundamentals and because the Crédit Logement guarantee provides added value that ensures vibrant growth and security in the financing of residential property.

And determination, because the people at Crédit Logement are ready and waiting to meet the current and future needs of our partner banks and their customers.

BOARD OF DIRECTORS

Olivier BÉLORGEY,
Chairman?

Head of Finance
of Crédit Agricole CIB.

Yves MARTRENCHAR,
Honorary Chairman.

BNP PARIBAS,
represented by Stanislas de MALHERBE,
Head of Finance,
French Retail Banking Division in France.

LCL – LE CRÉDIT LYONNAIS,
represented by Grégory ERPHELIN,
Head of Finance, legal, loan acceptance
and recovery.

SOCIÉTÉ GÉNÉRALE,
represented by Marianne AUVRAY-MAGNIN²,
Head of Market Relations and Regulations,
Retail Banking in France.

CAISSE CENTRALE DU CRÉDIT MUTUEL,
(Crédit Mutuel – CIC Group) represented by
Sophie OLIVIER
Head of Retail Banking
Confédération Nationale du Crédit Mutuel.

BPCE,
represented by Sylvain PETIT
Head of strategy and planning.

CRÉDIT FONCIER,
represented by Bruno DELETRÉ,
Chief Executive Officer.

SF2 - Groupe LA BANQUE POSTALE,
represented by Jean-Marc TASSAIN,
Head of Partnership Development
and of Market Relations.

HSBC France,
represented by Vincent de Palma,
Head of transformation and modernization for retail
banking.

Monsieur Éric PINAULT,
Chief Financial Officer and Risk
at Fédération Nationale du Crédit Agricole.

Madame Brigitte GEFFARD³,
Head of Loans Acceptance at LCL, Le Crédit
Lyonnais.

Madame Dominique FIABANE
Senior Advisor DG Domestic Markets
for BNP Paribas

Monsieur Albert BOCLÉ

STATUTORY AUDITORS

C.T.F.,
represented by Christophe LEGUÉ.

Deloitte & Associés,
represented by Sylvie BOURGUIGNO



Share capital at December 31, 2017

Private limited company with a share capital amounting to 1 259 850 270 euros

ACTIONNAIRES	NOMBRE D' ACTIONS	MONTANT TOTAL	%
BNP Paribas	2 969 694	207 878 580	16,5003%
Crédit Agricole	2 969 587	207 871 090	16,4997%
LCL - Le Crédit Lyonnais	2 969 594	207 871 580	16,4997%
Société Générale / Crédit du Nord	2 970 599	207 941 930	16,5053%
Groupe BPCE	1 530 063	107 104 410	8,5014%
Crédit Foncier de France	1 258 022	88 061 540	6,9898%
Crédit Mutuel / CIC	1 709 743	119 682 010	9,4997%
SF2 - Groupe La Banque Postale	1 079 944	75 596 080	6,0004%
HSBC France	539 806	37 786 420	2,9993%
Autres établissements de crédit	530	37 100	0,0029%
Personnes physiques	279	19 530	0,0016%
TOTAL	17 997 861	1 259 850 270	100,0000%

EXECUTIVE MANAGEMENT

Jean-Marc VILON

Chief Executive Officer

Patrick LEPESCHEUX

Deputy Chief Executive Officer
Head of Production

Éric VEYRENT

Deputy Chief Executive Officer
Head of Administration and Finance

Éric EHLER

Head of Human Resources

Bernard FENDT

Head of Risk

Franck FRADET

Head of Collection

Philippe LAINÉ

Head of Customer Relations

Catherine LANVARIO

Head of Communication

Michel LAVERNHE

Head of Information Systems

Claire de MONTESQUIOU

Head of Audit and Internal Control

Jean-François ROUSSEL

Head of Organization

KEY FIGURES AT DECEMBER 31, 2017

REGULATORY CAPITAL

7,56 billion euros

MUTUAL GUARANTEE FUNDS

5,32 billion euros

GROSS ANNUAL PRODUCTION

105,36 billion euros
621 163 loans
for 518 014 transactions

OUTSTANDING GUARANTEE

325,7 billion euros
3 292 165 loans

WORKFORCE

325 employees

LONG-TERM RATING

Moody's: Aa3 stable
DBRS : AA low stable

CREDIT LOGEMENT: A REPUTABLE NAME

Crédit Logement is a “société de financement” (financial institution) that is overseen by the French prudential supervisory and resolution authority (Autorité de Contrôle Prudentiel et de Résolution - ACPR).

As a specialist in guarantees for property loans catering for banks and their customers for over 40 years, Crédit Logement arranges joint and several guarantees for residential property loans granted to retail customers.

The Crédit Logement financial guarantee is an alternative to a mortgage deed in that it is based on the principle of pooling risk, with each borrower contributing to a mutual guarantee fund (the Fonds Mutuel de Garantie - FMG).

In the French residential property market, the majority of loans carry financial guarantees (bank guarantees and insurance company guarantees), which make up almost 55% of all guarantees compared to 42% for physical collateral.

Crédit Logement leads this market, guaranteeing one out of every three loans.

CRÉDIT LOGEMENT'S SERVICES

The guarantee

As soon as a bank signs a partnership agreement, it benefits from the expertise of Crédit Logement’s risk analysis specialists.

Confirmation of a guarantee is given within 48 hours, and may even be given on a real time basis thanks to Crédit Logement’s online services and its specialist risk analysis system.

Debt collection

In addition to arranging guarantees to fully cover the risk of loss, Crédit Logement also manages the collection of unpaid loan instalments at no added cost. It therefore offers a complete service to its partners.

Crédit Logement seeks to reconcile two objectives:

- keeping commitments secure;

- and, in the interests of all parties (lender, borrower and guarantor), avoiding events of default that can lead to the court-ordered sale of properties, something that can often have disastrous financial implications.

Drawing on its experience in debt collection, Crédit Logement also markets an all-inclusive solution to collect past-due payments on property loans that were not covered by a Crédit Logement guarantee when they were taken out.

Training

With its panoramic vision of the property market and recognised expertise in risk analysis and risk management, Crédit Logement is on hand, day after day, to help all players in the French banking industry put together and examine applications.

The legitimacy that this gives it has led it to develop its own training programme: *La Formation par Crédit Logement*, with a first module focusing on the European Mortgage Credit Directive (MCD).

THE ADVANTAGES OF THE CRÉDIT LOGEMENT GUARANTEE

The Crédit Logement guarantee offers far more than a standard guarantee when a loan is taken out.

It is an active guarantee that will continue to benefit the borrower throughout the duration of the loan. The Crédit Logement guarantee provides access to a range of competitively-priced services that are not usually available with a standard guarantee.

Speed

The formalities are simple, in that the guarantee is recorded in a private agreement, which means that the loan can be disbursed quickly.

Flexibility

The guarantee is not linked to the property for which the borrower has applied for a loan. This means that the guaranteed loan can be transferred to a new purchase, subject to the prior agreement of the bank that granted the original loan and confirmation by Crédit Logement that it will keep its guarantee in place.

No early release fee is charged should the borrower decide to sell the property before the end of the loan.

The guarantee is therefore tailored to new lifestyles. It facilitates geographic and professional mobility, changes in personal circumstances and the management of personal finances.

Assistance

Should a borrower run into financial difficulty, Crédit Logement will encourage a dialogue with a view to helping the borrower resume payment of the loan instalments. All available out-of-

court solutions will be considered: payment deferral, new repayment schedule, extended loan duration, etc.

Should the resumption of normal loan management prove impossible, Crédit Logement will provide support to the borrower during the sale of the property, offering expert advice to enable him/her to sell the property him/herself at market value. Crédit Logement will only take legal action against a borrower to recover payment if no amicable solution can be reached.

By prioritising amicable negotiations with borrowers in arrears, Crédit Logement reduces the number of court cases and helps borrowers resume normal repayment of their loans in almost 50% of cases.

Securing the market

Crédit Logement's decision to provide a guarantee is based on a set of criteria designed to ensure that the borrower is solvent and able to meet the repayments. A second analysis conducted by Crédit Logement alongside that of the lender secures the financing project.

As it is not solely based on the value of the financed property, which is subject to the uncertainties of property market cycles, the Crédit Logement guarantee completely eliminates the risk for banks of losses on defaulted loans.

FINANCING RESIDENTIAL PROPERTY IN FRANCE *

2017 was an exceptional year for the French residential property market.

The property loan market registered impressive growth, fuelled by very low interest rates and longer long durations. Based on the volume of accepted offers - excluding loan refinancing arrangements - loan production increased by more than 42% in the first half of 2017 by comparison with the same period in the previous year.

However, while lending conditions remained very good, this vibrant demand showed the first signs of slowing in the spring as prices started to move up again, weighing slightly on the solvency of home-seekers. This trend was confirmed in the third quarter and demand went on to contract in the fourth quarter, resulting in an 11% decrease in loan production in the second half of the year.

Even so, property loan production climbed by more than 11% over the whole of 2017, bringing accepted offers (excluding loan refinancing arrangements) up from €157.359 billion in 2016 to €175.351 billion.

This makes 2017 one of the best years on record, exceeding the €170.23 billion (stripping out loan refinancing) recorded in 2007.

Loans paid are estimated at €164 billion, compared with €144 billion in 2016 (up 13.9%).

There were wide differences in loan production trends from one market to the next.

* Sources: Observatoire de la Production de Crédits Immobiliers (research group on property loan production) and Observatoire Crédit Logement / CSA (excluding loan refinancing)

The market for new home loans enjoyed robust growth in 2017, climbing 25.5% over the year. With production amounting to €51.028 billion in 2017, compared to €40.658 billion in 2016, the share of new homes in the market as a whole went from 25.9% in 2016 to 29.1%.

After growing rapidly in the first half of 2017, climbing 44.7% year-on-year, production in the existing homes market tumbled in the second half, falling 19.7% year-on-year. Consequently, production rose by just 7.1% in 2017 to €117.979 billion compared to €110.173 billion in 2016. The proportion of existing homes in total production decreased from 70.1% in 2016 to 67.3%.

Loans in the competitive sector continued to grow rapidly, rising 10.6% in 2017, although their share in the overall market dipped from 90.4% to 89.6%. The share of zero-rate loans in the market increased from 3.6% in 2016 to 4.2% and the share of home savings loans was statistically immaterial. However, the production of social loans, fuelled mainly by PAS (prêts d'accession sociale), picked up, climbing by 17.4% in 2017. This type of loan now accounts for 6.2% of the market, compared to 5.9% a year ago.

While not as pronounced as in 2015 and 2016, refinancing was buoyed by the average loan rates* (excluding insurance and collateral costs) observed throughout 2017 (1.45% in the first quarter – 1.54% in the second quarter, 1.55% in the third quarter and 1.53% in the fourth quarter).

Average bank loan durations continued to increase, averaging a little over 215 months in 2017. Loan durations have lengthened by 14 months since 2014, and by four months in 2017 alone.

With a combination of low interest rates and long durations, lending conditions made it easier for home-seekers to secure loans, despite an increase in property prices.

Residential loans guarantees

In the French property market, borrowers essentially rely on financial guarantees (bank guarantees and insurance company guarantees) when taking out a loan. The latest research available on the breakdown of the guarantee market in France for 2017 (source: OFL/CSA and Despina model), expressed in distributed loan amounts (excluding loan refinancing), indicates a market share of close to 55% for financial guarantees compared to a little over 42% for physical collateral.

Guarantees have been commonly used by borrowers since 2016, both low income borrowers and those in the higher wage brackets.



COMMITMENTS DURING THE YEAR

Crédit Logement recorded a year-on-year decrease of just over 14% in loan production, with 518,014 property transactions guaranteed for €105.4 billion.

It is important to note that, while down by more than 48% compared to 2016, loan refinancing still accounted for 22% of total guarantees.

Stripping out refinancing, production rose by more than 5% year-on-year.

The average transaction amount guaranteed by Crédit Logement increased by €14,000 to €203,396. Excluding refinancing, it averaged €219,977, increasing by almost €14,000 also.

Production relating to guarantees arranged during the year amounted to €84.4 billion, up 22% on the previous year.

Commission on the arrangement of guarantees rose by almost 20% to €221.3 million.

Payments into the mutual guarantee fund increased by 22% with €848.5 million collected.

With a still-high 12% rate of early repayments, the level of outstandings nonetheless increased by over 8% compared to 2016 to more than €325 billion.

DEBT COLLECTION

Collection of guaranteed debts

The exposure amount decreased slightly to €2.05 billion in 2017 across a total of 21,029 loans managed, representing a decline of approximately 3% in amount and number.

9,366 loans entered the Crédit Logement books during the course of the year and there were 10,112 exits, marking a 10.3% increase on the previous year.

Of these exits, 61.3% were restored to normal management, practically unchanged on the level observed in 2016.

Debts repaid in full accounted for 23% of the exits.

€173.4 million in payments was received and allocated to the mutual guarantee fund, representing a 10.6% increase on the previous year.

Financial claims on behalf of banks amounted to €315.1 million for the period, down 9.8%.

Collection for third parties

Drawing on its experience in the collection of debts, Crédit Logement provides banks with an all-inclusive debt collection solution for all or part of their property debts.

This solution comprises two customised services:

- the collection of debts on personal property loans not guaranteed by Crédit Logement;
- auction support and sell-on services, if required, following foreclosure by the banks.

As risk improved, the managed risk amount fell slightly to €236.7 million as at 31 December 2017, representing 2,999 debts.

€35.1 million was collected during the year and 875 new unpaid debts were entrusted to Crédit Logement.

Close to 500 auction support applications were received and examined as part of the "auction support and sell-on" service.

CASH AND BALANCE SHEET MANAGEMENT

In 2017, cash management stayed faithful to its principles, which involved cautious matching of liquidity and interest rates for bonds and reinvestment of cash from the mutual guarantee fund, after allowing for a very adverse scenario of an acute property market crisis combined with a liquidity crisis.

Cash comprises two main components:

- “conventional” cash stemming from equity loans and shares, reinvested directly with capital contributors according to the conditions set by the Board of Directors;
- available cash, which includes investments made possible by all other sources of cash, particularly the mutual guarantee fund and commissions collected in advance, as well as subordinated bond issues.

Cash is managed by a Cash Management Committee, which is also in charge of overall interest rate and liquidity risk management. The committee comprises five experts from five shareholder institutions, members of Crédit Logement’s Executive Management and the heads of the Risk Management function and the Finance Department. After review, the committee submits to the Board of Directors a table of counterparty limits for approval and defines the rate and liquidity policies to be implemented, which must also be approved by the Board. It approves budget targets and verifies that they are met.

An Investment Committee, formed of in-house members of the Cash Management Committee, directs operational management and monitors implementation by the Finance Department.

As at 31 December 2017, almost all counterparties had signed the financial guarantee agreement, which secures investments through the contribution of collateral, calculated on the basis of a counterparty’s credit rating and the investment duration. However, in view of the fall in returns and problems in securing collateral, some medium and long-term investments were made in 2017 that were outside the scope of the financial guarantee agreement. Collateralised deposits amounted to €5.1 billion as at 31 December 2017 and collateral received came to €1.5 billion.

In 2017, Crédit Logement continued to purchase very high-quality core Euro zone and quasi-sovereign bonds eligible for ECB refinancing, a policy that was approved in 2016 by Crédit Logement’s governing bodies.

The principles adopted for the management of available cash are essentially based on matching the maturities of applications of funds and sources of funds, to partially immunise the income

statement against changes in short-term rates, while taking into account the results of stress tests that, in particular, allow appropriate liquidity levels to be maintained in all circumstances.

Accordingly, as at 31 December 2017, investment of available cash (stripping out the reinvestment of bonds) in fixed-rate long-term deposits (with an initial maturity of more than five years) amounted to €1.1 billion. Medium-term investments (between one and five years) amounted to €1.5 million. The rest of the available cash, namely €2.1 billion, was invested for less than one year, or was held in deposits redeemable by the investor in less than one year.

These investments are mainly in the form of term deposits, reverse repos and securities of excellent quality eligible for ECB refinancing operations, hedged through macro-hedge swaps at the company rate.

MANAGEMENT OF ADDITIONAL CAPITAL

Tier One and Tier Two subordinated debt issuance

Crédit Logement carried out a number of capital transactions at the end of 2017. The main objectives of these transactions was: to optimise the recognition of the regulatory share capital by reducing the Tier 1 capital issued in 2006 covered by a grandfather clause and replacing instruments presenting less-than-optimal regulatory recognition with a T2 instrument that is fully consistent with the Capital Requirements Directive (CRR); to keep Crédit Logement's regulatory capital strong; and to reduce the cost of regulatory capital.

These transactions resulted in the partial redemption of unexpired T1 and T2 instruments and the issuance of a new €500 million series of T2 instruments.

This made it possible for Crédit Logement to secure its T2 capital requirements by ensuring that it had a greater capital amount than would otherwise have been possible as from March 2018. It was also able to reduce the cost of capital for the next three financial years and keep its solvency ratio at an almost-constant level.

Ongoing transactions as at 31 December 2017 were as follows.

Tier One

- An issue of non-innovative deeply-subordinated perpetual bonds in March 2006, held in Tier 1 for €800 million, for which the first possible date for exercising the quarterly early redemption option was in March 2011. This series of bonds is subject to a grandfather clause.
- €473.75 million of these bonds was redeemed on 28 November 2017. The outstanding amount is therefore €326.25 million.

Tier Two

- A €500 million issue of redeemable subordinated bonds, maturing in 2021, with no early redemption option, at a fixed rate of 5.454%. €222 million of these bonds was redeemed on 28 November 2017, leaving an outstanding amount of €278 million.
- A €500 million issue of redeemable subordinated bonds, maturing in 2029, rated A1/A (Moody's/DBRS), carrying an adjustable fixed-rate coupon of 1.35%, with a first redemption date in 2024.
- Equity loans taken out by partner banks of Crédit Logement, proportional to their outstanding loans under Crédit Logement guarantee, for a total of €1.5 billion. The decrease registered between 31 December 2016 (when they stood at €1.7 billion) and 31 December 2017 corresponds to the exercise of a call on 30 December 2017 in an amount of €194 million on facilities arranged on 30 December 2009. These instruments were no longer recognised as Tier 2 capital in accordance with the regulations applicable to Crédit Logement after their call date.

With the exception of restructured equity loans, for €442 million, each of these instruments was issued prior to the implementation of Basel III and is covered by a grandfather clause, with the share of Tier 1 capital covered by the grandfather clause being included, without restrictions, in the Tier 2 capital.

RISK MANAGEMENT

Risk monitoring by the Risk Management Function

The Risk Management function's mission is to ensure cross-disciplinary monitoring of the risks to which Crédit Logement is exposed. It is responsible for preparing and updating a cross-disciplinary risk map and overseeing compliance with risk management strategies. Reporting to the Head of Risk, who himself reports to Executive Management, the Risk Management function holds the necessary hierarchical level and degree of independence, as required by law, relative to the sales, finance and accounting functions.

The strategies to manage the different risks are determined by Executive Management and approved by the Board of Directors. They are reviewed by the Board of Directors at least once every year.

The Risk Management function carries out half-yearly reviews of the suitability of the risk management system, based on the strategies that have been defined. It presents the findings of these reviews at meetings of the Risk Monitoring Committee, which oversees the entire risk monitoring process. These meetings are chaired by Executive Management and attended by all members of the management team. Following the meetings of the Risk Monitoring Committee, a summary of the reports presented to it is submitted to the Risk Committee.

The Risk Management function updates the cross-disciplinary risk map that is submitted for approval to the Risk Monitoring Committee and prepares a report on the measurement and monitoring of risks covering all of the identified risks. This report is signed off by Executive Management and then reviewed by the Risk Committee. It is presented to the Board of Directors.

The strategy employed to manage the various risks is implemented on an operations level by three special committees: aspects relating to credit risk in the guarantee activity are handled by the Risk Policy Committee, financial risk considerations are handled by the committee in charge of managing cash, liquidity and interest rate risks, and operational risk aspects are dealt with by the Operational Risk Committee.

Credit risk in the retail banking business: guarantee portfolio

Management of credit risk relating to the portfolio of guarantees hinges on the pooling of risk and is aimed at maintaining a high level of coverage through the mutual guarantee fund. The internal rating system is the basis for follow-up of this strategy.

Pursuant to a decision by the French prudential supervisory and resolution authority (Autorité de Contrôle Prudentiel et de Résolution - ACPR) dated 24 April 2007, Crédit Logement was granted the right to use its own internal rating system to calculate its regulatory capital (Pillar 1).

This system has applied to guaranteed transactions since 1 May 1994. It consists in segmentation into 21 homogeneous risk classes, segmented across probability of default (PD), loss given default (LGD) and exposure at default (EAD).

For the PD axis of segmentation at one year, Crédit Logement does not have sufficient updated information on changes in borrower behaviour between the moment the guarantee is granted and

the moment that default by the counterparty is ascertained. A scoring technique is therefore used, which has been shown to predict the level of probability of default at one year over the entire lifetime of the guaranteed transaction in order to construct an EAD segmentation tree for the different homogeneous risk categories.

For the loss given default (LGD) segmentation, Crédit Logement has prepared a model based on the statistical analysis of correlations between the observed rate of loss and a number of variables selected from economic and/or business criteria.

For the exposure at default (EAD) segmentation, a 100% Credit Conversion Factor (CCF) is applied to the guarantees arranged.

A rate of conversion to off-balance sheet commitments, modelling the arrangement rates over one year, is applied to the commitments to arrange guarantees, for which Crédit Logement is only potentially at risk.

Furthermore, as Crédit Logement's guarantee is an alternative to other lender guarantees, Crédit Logement does not factor in any risk mitigation technique.

This rating system has been operational since June 2005. All new transactions are automatically scored and analysed using guarantee analysis tools and then assigned to a risk category of the internal rating model. The delegation of authority system that Crédit Logement has implemented takes the assigned internal rating into consideration when defining the categories of decision-makers who have the authority to grant a guarantee.

All the work and reports prepared by the Risk Management Department is reported each month to the Risk Policy Committee, which is overseen by Executive Management.

The Risk Management Department implements a permanent monitoring plan, which facilitates half-yearly checks on the performance of the internal rating model. In accordance with the regulations in force, the Audit and Internal Control Department also oversees the performance of an annual review. Since 2013, a statutory report is drawn up by the unit in charge of validating the models developed by the Risk Management Department.

This report covers aspects relating to the monitoring of and changes in models. The calculation of the regulatory capital requirement (Pillar 1) and the results of permanent and periodic controls are presented to the Risk and Audit Committee and to the Board of Directors.

As at 31 December 2017, this internal rating system was applicable to an EAD of €350 billion, breaking down into €334 billion in guarantees arranged and €16 billion in guarantees not yet arranged.

As at that same date, the rate of default at one year on the guarantee portfolio was 0.22%, marking another 3bp decrease on the previous year. The estimated probability of default at one year was 0.29%.

The ability of the Debt Collection Department to return delinquent loans to normal management, or to quickly take the required protective measures for transactions in default, leads to an estimate of the portfolio's average LGD, on output from the model, of 14.39% of the EAD on transfer to default status.

In accordance with the applicable regulations, an additional prudent margin is applied to this estimate with a counter cyclical aim, providing a "downturn" LGD. The average LGD used for calculating the Pillar 1 capital is therefore around 17.27%.

Given these parameters, the risk-weighted assets (RWA) of the portfolio stood at €28.6 billion, corresponding to a weighting of 8.17%, down by 15bp over the year.

As at 31 December 2017, the minimum regulatory capital under Pillar 1 for guarantee portfolio credit risk stood at €2.6 billion, bearing in mind that almost 18% of this requirement, namely €409 million, corresponded to the regulatory increase to be applied to the LGD to obtain a "downturn" LGD and that close to 14% of the requirement, or €358 million, corresponded to the application of a capital conservation buffer.

The mutual guarantee fund, set up to address guarantee portfolio credit risk, represents more than twice the amount of the regulatory capital requirement (Pillar 1) for this portfolio.

Excluding the equivalent value in euros of the EAD of loans guaranteed in Switzerland in the amount of €49.8 million, the credit risk for the guarantee portfolio derives exclusively from the French residential property financing market. This concentration is taken into account in the credit risk management strategy and is not currently perceived by the company as a strong risk. Crédit Logement's risk selection criteria are based primarily on the ability of borrowers to repay their loans, and only secondarily on the value of the assets being financed or on the whole of the borrower's wealth. Additionally, Crédit Logement's production is essentially with commercial and mutual banks in a non-speculative residential property market, and most loans are fixed-rate

loans. Furthermore, the fall in interest rates since 2014 has triggered an unprecedented volume of loan renegotiation and refinancing transactions, helping to improve the solvency of borrowers.

Lastly, the diversity of geographic spread and of customer type resulting from the diversification of our partnerships with almost all French retail banks ensures good risk spreading and contributes to the diversification of credit risk on the guarantee portfolio.

Furthermore, during the internal capital calculation process, Crédit Logement queried the appropriateness of the 15% correlation coefficient used in the formula to calculate regulatory capital for the “retail mortgage” curve. The coefficient could be deemed to be five times higher than would be required based on an observation of the loss history of the portfolio, with a confidence interval of 99.975%.

Operational risks

Due to its size, the fact that it has a single production site, its single-product business, the very small number of transactions deriving from its cash management activity and its governance choices, Crédit Logement has opted for the “standard” method to cover operational risks.

Among those identified from the outset, the greatest risks remain those related to IT, hosting and the security of information systems, as well as the unavailability of premises or personnel.

Two specific committees regularly monitor these risks, and Executive Management receives reports on the monitoring of security indicators.

Crédit Logement has implemented a system for collecting and measuring operational risk events, mainly on a reporting basis, with quarterly monitoring. 31 risk events were reported in 2017 (compared with 33 in 2016), which were mainly related to the information system. These were classified as minor incidents, below the criticality threshold applied by the company.

Beyond a strictly financial and regulatory approach, Crédit Logement is taking advantage of this procedure to improve its processes and increase their reliability. In 2017, work continued to adapt security measures to changing threats, namely by improving the security of local network access and transfers of confidential data.

The host of the recovery site used in the Contingency and Business Continuity Plan (Plan d'Urgence et de Poursuite d'Activité - PUPA) uses mirroring to address the unavailability of premises or of the entire local network.

In the event of a major incident, the objective is to ensure, within 24 hours of unavailability, the continued processing of guarantee applications and, in the following days, the continued processing of debt collection and account keeping.

These arrangements are tested twice a year to verify that they are operational. Technical tests on the back-up platform are supplemented by tests carried out directly by users to ensure the correct functioning of "business line" applications, alongside remote staff log-in tests, validating a two-fold increase in available staffing capacities in the event of a large-scale event.

The continuity of services provided by contractors (particularly facilities management for the main site, extranet application hosting, etc.) is covered by a contractual warranty in the form of Disaster Recovery Plans.

These Disaster Recovery Plans rely on back-up sites that are geographically separate from the contractors' main sites and undergo annual technical tests verified by Crédit Logement.

The capital requirement for operational risk stood at €43 million as at 31 December 2017.

Liquidity risk management and the liquidity ratio

Crédit Logement's liquidity risk is very specific, since the residential loan guarantee business generates liquidity. A liquidity risk could therefore arise only from a mismatch between its cash investment policy and the requirements resulting from its business as a guarantor.

For the management of this liquidity risk, a stress test was developed regarding the loss experience of the guarantee portfolio. This is applied as long as it remains sufficiently conservative relative to the latest known risk parameters. At the end of 2017, this extreme stress scenario included a deterioration of the risk parameters that would lead to a more than fivefold increase in expected losses on sound debt at the peak of the stress, and delays in recovering certain liquid assets.

Crédit Logement makes liquid investments but must ensure that its gap under extreme stress is still positive. However, since 2015, plots above three years may be negative up to a maximum of €100 million.

Crédit Logement's internal model for managing liquidity risk, which is based mainly on this extreme crisis scenario and on several liquidity indicators in various timeframes (day, month,

quarter), was validated in May 2011 by the ACPR and, as required, showed a still-positive gap over the first three years as at 31 December 2017.

The emergency response plan in place to handle a liquidity crisis was tested in 2017 and the outcome of the test was satisfactory.

Overall interest rate risk management

Crédit Logement's objective is first to manage its liquidity risk and then to minimise its overall interest rate risk, made up in particular of a long-term resource, the mutual guarantee fund, and investments made under liquidity stress scenarios.

Its net interest margin, consisting exclusively of the margin on the management and investment of its regulatory capital, which includes the mutual guarantee fund in particular, is therefore sensitive above all to interest rate variations, earning a higher margin when rates are high, although low rates are more favourable to the business of guaranteeing property loans.

Crédit Logement measures and manages its interest rate risk with an overall rate gap, so that it can gauge the impact of an interest-rate stress scenario, both on its net interest margin and on the Net Present Value (NPV) of its balance sheet, assuming the straight-line amortisation of book equity over a period of 10 years. In particular, the regulatory stress test of a 200bp change across the entire yield curve is applied, on the basis – since the beginning of 2015 – of a floor rate equivalent to the ECB overnight deposit rate, and a limit has been set for the sensitivity of NPV to this stress. Other Basel-recommended scenarios relating to interest rate risk sensitivity have been simulated. The regulatory stress test involving a 200bp decline in the yield curve stands out as the most adverse scenario.

As at 31 December 2017, the sensitivity of NPV over 10 years in the event of a 200bp drop in interest rates corresponded to 7.75% of the share capital after taking into account the macro-hedging swap portfolio.

Market risk, counterparty risk and other risks

At the end of 2017, Crédit Logement did not hold any instruments classified as isolated open positions or in a trading book. Crédit Logement is therefore not subject to market risk.

Crédit Logement does not manage any means of payment for third parties and therefore has no counterparty risk in this respect.

There is only a counterparty risk in relation to financial futures (interest rate swaps all categorised under micro or macro hedging) for which Crédit Logement applies the regulatory initial maturity approach.

Under the tax benefit scheme for investment in French overseas municipalities, in 2009 Crédit Logement invested €8.9 million in shares in an SCI (real estate partnership) in New Caledonia to build and lease a social housing programme. This investment is covered by cash collateral of an equivalent amount, provided by the other partner in the SCI, guaranteeing said partner's promise to ultimately redeem the shares in the SCI. The value of the shares on the balance sheet as at 31 December 2017 has been adjusted to the amount of the cash collateral guaranteeing this redemption, namely €6.9 million.

Other than this investment and the two subsidiaries described hereafter, Crédit Logement does not have any other shareholdings. Therefore, Crédit Logement is not exposed to "equity" risk.

INTERNAL CAPITAL VALUATION PROCESS

Based on the methodologies proposed by the European Banking Authority and the principles of proportionality laid down by the French regulator, Crédit Logement has mapped its position for each of the risks to which it is exposed.

It completed this risk map in 2015 by factoring in the risks referred to in the French order of 3 November 2014 on internal control.

In 2017, the methodologies used to calibrate the internal capital needed to cover credit risk on the guarantee portfolio and other risks were reviewed.

Approach used to measure internal capital

The approach adopted by Crédit Logement combines a structured method including the development of internal management models for credit risk and a simple method for other risks.

The overall level of internal capital calculated to cover all risks is obtained by adding up the results obtained from each of the identified risks.

Crédit Logement therefore uses no correlation effect or offsetting between the various risks.

Guarantee portfolio credit risk

In the internal approach, coverage of the expected loss on the guarantee portfolio is calculated over the lifetime of the guarantee portfolio, not over one year.

Unexpected losses are calculated using a stressed correlation coefficient that, for prudential reasons, corresponds to the coefficient observed for the guarantee portfolio following the application of a stress scenario when testing the Recovery Plan, which presented an impact on the risk parameters comparable to that observed with the Spanish crisis of 2008.

Investment portfolio credit risk

As part of its internal capital adequacy assessment, Crédit Logement measures investment portfolio credit risk by factoring in the associated concentration risk. To reduce this risk, a project to collateralise investments with its main counterparties was implemented in 2013 and is still underway.

Market risk

Crédit Logement has no market risk (no trading portfolio, no active management of financial instruments or products).

Operational risk

The internal approach aims to check that regulatory capital covers the residual risk of the major risk events that have been identified. If this is not the case, the unexpected risk is measured by the impact that a major risk event could generate.

Liquidity risk

Liquidity gaps in the portfolio of liquid assets are examined under an extreme stress scenario to check that Crédit Logement could honour all of its commitments, even in such a scenario.

Interest rate risk

This risk is measured based on the sensitivity of the Net Present Value (NPV) of the balance sheet and net banking income (at 12 months and 24 months) to a variation in interest rates, according

to different scenarios of deviation in the yield curve. If sensitivity remains low, this risk does not require any additional capital.

Structural foreign exchange risk

A revaluation of the Swiss franc against the euro would only have an impact on the amount of loan guarantees denominated in this currency and translate into an increase in the EAD of the guarantee portfolio and in the Pillar 1 regulatory capital requirements relating to this portfolio (boundary risk).

Any change in regulatory capital requirements would therefore be covered in respect of credit risk on the guarantee portfolio.

Other risks

An analysis of the risks referred to in the order of 3 November 2014 did not give rise to any additional capital charge with respect to internal control.

Evaluation of internal capital

As at 31 December 2017, the amount of internal capital needed to cover all risks to which the company is exposed (expected and unexpected losses) was €2.2 billion.

INFORMATION ON THE BUSINESS OF SUBSIDIARIES AND CONTROLLED COMPANIES

SNC FONCIÈRE SÉBASTOPOL

This partnership, which operates as a property dealer, auctions assets following court proceedings to recover secured debt; Crédit Logement owns 99.9% of its share capital.

In 2017, SNC Foncière Sébastopol carried out five new auctions and sold on twelve assets.

At the end of 2017, the twenty-three properties in stock represented a total net amount of €1,949,319, including an impairment provision of €209,000, compared with €3,206,807 as at 31 December 2016.

The agreement for the provision of administrative and accounting services signed by Crédit Logement and SNC Foncière Sébastopol on 14 May 2012 continues to apply, and has not been amended.

The income statement shows a loss of €299,110, essentially corresponding, on the one hand, to interest on the partner's current account and current management expenses, and on the other, to the reversal of a provision for stock impairment.

CRÉDIT LOGEMENT ASSURANCE

Crédit Logement Assurance, which is 81.74%-owned by Crédit Logement, is an insurance company that is primarily positioned in the initial guarantee of property loans to individuals.

A service agreement was signed by Crédit Logement and Crédit Logement Assurance on 4 December 2014, under which Crédit Logement agreed to provide the support needed to re-launch the business in specific niche areas.

In 2017, partnerships agreements entered into in previous years produced revenues of €1,504,980, up on the €1,196,291 registered in 2016. No claims were received during the year.

However, the development over the past two years of a guarantee business that marks a diversification from Crédit Logement's business (not being eligible for the mutual guarantee fund and/or necessitating the services of a business provider) has come up against the new Pillar 2 capital requirements, making this company's chances of turning a profit very hypothetical.

At its meeting of 15 December 2017, the Board of Directors therefore voted in favour of a proposal to wind down Crédit Logement Assurance (CLA). The objective is to halt production as early as possible in 2018, to transfer CLA's guarantee commitments over to Crédit Logement and to request that CLA's approval by the ACPR be withdrawn.

Consequently, the company's IT tools will no longer be used. A €903,244 impairment charge was booked on intangible assets in 2017, bringing their net book value down to zero as at 31 December 2017.

The income statement shows a loss of €589,269 compared with a loss of €1,334,858 a year earlier.

The securities held by Crédit Logement were impaired based on the net asset value of Crédit Logement Assurance.

BALANCE SHEET

The balance sheet total as at 31 December 2017 was €10.8 billion, compared with €10.6 billion a year earlier, representing an increase of 1.6%.

OFF-BALANCE SHEET COMMITMENTS: OUTSTANDINGS

Crédit Logement's off-balance sheet outstandings, representing capital remaining due for guarantees covering the repayment of loans distributed by other institutions, is still growing and had reached €325.7 billion as at 31 December 2017, compared with €301.1 billion as at 31 December 2016.

Guarantee agreements not yet arranged totalled €36.7 billion at the end of 2017, compared with €53.9 billion at the end of 2016. This decrease was due to a fall in production volumes in the second half of 2017, notably tied to a decline in loan refinancing arrangements during the period.

The net annual increase in outstandings was therefore €24.6 billion, representing an 8.2% increase, taking into account annual amortisation and early repayments totalling €58.4 billion. This last figure was particularly high due to the large volume of refinancing transactions in the first half of the year, fuelled by extremely low interest rates.

The solvency ratio at the end of the year

Crédit Logement's Pillar 1 solvency ratio, calculated in accordance with the order of 23 December 2013, stood at 22.8% as at 31 December 2017, compared with 23.5% as at 31 December 2016. Pillar 2 capital, for which the methods of calculation were revised by the regulator in May 2017, must equate to at least 2% of the outstanding guarantees. It stood at €6.5 billion as at 31 December 2017.

Change in regulatory capital

Prudential capital was practically unchanged at €7.56 billion as at 31 December 2017 compared with €7.61 billion as at 31 December 2016. This was attributable to diverging trends and essentially stemmed from robust business volumes, which continued to fuel growth in the mutual guarantee fund, and from the decrease in AT1 and T2 capital following the redemption of a portion of the subordinated securities and the reimbursement of a share of the equity loans, a decrease that was not fully offset by the new perpetual subordinated debt issued in November 2017.

	31/12/2017	31/12/2016	Change
Equity capital on the liability side of the balance sheet	1 871 256	1 856 951	14 305
Fund for general banking risks	609	609	
Mutual guarantee fund	5 317 747	4 922 791	394 956
Income (losses) to be allocated	- 120 607	- 107 795	-12 812
Deductions	- 1 725 108	- 1 653 681	-71 427
COMMON EQUITY CAPITAL TIER 1	5 343 897	5 018 875	325 022
Subordinated Tier 1 securities	326 250	800,000	- 473 750
Deductions		- 164,445	164 445
TIER 1 EQUITY CAPITAL	5 670 147	5 654 430	15 717
Subordinated loans	1 518 340	1 712 624	- 194 284
Subordinated securities – Tier 2	673 921	412 698	261 223
Add-back of Tier 1 capital incorporated into Tier 2 capital		164 445	- 164 445
Mutual guarantee fund held in Tier 2	1 479	1 700	-221
Deductions	- 303 604	- 336 206	32 602
ADDITIONAL EQUITY CAPITAL	1 890 136	1 955 261	- 65 125
TOTAL REGULATORY CAPITAL (numerator)	7 560 283	7.609.691	-49 408
Weighted risks - advanced IRB model	28 538 734	27 627 428	
Weighted risks - standard method	3 656 856	3 765 097	
Other assets not corresponding to loan obligations	438 004	428 591	
Operational risk	536 790	537,662	
TOTAL BASEL II WEIGHTED RISKS (denominator)	33 170 384	32 358 778	811 606
Common Equity Tier 1 solvency ratio	16.11%	15.51%	
Tier 1 solvency ratio	17.09%	17.47%	
SOLVENCY RATIO	22.79%	23.52%	
Pillar 2 capital requirements	6 514 404	7,284,703	

Common Equity Tier 1

The total amount of Common Equity Tier 1 capital was €5.3 billion as at 31 December 2017, compared with €5.0 billion in 2016, representing an increase of €325 million:

- the mutual guarantee fund held in Common Equity Tier 1 increased by €395 million to €5.3 billion at the end of 2017, compared with €4.9 billion in 2016;
- deductions rose by €71 million, mainly due to an increase in non-performing loans.

Tier 1 capital

This is the Common Equity Tier 1 plus additional tier 1 (AT1) capital.

This decreased by €309 million during the year, net of the grandfather clauses, due to the partial redemption in November 2017 of €474 million in subordinated debt securities.

Tier 2 capital

This also decreased by €65 million, mainly due to the partial redemption in November 2017 of T2 subordinated debt securities in the amount of €222 million, the reimbursement of a portion of the equity loans in the amount of €194 million and the fact that the grandfather clause applicable to Tier 1 capital was not carried over into 2017 due to the partial redemption of T1 subordinated securities (decrease of €164 million). These decreases were not offset in full by the new €500 million perpetual subordinated debt issue in November 2017.

INCOME STATEMENT

Crédit Logement is not required to enclose a non-financial statement as it employs fewer than 500 employees.

Net banking income came to €238.6 million, compared with €217.7 million a year earlier, representing an increase of 9.6%.

Of this, net financial income fell by 6.2% on the previous year.

This was mainly due to the following factors:

- average proceeds from the investment of available cash rose by 9.9%, fuelled by strong business volumes during the year, although income dropped by 10.7% on the previous year as a result of the continued fall in interest rates;

- there was an increase in income deriving from the reinvestment of capital contributed by the partners as part of the ongoing swap hedging programme to counter the effect of variations in the benchmark index (1-year Euribor) on reinvestments;
- the redemption of old Tier 1 and Tier 2 securities having generated a combined capital loss of €1.1 million and the issuance of new securities in the amount of €500 million for the purposes of managing regulatory capital.

Robust business volumes in the first half of the year sent commission income up by 17.1%, amid a sharp increase in transactions arranged and a still-high proportion of early repayments.

Other income fell by 26.9%, mainly on lower debt collection volumes for third parties and lower billing amounts in respect of services provided to Crédit Logement Assurance with the decision to stop developing this business.

Overheads totalled €54.7 million, compared with €51.5 million in 2016, representing an increase of 6.1%.

This increase breaks down as follows:

- personnel expenses rose by 3.9%, essentially due to the variable component of remuneration packages, which made it possible to have the employees share in the excellent earnings recorded for the year;
- other administrative costs increased by 14.4%, mainly due to three factors. The first was related to the amount of taxes and duties payable in respect of business volumes during the year, the second to charges for capital management operations and the issuance of Tier 2 securities and the third to the release of a provision for liabilities set aside in the previous year;
- depreciation and amortisation charges and impairment provisions decreased by 6.6%.

In terms of productivity, the cost-to-income ratio, i.e., the ratio between overheads and net banking income, stood at 22.9%, compared with 23.7% the previous year.

As a result of these developments, gross operating income, before non-recurring income and expenses, corporate income tax and regulatory provisions, came to €183.9 million, up 10.7% on the previous financial year.

The corporate tax expense was €63.1 million, compared with €56.5 million in 2016.

Overall, after the social surcharge on corporate income tax and the reversal of regulated provisions, net profit for the financial year came to €120.6 million, pointing to a return on equity of 7.1% in 2017.

OUTLOOK AND SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

Although market rates increased by 20bp in January and February in relation to the 10-year swap rate, rates on loans issued remained stable and the share of refinancing transactions as a percentage of production volumes stayed close to 15%.

An additional increase in swap rates, as the market appears to be expecting, could also result in an increase in the rates on loans issued, which would, in turn, limit the volume of refinancing transactions and fuel the slowdown in the production of new loans, in a tax environment that would incite more of a wait-and-see attitude on the part of property investors.

For Crédit Logement, a slight increase in market rates would have a positive impact on returns from cash holdings, even though, to begin with, this would simply mitigate the foreseeable fall in net interest margin, since the rates applied to matured medium- and long-term investments are always far superior to those available on new investments.

Crédit Logement received confirmation at the end of February of the recognition by the tax authorities of its claim for a refund of tax on dividends in the amount of €3.1 million.

PROPOSED APPROPRIATION OF EARNINGS

The net distributable profit of €420 496 560,96 breaks down as follows:

• net profit for the financial year	€120 607 281,92
• plus retained earnings from the previous year	€299 889 279,04

The following appropriation is proposed:

• legal reserve	€6 030 364,10
• dividends allocated to shares	€114 646 374,57
• retained earnings	€299 819 822,29

The proposal payout therefore amounts to €114.6 million, giving a dividend of €6.37 per share.

As provided by law, the appropriation of earnings and dividend amounts paid out for the past three financial years are mentioned in the wording of the third resolution submitted to the shareholders for approval.

The resolutions submitted approve the accounts presented to the shareholders and the proposed appropriation of earnings for the financial year in question

Other specific resolutions proposed

The shareholders will be asked to renew the term of office of Société Générale as a member of the Board of Directors for a period of six years.

The shareholders will also be asked to renew the term of office of Ms Dominique Fiabane for a period of six years.

Subsequent to Mr Albert Boclé's decision to step down as a member of board, the Board of Directors decided at its meeting of 29 March 2018 to co-opt Ms Martine Lassègues to replace him. Ms Lassègues is Deputy Director of the customer, distribution and marketing department at Société Générale's French retail banking arm.

Please be advised that the appointment of one of Crédit Logement's statutory auditors, Deloitte & Associés, was renewed at the 25 April 2017 shareholders' meeting.

Since this statutory auditor is not a natural person or a closely-held company, Crédit Logement is not required to appoint a deputy statutory auditor (pursuant to Art. L. 823-1 of the French commercial code).

Nevertheless, for publication purposes, a request was made for the end of the statutory auditor's term to be recorded by means of a specific resolution.

BOARD OF DIRECTORS' REPORT ON CORPORATE GOVERNANCE

In accordance with Articles L. 225-37 et seq. of the French commercial code,

INTRODUCED by the order of 19 July 2017, this new report prepared by the Board of Directors will be presented with the Management Report at the general meeting of the shareholders on 26 April 2018.

The Statutory Auditor's report will certify that it contains the required information.

The information contained in this report is listed in Article L.225-37-4, subparagraphs 1 to 4, of the French commercial code. Please be advised that, as at 31 December 2017, Crédit Logement no longer held any securities admitted for trading on a regulated market.

Operating procedures for Executive Management (Art. L.225-51-1 of the French commercial code).

Since this is the first such report, we hereby provide a reminder of the chosen operating procedures.

The Board of Directors of Crédit Logement decided at its meeting of 18 September 2002 to separate the roles of Chairman of the Board of Directors and Chief Executive Officer. This has not changed since.

As at 31 December 2017, the governance of the company is as follows:

- Mr Olivier Belorgey is Chairman of the Board of Directors, having replaced Mr Albert Boclé as of the Board meeting of 30 March 2017, with non-executive status;
- Mr Jean-Marc Vilon, Chief Executive Officer;
- Mr Patrick Lepescheux and Mr Éric Veyrent, Deputy Chief Executive Officers, who, together with Mr Vilon, hold executive manager status.

The Boards of Directors that appointed these persons placed no restrictions on their powers.

List of the corporate offices and roles of each company officer in 2017.

The Board of Directors of Crédit Logement is composed of 13 directors. A list of their corporate offices and roles may be obtained from the company on request.

Agreements entered into, directly or through an intermediary, between a company officer or a shareholder holding more than 10% of the voting rights in a company and another company in which the former company holds, directly or indirectly, an interest of more than 50%.

One agreement falls into this category: an administrative services agreement entered into between Crédit Logement and Crédit Logement Assurance (81.7%-owned by Crédit Logement) in December 2014.

Summary table of the powers conferred by the shareholders in respect of capital increases: not relevant. The last such powers ran until 3 September 2017. They had been conferred upon the Board by the shareholders at the extraordinary general meeting of 3 March 2016 to complete the issue of AT1 bonds convertible into ordinary shares with the removal of preferential subscription rights.

Ultimately, the Board did not exercise these powers.

BALANCE SHEET
AT DECEMBER 31, 2017
in thousand euros

	2017	2016	Notes		2017	2016	Notes
CASH, CENTRAL BANKS, CCP	6	3		Amounts due to Credit institution	15 295	32 471	A7
				Term	15 295	32 471	
DEPOSITS ON CREDIT INSTITUTIONS	6 997 971	7 910 770	A1	Amounts due to customer	25 041	23 068	A7
On sight	429 409	472 641					
Term	6 568 562	7 438 129		OTHER LIABILITIES	125 365	17 714	A8
				ACCRUALS	773 026	706 893	A8
CUSTOMER TRANSACTIONS	1 335 591	1 244 734	A3	DEPRECIATIONS FOR RISK AND EXPENSES	235	214	A8
Other customer loans	685	635		SUBORDINATED DEBT	7 958 917	7 962 885	
Doubtful loans	1 334 906	1 244 099		Mutual guarantee deposits	5 320 705	4 924 491	A9-1
				Subordinated borrowings	1 518 340	1 712 624	A9-2
BONDS AND OTHER FIXED-INCOME SECURITIES	1 745 225	987 321	A4-1	Accrual on borrowings	1 623	1 631	A9-2
				Subordinated securities	1 104 250	1 300 000	A9-2
SHARES AND OTHER VARIABLE-INCOME SECURITIES	192 106	6 787	A4-1	Accruals on subordinated securities	13 999	24 139	A9-2
				FUNDS FOR GENERAL BANKING RISKS	610	610	A9-3
INTERESTS IN AFFILIATED COMPANIES	6 651	9 050	A4-2	SHAREHOLDERS' EQUITY	1 871 256	1 856 951	
				Capital	1 259 850	1 259 850	A9-4
INTANGIBLE FIXED ASSETS	4 872	3 994	A5	Reserves	137 857	132 467	A9-4
				Regulatory provisions	53 053	56 947	A9-3
TANGIBLE FIXED ASSETS	12 855	13 173	A5	Retained earnings	299 889	299 892	
				Earnings for the year	120 607	107 795	
OTHER ASSETS	1 769	7 107	A6	TOTAL LIABILITIES	10 769 745	10 600 806	
ACCRUALS	472 699	417 867	A6	Guarantee outstandings	2 373 271	2 637 151	A11
				Guarantee commitments not yet implemented			
TOTAL ASSETS	10 769 745	10 600 806		COMMITMENTS RECEIVED	2 373 271	2 637 151	
Guarantee outstandings	325 720 231	301 095 817	A12-1				
Guarantee commitments not yet implemented	36 688 072	53 920 921	A12-1				
COMMITMENTS GIVEN	362 408 303	355 016 738					

PROFIT AND LOSS ACCOUNT
AT DECEMBER 31, 2017
in thousand euros

	2017	2016	Notes
Interest income	162 319	119 878	B1
Interest expenses	-102 045	-55 612	
Income from variable-income securities	43	62	B2
Commission (income))	180 462	151 639	B3
Commission (expenses)	- 4 378	- 1 320	
Income on marketable securities	56	123	B4
Gain or loss on exchange	6	-1	B5
Other banking operating income	2 645	3 292	B6
Other banking operating expenses	- 510	-370	
NET BANKING INCOME	238 598	217 691	
General operating expense	-51 001	-47 596	B7
Allowances for depreciation and amortisation on tangible and intangible fixed assets including equity securities	-3 667	-3 927	B8
OVERHEADS	-54 668	-51 523	
GROSS OPERATING INCOME	183 930	166 168	
Cost of credit risk		-548	B9
OPERATING INCOME	183 930	165 620	
Gains on long terms investments and changes in provisions	-1 012	-1 373	B10
INCOME BEFORE TAX	182 918	164 247	
Non-recurring income/loss			
Corporate income tax	-66 205	-56 452	B11
Allowances/write back for provisions	3 894		B12
NET INCOME FOR THE YEAR	120 607	107 795	

**STATUTORY AUDITORS REPORT
ON THE ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2017

To the shareholders,

Opinion

In compliance with the engagement entrusted to us by the shareholders at your general meetings, we have audited the annual financial statements of Crédit Logement for the year ended 31 December 2017, as enclosed in this report.

In our opinion, with regard to French accounting rules and principles, the annual financial statements provide a true and fair view of the assets and liabilities and of the financial position of the company for the year under review and of the results of its operations for that year.

The opinion expressed above is consistent with the content of our report to the Audit Committee.

Basis for our opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We consider that the audit evidence that we have collected is sufficient and appropriate to form the basis of our opinion.

Our responsibilities under those standards are described herein under *Responsibilities of the statutory auditors for the audit of the annual financial statements*.

Independence

We performed our audit according to the rules of independence to which we are subject, over the period beginning on 1 January 2017 until the date of issuance of our report. In particular, we did not provide any non-audit services prohibited by Article 5, paragraph 1 of Regulation (EU) No 537/2014 or by the French code of ethics (*Code de Déontologie*) for statutory auditors.

Justification of our assessments

In accordance with the provisions of Articles L. 823-9 and R. 823-7 of the French commercial code (*Code de Commerce*) relative to the justification of our assessments, we bring to your attention the key audit matters that, in our professional judgement, were of the most significance in our audit of the annual financial statements.

- The section relating to “doubtful loans” in the notes to the financial statements states that, when a debt is deemed to be irrecoverable, any outstanding payments due are drawn from the mutual guarantee fund (*Fonds Mutuel de Garantie*). As part of our assessment of the reasonableness of the accounting estimates used to prepare the financial statements, we examined the control system in place to identify and monitor the risks relating to the guarantee business, to assess the risks of non-recovery and to cover these risks through the mutual guarantee fund.
- The section of the notes on the “securities portfolio” (accounting principles and methods) outlines the methodology used to measure the value of the securities portfolio (trading account securities, securities held for sale, debt securities held to maturity and participating interests) and, where necessary, to recognise impairment charges. As part of our assessment of the reasonableness of the accounting estimates used to prepare the financial statements, we examined the system in place to monitor and examine these securities, making it possible to assess the level of impairment necessary.

These assessments were made as part of our audit of the annual financial statements taken as a whole and therefore contributed to the opinion we formed, as expressed above. We shall not express a separate opinion on specific items of these annual financial statements.

Verification of the management report and other documents intended for the shareholders

In accordance with professional standards applicable in France, we also carried out the specific verifications required by law.

We have no matters to report as to the fair presentation and consistency with the annual financial statements of the disclosures made in the management report prepared by the Board of Directors and in the documents provided to the shareholders relating to the company’s financial position and annual financial statements.

We certify that the Board of Directors’ report on corporate governance contains the disclosures required by Article L. 225-37-4 of the French commercial code.

Responsibilities of the management and of the persons with governance roles with respect to the annual financial statements

It is the duty of management to prepare annual financial statements that provide a fair presentation of the financial position of the company and to implement the internal control measures that it deems necessary to the preparation of annual financial statements that are free of material misstatement, whether due to fraud or error.

When preparing the annual financial statements, management is required to assess the capacity of the company to continue as a going concern, to make any necessary disclosures in these financial statements relating to matters of going concern and to use the going concern basis of accounting, unless there is a plan to liquidate the company or to cease its business.

The Audit Committee is responsible for monitoring the financial reporting process and for monitoring the effectiveness of the internal control and risk management systems, as well as, where appropriate, the internal audit system, with regard to the procedures applied in the preparation and reporting of accounting and financial information.

The annual financial statements have been approved by the Board of Directors.

Responsibilities of the statutory auditors for the audit of the annual financial statements

Objective and audit approach

We are required to prepare a report on the annual financial statements. Our objective is to obtain reasonable assurance that the annual financial statements taken as a whole do not contain material misstatements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will systematically detect any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or cumulatively, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As stipulated in Article L. 823-10-1 of the French commercial code, our statutory audit does not consist in providing assurance as to the viability of the company or the quality of its management.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor shall exercise professional judgement throughout the audit and, furthermore:

- identify and assess the risks of material misstatement in the annual financial statements, whether due to fraud or error, define and perform audit procedures to respond to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for the statutory auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of non-detection of one resulting from error, as fraud may involve collusion, forgery, deliberate omissions, misrepresentations, or the circumvention of internal control;
- obtain an understanding of internal control relevant to the audit in order to define audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of the accounting methods applied and the reasonableness of accounting estimates and related disclosures made by management in the annual financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, relying on the audit evidence obtained, whether a significant uncertainty exists related to events or circumstances that may call into question the company's ability to continue as a going concern. This assessment relies on the audit evidence obtained up to the date of the audit report, bearing in mind, however, that future circumstances or events may call into question the company's ability to continue as a going concern. Should the statutory auditor deem that a significant uncertainty exists, it shall draw the attention of the recipients of its report to the related disclosures in the annual financial statements or, if such disclosures are not provided or are inadequate, it shall express reservations or refuse to certify the annual financial statements;
- evaluate the overall presentation of the annual financial statements and assess whether these statements provide a fair presentation of the underlying transactions and events.

Report to the Audit Committee

We submit a report to the Audit Committee that notably includes a description of the scope of the audit and the work programme implemented, as well as the results of our audit. We also report on any significant shortcomings in internal control that we may have identified with respect to the procedures applied in the preparation and reporting of accounting and financial information.

We also provide the Audit Committee with the declaration provided for in Article L. 823-16 of the French commercial code, confirming our independence within the meaning of the rules applicable in France such as they are set forth in particular by Articles L. 822-10 to L. 822-14 of said code and in the French code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may have a bearing on our independence and the related safeguards.

Neuilly sur Seine and Paris, April 11th 2018

Statutory Auditors

C.T.F.
Sylvie Bourguignon

Deloitte & Associés
Christophe LEGUÉ

NOTES TO THE FINANCIAL STATEMENTS

I - PRESENTATION OF THE ACCOUNTS

The rules applied for the preparation of Crédit Logement's financial statements are based on principles adopted by the French national accounting board (*Comité de Réglementation Comptable* - CRC), the regulations of the French banking and financial regulation committee (*Comité de la Réglementation Bancaire et Financière* - CRBF) and the instructions of the French prudential supervision authority (*Autorité de Contrôle Prudentiel et de Résolution* - ACPR) relative to the preparation and publication of individual annual financial statements for financial institutions (*sociétés de financement*).

The balance sheet, income statement and notes have been drawn up in accordance with ANC regulation 2014-03 on the French general chart of accounts, subject to modifications provided for in ANC regulation 2014-07 of 26 November 2014 on the financial statements of companies in the banking sector, enacted by the decree of 26 December 2014 published in the French Official Journal (*Journal Officiel*) on 31 December 2014.

The items making up the assets, liabilities and off-balance sheet commitments expressed in foreign currency are recorded and measured according to the principles set out in the abovementioned regulation 2014-07 of 26 November 2014.

Transactions in foreign currencies are valued based on prices on the last day of the financial year. Gains or losses that occur are taken to the income statement.

There was no change of accounting method in 2017.

II - ACCOUNTING PRINCIPLES AND METHODS

ASSETS

DEPOSITS ON CREDIT INSTITUTIONS

LOANS AND ADVANCES TO CREDIT INSTITUTIONS

These amounts receivable are broken down in the notes as follows:

- demand or term accounts;
- according to their remaining term.

LOANS AND ADVANCES TO CUSTOMERS

OTHER CUSTOMER LOANS AND ADVANCES

These are loans granted to the company's salaried staff. They take two forms:

- capped loans with a maximum term of three years;
- zero-rate cash advances equal to the amount payable into the mutual guarantee fund in respect of the surety for one or more property loans for the duration of the loans guaranteed.

DOUBTFUL LOANS

This item includes all amounts settled in connection with unpaid instalments (principal and interest), penalties and events of default for which Crédit Logement has been subrogated as per its right as initial lender, and those required to launch collection proceedings (expenses and fees).

Where relevant, if it has been established that a debt cannot be recovered, the amount still due is drawn from the mutual guarantee fund in accordance with the regulations of that fund.

According to the abovementioned regulation 2014-07 of 26 November 2014 on the accounting treatment of credit risk in companies overseen by the CRBF, doubtful loans have been divided, on a non-accounting basis, into the following categories:

- doubtful loans;
- non-performing loans.

The definition of each category is described at the end of these notes under off-balance sheet commitments.

Given the existence of the mutual guarantee fund, which covers the loss experience for the guarantee portfolio on residential loans, such doubtful loans are not provisioned.

SECURITY PORTFOLIO

A distinction is made between four types of securities:

- trading account securities;
- securities held for sale;
- debt securities held to maturity;
- participating interests and interests in affiliated companies.

The presentation of the portfolio in the financial statements for publication is broken down into the following categories:

- bonds and other fixed-income securities;
- shares and other variable-income securities;
- interests in affiliated companies.

TRADING ACCOUNT SECURITIES

Trading account securities are, according to chapter 2, title 3, Book II of the aforementioned regulation 2014-07 of 26 November 2014, either purchased or sold with the intent to re-sell or repurchase them within a short timeframe, or held by an institution for market-making purposes.

They must be negotiable on a liquid market and there must be continuous access to their market prices. All types of securities (regardless of whether they are fixed- or variable-income instruments) may be classified in this category if they satisfy these conditions.

Trading account securities are recognised at their date of purchase at cost, excluding fees and including any accrued interest. The acquisition cost is taken directly to expenses.

The securities are marked to market at the end of every reporting period.

Crédit Logement's portfolio of trading account securities is composed exclusively of securities received as collateral as part of the exchange of securities.

SECURITIES HELD FOR SALE

Securities held for sale are fixed- or variable-income securities that are not recognised as trading account securities, debt securities held to maturity or as belonging to the type of securities referred to in chapter 5, title 3, Book II of the regulation 2014-07 of 26 November 2014 (equity securities available for sale, other equity securities held for long-term investment, participating interests and interests in affiliated companies).

These securities are recorded at their date of purchase at cost, excluding fees and accrued interest. Securities sold are measured on a first in-first out (FIFO) basis.

At each year-end, the cost price of securities bearing interest is increased or decreased as relevant in order to factor in interest from the difference between the nominal rate for the security applied to the redemption value and the negotiated rate applied to the acquisition price. For the other securities, the cost price equates to the acquisition price.

At year-end, the value of the securities is retained at the lower of the following two values: cost price or market value. If the market value is lower than the cost price, the unrealised capital losses are recognised through an impairment charge. Unrealised capital gains are not recorded.

DEBT SECURITIES HELD TO MATURITY

According to chapter 4 of regulation 2014-07 of 26 November 2014, debt securities held to maturity are fixed-income securities that the company intends to hold through to maturity and that it has made a commitment, at the time of acquisition, to finance through permanent funds.

They are purchased with the clear intention and ability to hold them until maturity. They must not be subject to any existing restriction, legal or otherwise, that may be likely to call into question the intention to hold them until they reach maturity. Their classification as debt securities held to maturity is no obstacle to their designation as instruments hedged against interest-rate risk.

They are booked at their redemption value. The discounts or premiums are amortised or spread over the residual life of the securities, according to the straight-line method. The book value of the securities is thus gradually adjusted to the redemption value. The interest relating to these securities is recognised in the income statement under "Other interest income and equivalent".

Securities that have been reclassified from the “securities held for sale” category are recorded at cost and any previous write-down is reversed over the remaining term of the securities. The intention to hold them to maturity must be clear and they must be covered by permanent funds in order to finance them through to their maturity.

At each year-end, the cost price of the securities is increased or decreased as relevant in order to factor in interest deriving from the difference between the nominal interest rate for the security applied to the redemption value and the negotiated rate applied to the acquisition price. If the market value is lower than the acquisition value adjusted for amortisation and provision reversals linked to the difference between the acquisition cost and the redemption value of the security, no provision for impairment is booked.

An impairment charge is booked if there is a strong probability that the institution will not hold the securities until maturity due to a change in circumstances, for instance, when a downgrade to the issuer’s credit quality might compromise the redemption at maturity, in which case the impairment charge is classified under cost of risk. Unrealised capital gains are not recorded.

PARTICIPATING INTERESTS AND INTERESTS IN AFFILIATED COMPANIES

According to chapter 5 of regulation 2014-07 of 26 November 2014, these interests group together securities whose long-term ownership is considered useful to the company’s operations. Such securities are recorded on the balance sheet at cost.

Investments in companies of a financial nature that may be included within the scope of consolidation are considered as affiliates.

When the fair value of the securities is lower than the acquisition value, any unrealised capital losses are booked through provisions. Unrealised capital gains are not recorded. The fair value is determined based on a set of economic criteria (estimated net asset value, profitability and outlook for profitability, cost price, revalued net position, etc.).

FIXED ASSETS

Pursuant to CRC regulations 2002-10 and 2004-06, accounting rules have been in effect with regard to asset definition, valuation and impairment since 1 January 2005.

Our institution opted for the “forward-looking” simplification measure set out in Article 17 of regulation 2004-06, repealed and replaced by ANC regulation 2014-03.

Tangible fixed assets in respect of buildings have been divided using the simplified re-allocation method, by component, based on the net book values at 1 January 2005.

The change in method in 2005 has had no impact on either net assets or taxable income.

An inventory of the components was drawn up with the assistance of an external firm.

Fully depreciated fixed assets were not restated.

The depreciations are shown hereinafter:

Depreciations	Method	Period
ASSET UNDER CONSTRUCTION	N/A	
INTANGIBLE FIXED ASSETS		
Lease	N/A	
Software	Straight-line	1, 3, 4 or 5 years
TANGIBLE FIXED ASSETS		
Land	N/A	
Buildings	Straight-line	150 years from 01/01/1945
Roof/front	Straight-line	30 years
Vehicles	Straight-line	4 years
Office equipment	Straight-line or diminishing balance	5 years
Technical equipment	Straight-line or diminishing balance	5 to 10 years
Furniture	Straight-line	5 to 10 years
Computer equipment	diminishing balance	3, 4 or 5 years
Technical equipment	Straight-line	5 to 20 years
Fittings and fixtures	Straight-line	10 years

ACCRUALS AND OTHER ASSETS

This essentially relates to accrued income on guarantees, with a different tariff structure. Payment of the guarantee commission does not become due until the release of the guarantee and the commission is drawn from the returned portion of mutual guarantee fund payments at the end of the guarantee.

This item also includes margin calls paid in cash in respect of adjustments to forward financial instruments as well as the accrued income and losses to be amortised on these instruments.

LIABILITIES

AMOUNTS DUE TO CREDIT INSTITUTIONS

In accordance with Article L.211-38 of the French monetary and financial code (*Code Monétaire et Financier* - CMF), cash guarantee deposits may be put in place for financial guarantee agreements. Regular adjustments are made on a quarterly basis in respect of the master agreement.

AMOUNTS DUE TO CUSTOMERS

SECURITY DEPOSITS

In 2009, shares in a real-estate partnership (*SCI*) in New Caledonia were purchased as part of a tax benefit scheme to encourage investment in French overseas municipalities.

In order to ensure the repurchase of the securities in 2019, a cash collateral account with capitalised interest was set up by the other partner in the *SCI*, a semi-public social housing company, thus underwriting this company's commitment to repurchase the shares in the *SCI*. Each year, the value of the securities on the balance sheet is adjusted to the amount on the cash collateral account.

Other amounts due

These include amounts payable to customers, either in relation to the return of mutual guarantee fund payments, overpayments received on guarantee fees, or amounts for which the allocation is still being determined.

The amounts that are due in respect of the return of mutual guarantee fund payments owed to borrowers, whose loans have terminated according to information that is unchallenged by the lending banks, and are held by *Crédit Logement*, and for which the banks cannot find the original borrowers, are taken to "Other Amounts Due – Segregated Amounts".

OTHER LIABILITIES

These are amounts due that can be broken down as follows:

- sums to be paid back for the collection activity on behalf of third parties, which only become available at the end of the collection or payback period;
- sums payable to suppliers (invoices for general expenses or fixed assets);
- sums due to staff and employee profit-sharing;
- tax and social security liabilities.

In accordance with Article L.441-6 paragraphs 8 and 9 of the French commercial code (Code de Commerce), the settlement deadline for amounts due falls either on the 30th day following the receipt of goods or delivery of the requested service, without exceeding 45 days from the end of the month, or on the 60th day following the invoice date.

The balance of trade payables, broken down by due date, is contained in the notes.

ACCRUALS: LIABILITIES

In response to the continuous guarantee service practised by our company, guarantee commissions are accrued based on a constant equal to the total amount of commission payable on a contract, divided by the duration of the loan expressed in years, multiplied by a factor F, incorporating adjustments for the first and final year.

This formula makes it possible to match the rate of staggered allocation of commissions to the rate of incurrence of expenses attributable to the transactions in question.

Prepaid income relates to guaranteed loans on which the guarantee commission is payable as soon as the loan is put in place by the lender.

Deferred income relates to guaranteed loans on which the guarantee commission is payable at the end of the loan. The receivable relating to the guarantee commission is recorded as an asset under "income receivable" and the corresponding amount will be drawn from the returned mutual guarantee fund amount on normal or early termination of the loan.

This item is also used to recognise the amount of cash guarantees received to cover positive interest rate swap valuations in accordance with the French banking federation's (*Fédération Bancaire Française* - FBF) master agreement on forward financial transactions entered into with our counterparties.

PROVISIONS FOR LIABILITIES AND CHARGES

These notably include provisions for litigation and the risk of having to pay compensation, damages and legal fees in respect of ongoing proceedings or those subject to appeal.

A provision is set aside:

- if the company has an actual obligation towards a third party at the reporting date;
- and if, at the reporting date, it is probable that the company will have to make a payment to this third party, without receiving at least an equivalent consideration from the third party after the reporting date;
- and if it is possible to reliably estimate this disbursement.

SUBORDINATED DEBT

MUTUAL GUARANTEE FUNDS

In accordance with regulation 2014-07 of 26 November 2014 on the financial statements of companies in the banking sector, approved by the aforementioned order of 26 December 2014, mutual guarantee funds are grouped together under "Subordinated debt".

The guarantee system used by Crédit Logement is based on the principle of the pooling of risk, through which each borrower pays into a mutual guarantee fund that is intended to take the place of any borrower who defaults on loan repayments, on a partial basis in the case of unpaid instalments and in full when an event of default has been recorded.

In accordance with the mutual guarantee fund regulations, the contribution of each borrower may be returned once Crédit Logement's commitment has been released. The returned amount will be proportional to the fraction not used in litigation in connection with defaulting borrowers. The calculation of the return rate takes into account the prudentially measured risk of non-repayment across all borrowers paying into the fund (ex-ante provisioning) as well as the expected recovery rate on doubtful loans.

An amended version of the regulations of the mutual guarantee fund, applicable from 1 January 2014, renders the return of payments into the fund subject to the prior agreement of the ACPR and the Board of Directors. The fund also covers other recognised losses in proportion to its weight in the regulatory capital.

SUBORDINATED SECURITIES AND EQUITY LOANS

These instruments were issued in accordance with Article L.228-97 of the French commercial code and with the law of 1 August 2003 (No. 2003-706). In the event that the company is liquidated, the nominal value of the liabilities will be repaid according to the seniority of the debt: first, unsecured debt, then Tier 2 debt, followed by equity loans and, lastly, Tier 1 debt.

1. Undated deeply-subordinated bond issue, with no step-up clause (Tier 1) - FR0010301713

16,000 undated deeply-subordinated securities with a par value of €50,000 were issued on 16 March 2006, in accordance with Article 2 of CRBF regulation 90-02 of 23 February 1990, and can be incorporated into additional Tier 1 capital. However, since they do not satisfy all the criteria laid down in Regulation (EU) No. 275/2013, they are subject to grandfathering.

On 28 November 2017, 9,475 securities were redeemed for €473,750,000. There are therefore 6,525 such securities outstanding in the amount of €326,250,000.

They include:

- an early call option, at the exclusive initiative of the issuer, which can be exercised quarterly from 16 March 2011, subject to the prior approval of the ACPR;
- trading on Luxembourg's EURO MTF market, following the transfer in November 2017 of the Luxembourg regulated market.

Subordination conditions

Interest is payable annually in arrears on 16 March of each year, at a fixed rate of 4.604% until 16 March 2011, and then quarterly in arrears at the 3-month Euribor rate plus 115bp. However, should financial circumstances dictate, in order for the company to pursue its business, the company may defer the payment of the corresponding interest amounts, which may be offset, together with the principal, against any losses incurred by the company.

2. Dated bond issue (lower Tier 2) – FR 0011000231

5,000 dated subordinated bonds were issued with a par value of €100,000 on 16 February 2011, in accordance with Article 2 of CRBF regulation 90-02 of 23 February 1990, and can be included in the Tier 2 capital base. However, as they do not satisfy all the criteria laid down in Regulation (EU) No. 575/2013, they are subject to grandfathering.

On 28 November 2017, 2,220 securities were redeemed for €222,000,000. There are therefore 2,780 such securities outstanding in the amount of €278,000,000.

They are traded on Luxembourg's EURO MTF market, following the transfer in November 2017 of the Luxembourg regulated market. Interest is payable quarterly in arrears on 16 February of each year, at a fixed rate of 5.454%.

3. Dated bond issue (lower Tier 2) – FR 0013299468

5,000 dated subordinated bonds were issued with a par value of €100,000 on 28 November 2017, in accordance with Article 63 of Regulation (EU) No. 575/2013, transposed into French law for financial institutions (*sociétés de financement*) by the order of 23 December 2013, and can be included in the Tier 2 capital base.

They are traded on Luxembourg's EURO MTF market. Interest is calculated annually in arrears on 28 March, at a fixed rate of 1.35% until 28 November 2024, and annually in arrears at the 5-month mid-swaps rate plus 90bp up to 2029.

4. Equity loans

Equity loans, granted to the company by its shareholders and partners, are incorporated into the Tier 2 capital base, and are of two types:

- undated equity loans that may be paid back after eight years, at the sole initiative of the borrower, and subject to prior approval by the ACPR. The loan granted on 30 December 2009 was repaid on 30 December 2017. These equity loans do not satisfy all the criteria laid down in Regulation (EU) No. 575/2013 and are therefore subject to a grandfather clause;
- equity loans that were amended in 2014 and have a twelve-year term but may be paid back after five years on the sole initiative of the borrower, and subject to prior approval by the ACPR. These loans satisfy all the criteria laid down in Regulation (EU) No. 575/2013 and are incorporated in full into the Tier 2 capital base.

FUNDS FOR GENERAL BANKING RISKS

A provision is set aside for general banking risks, as provided for under Article 1121-3 of ANC regulation 2014-07, in order to cover general risks linked to the banking activity.

The fund for general banking risks includes general provisions that have not been set aside to cover various expenses or probable, clearly-identified risks.

SHAREHOLDERS' EQUITY

SHARE CAPITAL

In accordance with the combined general meeting of the shareholders of 9 May 2012, the share capital is composed of 17,997,861 ordinary shares of €70 each, fully paid up. These new shares are eligible for dividend distribution as from 1 January 2012. The entitlements conferred by each share have been set as follows.

Distribution of earnings in accordance with Article 18 of the articles of association

"The shareholders may decide at general meetings to deduct from the distributable income any amount to be allocated to retained earnings or to the creation of any extraordinary reserve, contingency fund or other fund with a specific assignment or otherwise.

The shareholders may vote at the general meetings held to reviewing the annual financial statements to grant each shareholder an option to receive in cash or in shares all or part of the dividend or interim dividends to be paid out."

OFF-BALANCE SHEET COMMITMENTS

Requested by customer

Financial Guarantees

The guarantee offered by Crédit Logement is arranged as part of services contracts signed in the form of bank guarantees in the context of an auction. It is recognised at an amount corresponding to a maximum of 10% of the amount of the upset price and cannot be lower than €3,000.

The guarantee is valid for an undated period and expires, depending on the case:

- on the day of the auction, from the purchase by a third party other than the principal in the guarantee arrangement;
- on the date of payment of the auction price and associated fees, when the auction is in favour of the principal in the guarantee arrangement.

Crédit Logement provides bank guarantees for the benefit of the regional court at the request and on behalf of its customer and books this guarantee under off-balance sheet commitments.

Guarantee commitments distributed by other credit institution

The guarantee offered by Crédit Logement, in the form of a joint and several guarantee covering residential loans to retail customers, is recognised at an amount corresponding to the principal still due by the borrowers at the end of each year.

In accordance with regulation 2014-07 of 26 November 2014, commitments relative to guarantee agreements entered into have been broken down into the following categories:

- sound guarantees;
- sound restructured guarantees;
- doubtful guarantees;
- non-performing guarantees;
- doubtful guarantees through contagion.

The exposures have been categorised according to the following criteria:

- sound guarantees. All loans that do not meet the conditions for classification as “doubtful”, including:
 - . the first three unpaid instalments before a guarantee is called, which are taken to off-balance sheet guarantee commitments. This amount is calculated by obtaining from our main partners the delinquency rates at one month, two months and three months and applying, using a conservative approach, the maximum rates obtained to all sound guarantees under off-balance sheet commitments;
 - . guarantee agreements at the request of customers not yet arranged, which have been taken to off-balance sheet commitments since 2013;
- sound restructured guarantees. Commitments that have been restructured on non-market terms. They have been identified and must remain in this category until the final instalment, except in cases of failure to comply with the agreed terms and conditions, in which case, they will be transferred directly to non-performing guarantees;
- doubtful loans. All commitments with a recognised credit risk in the following cases:
 - . existence of one or more past-due payments for a period of at least three months;
 - . knowledge of a deteriorated financial position for a counterparty, even those for which no past-due payment has been previously recorded;
 - . existence of litigation procedures between the institution and the counterparty.

A return to sound loan status is only warranted if regular repayments have resumed in the amounts corresponding to the initial contractual instalments, or on market terms.

- non-performing guarantees. This category includes the following commitments:
 - . any commitments that have been treated as doubtful for one year and for which no return to sound loan status is foreseeable, or for which an event of default has been recorded;
 - . any failure to honour the repayment schedule drawn up for a restructured loan (restructured sound guarantees);
- doubtful guarantees through contagion
 - . The classification of a counterparty into one of the two doubtful categories automatically results in an identical status being assigned to all the sound and sound restructured guarantees granted to that counterparty.

GUARANTEE COMMITMENTS RECEIVED

COMMITMENT TO REPLENISH THE MUTUAL GUARANTEE FUND

Commitment given by Crédit Logement's shareholders and/or partners in proportion to their guaranteed commitments to replenish the mutual guarantee fund under the rules applying to payments made into the fund prior to 1 January 2014, should the fund be depleted. This joint commitment is updated on a half-yearly basis.

COMMITMENTS IN RESPECT OF FORWARD FINANCIAL INSTRUMENTS

Recording and qualification principles for a transaction

Transactions in forward financial instruments outstanding at the reporting date are taken to off-balance sheet commitments. Transactions in interest rate and foreign exchange forward financial instruments are recorded in accordance with the provisions of regulation 2014-07 of 26 November 2014.

Although not incorporated into reportable off-balance sheet commitments, the amounts taken to off-balance sheet commitments corresponding to the nominal value of commitments are detailed in note A13. They represent the volume of transactions and not the risks that are associated with them.

Amounts corresponding to commitments in respect of interest rate forwards traded over-the-counter are taken to off-balance sheet commitments at their nominal value.

A position category is assigned as soon as a transaction is arranged:

- isolated open positions: contracts classified in isolated open position portfolios are valued at the lower of the acquisition price or their market value. Unrealised capital gains are not recognised and a provision for risk on unrealised capital losses is only set aside when there is a counterparty risk;
- micro-hedging transactions: in micro-hedging transactions, the expenses and income relative to the forward financial instruments used, assigned from the outset to an item or to a consistent set of identified items, are recognised in income so as to match them with the income and expenses recognised on the hedged positions;
- macro-hedging transactions: in macro-hedging transactions, the expenses and income are recognised in the income statement on a time-apportioned basis.

The adjustments recognised on the conclusion of a contract are taken to the income statement over the lifetime of the contract. When a contract is terminated or transferred, or replaced by another contract, the arising adjustments are immediately taken to the income statement. They are amortised on a time-apportioned basis for macro-hedging and micro-hedging transactions.

The expenses and income are recognised in the income statement on a time-apportioned basis. The offsetting entry is booked under accruals until the collection or disbursement date.

The valuation rules are laid out in the counterparty master agreement covering the transaction, according to generally-applicable market rules.

If the difference is negative, a provision for liabilities and charges is set aside to cover an isolated open position, or to cover a micro-hedging position when the unrealised gain on the hedged position is recognised.

FIRM TRANSACTIONS IN INTEREST-RATE INSTRUMENTS

Hedging transactions

Crédit Logement has entered into hedging swaps (seller floating rate / buyer fixed rate), commonly known as interest-rate swaps, with a view to rendering its earnings insensitive to short-term interest rates. These are booked according to the categories provided for in title 5 of regulation 2014-07 of 26 November 2014 on the financial statements of companies in the banking sector.

Mechanism of credit risk mitigation on cash investments

This mechanism is intended to hedge the risk of financial loss in the event that a counterparty to a financial instrument fails to fulfil its contractual obligations.

To mitigate this risk, Crédit Logement has opted to enter into “FBF” master collateralisation agreements on derivatives with bank counterparties, which provide for the netting of exposures and regular margin calls (cash deposit), making it possible to reduce its actual exposure. Regular adjustments are made on a daily basis under the master agreement.

Other securities received as collateral

Financial guarantee master agreements put in place in 2013 stipulate the conditions under which partner banks, which are the counterparties to the investments of Crédit Logement, must pledge to it eligible assets within the framework of Article L.211-38 of the French monetary and financial code.

These guarantees, given by counterparties in the form of pledges, can take a number of forms:

- cash deposits in our books (these sums are recorded in the form of cash guarantees under liabilities);
- cash accounts opened in the name of our counterparty and pledged to us;
- eligible securities traded in euros;
- claim on Crédit Logement - equity loans;
- claims eligible according to the criteria defined in the agreement, resulting from loans, credit or financing for legal entities.

Regular quarterly adjustments are made to the collateral under the master agreement.

OTHER INFORMATION

Overall remuneration amount allocated during the financial year – principles and criteria used to determine the elements constituting the total remuneration paid to managers (Chairman of the Board and members of senior management).

The off-balance sheet commitments in respect of the Chairman, the directors and all members of management concern property loan guarantee transactions, without being subject to any special terms and conditions relating to their management function.

As a director, the Chairman of the Board of Directors solely receives remuneration in the form of directors' fees, in accordance with the terms and conditions approved by the Board at its meeting of 3 April 2013. The Chairman received €3,900 in directors' fees in financial year 2017. Directors' fees are allocated based on the effective attendance rate at Board meetings. The Chairman receives one and a half times these fees.

The remuneration paid to senior members of management (Chief Executive Officer and Deputy Chief Executive Officers) is set by the Board of Directors based on a recommendation by the Remuneration Committee. This committee examines the remuneration packages at least once every year, even when there have been no modifications.

The remuneration packages contain a fixed component (corporate office, and salary for the Deputy Chief Executive Officers alone) and a variable component that is capped in proportion to the fixed component.

The fixed component of the remuneration package intended for the Chief Executive Officer and the Deputy Chief Executive Officers is designed to be attractive in order to appeal to and secure high-quality candidates, in keeping with market practices for such positions and levels of responsibility, and according to the company's own circumstances. The Remuneration Committee may, for instance, draw on the practices in place at comparable companies within French banking groups.

As regards the variable remuneration component, an annual bonus may be paid, subject to the company's earnings. This bonus is capped at 25% of the gross annual fixed remuneration paid to the Chief Executive Officer and 20% of the gross fixed remuneration paid to the Deputy Chief Executive Officers. The bonus amounts are set by the Chairman of the Board, acting on behalf of the Remuneration Committee to which he reports, and depend on business volumes and earnings, quality of operational management, risk control, budget implementation and quality of internal control.

At the proposal of the Remuneration Committee, the Board of Directors may order the payment of a special exceptional bonus for the completion of specific projects.

The Deputy Chief Executive Officers' employment contracts stipulate that they may receive payments in respect of the statutory and discretionary profit-sharing schemes.

Lastly, the company officers may benefit from a top-up pension plan, introduced further to a 2007 decision by the Board of Directors (cf. detailed terms in C4 of the notes), as well as a company car, added back as a benefit in kind.

At its meeting of 7 April 2016, the Board of Directors decided to extend the scope of “regulated staff” to include not only members of senior management but also the head of the risk management function, the head of audit and internal control, managing members of staff performing control duties within these two departments and managers in charge of control within the operational divisions.

These members of staff may receive an individual variable bonus in addition to the fixed component of their remuneration (salary). This bonus is capped depending on hierarchical rank, always below the thresholds set for members of Executive Management.

They may also receive payments in respect of the statutory and discretionary profit-sharing schemes.

EMPLOYEE BENEFITS

Commitments relating to post-employment benefits and the supplementary pension scheme for senior members of staff (collective defined-benefit supplementary pension insurance policy covering all senior members of staff under certain conditions) are covered by collective funds managed by an insurance company.

Crédit Logement makes regular contributions to these funds. There is no obligation to set aside a provision in the accounts for any difference between the actuarial value of such commitments and the value of the funds managed by the insurance company.

CONSOLIDATION SCOPE

Companies that do not qualify as significant in accordance with the criteria set out in the applicable regulations are not included in the scope of consolidation.

Crédit Logement Assurance, SNC Foncière Sébastopol and SCI Martawi are therefore not consolidated.

Accordingly, Crédit Logement does not prepare consolidated financial statements.

III – NOTES

Notes A: information on the balance sheet and off-balance sheet items

Notes B: information on income statement

Notes C: other informations

NOTE A - INFORMATION ON THE BALANCE SHEET AND OFF-BALANCE SHEET ITEMS (in thousands of euros)

NOTE A 1 - LOANS AND ADVANCES AND BREAKDOWN BY RESIDUAL TERM

	< 3 months	3 months to 1 year	1 to 5 years	> 5 years	Total
CREDIT INSTITUTIONS	538 149	452 214	2 527 944	3 479 664	6 997 971
Demand accounts	429 408				429 408
Term accounts	100 000	441 000	2 524 300	3 478 172	6 543 472
Accrued interest	8 741	11 214	3 644	1 492	25 091
LOANS AND ADVANCES TO CUSTOMERS	1 334 952	122	188	329	1 335 591
Other customer loans and advances	46	122	188	329	685
Doubtful loans	1 334 906				1 334 906
BONDS AND OTHER FIXED-INCOME SECURITIES	102 874	55 646	714 521	872 184	1 745 225

NOTE A 2 - BREAKDOWN OF LOANS AND ADVANCES

	Affiliated companies	Equity interests	Other companies	Retail customers	Total
LOANS AND ADVANCES TO CREDIT INSTITUTIONS		6 941 306	56 665		6 997 971
LOANS AND ADVANCES TO CUSTOMERS				1 335 591	1 335 591
BONDS AND OTHER FIXED-INCOME SECURITIES		852 585	892 640		1 745 225

NOTE A 3 - LOANS AND ADVANCES TO CUSTOMERS

NOTE A 3-1 - CHANGES IN CUSTOMER OUTSTANDINGS

	31/12/2016	Releases / Disbursements	Repayments / Collections	Write-offs	31/12/2017
Cash loans - loans to staff	635	425	375		685
Doubtful loans	1 244 032	315 117	173 410	50 900	1 334 839
Other third party doubtful loans	616				616
Impairment of other third party doubtful loans	-549				-549
TOTAL	1 244 734	315 542	173 785	50 900	1 335 591

NOTE A 3-2 - CREDIT RISK: BREAKDOWN BY EXPOSURE CATEGORY

	Sound loans	o/w restructured loans	Doubtful loans	o/w non-performing loans	Total outstandings
Cash loans - loans to staff	685				685
Doubtful loans			1 334 906	1 327 568	1 334 906
TOTAL	685		1 334 906	1 327 568	1 335 591

NOTE A 4 - SECURITIES PORTFOLIO

NOTE A 4-1 - BREAKDOWN OF SECURITIES PORTFOLIO

	Issued by public agencies	Acquisition value			Market or net asset value	Redemption value
		listed	Other issuers			
			unlisted	Total		
BONDS AND OTHER FIXED-INCOME SECURITIES						
Securities received under repurchase agreements		100 000		100 000		
Accrued interest		5		5		
Securities received under repurchase agreements		100 005		100 005		
Bonds	16 913	1 619 792		1 619 792	1 662 213	1 633 700
Accrued interest	188	8 327		8 327		
Debt securities held to maturity	17 101	1 628 119		1 628 119	1 662 213	1 633 700
SHARES AND OTHER VARIABLE-INCOME SECURITIES						
Trading account securities - Securities borrowed		105 269		105 269	105 269	
UCITS		79 924		79 924	79 911	
Other securities			8 907	8 907	6 913	
Impairment provision			-1 994	-1 994		
Securities held for sale		185 193	6 913	192 106	192 093	
Interests in affiliated companies			8 808	8 808	6 651	
Impairment provision			-2 157	-2 157		
PARTICIPATING INTERESTS			6 651	6 651	6 651	
TOTAL SECURITIES PORTFOLIO	17 101	1 913 317	13 564	1 926 881	1 860 957	

NOTE A 4-2 - EQUITY INTERESTS AND INTERESTS IN AFFILIATED COMPANIES

	% interest	Share capital *	Shareholders' equity other than share capital *	Earnings *	Gross carrying amount	Net carrying amount
Other securities						
Crédit Logement Assurance	81.74	6 681	958	-1 335	6 829	4 672
SNC Foncière Sébastopol	99.90	15		-22	15	15
Partner advances and current accounts						
SNC Foncière Sébastopol					1 955	1 955
INTERESTS IN AFFILIATED COMPANIES					8 799	6 642

* Data as at 31/12/2016

NOTE A 5 - FIXED ASSETS

GROSS FIXED ASSETS	Gross value at beginning of year	Acquisitions	Disposals or internal transfers	Gross value at end of year	Net value at end of year
INTANGIBLE FIXED ASSETS	33 646	3 085	-3	36 728	4 872
Assets under construction	1 444	1 684	-1 310	1 818	1 818
Software and licenses	32 202	1 401	1 307	34 910	3 054
TANGIBLE FIXED ASSETS	30 443	1 154	-332	31 265	12 855
Assets under construction	672	67	-542	197	197
Land	2 909			2 909	2 909
Structural components of buildings	5 479			5 479	3 483
Roof/facade	2 078		13	2 091	393
Office equipment	452	98	-98	452	92
Club Affaires machinery and equipment	83	1	3	87	13
Office furniture	1 534	6	48	1 588	416
Club Affaires furniture	123			123	36
Computer hardware	3 773	278	-178	3 873	537
Fixtures and fittings - non building	5 344	5	32	5 381	1 140
Fixtures and fittings - building	3 879	30	285	4 194	1 421
Technical equipment	4 117	669	105	4 891	2 218
TOTAL	64 089	4 239	-335	67 993	17 727

DEPRECIATION, AMORTISATION OR PROVISIONS	Opening balance	Charges	Reductions	Closing balance
INTANGIBLE FIXED ASSETS	29 652	2 207	-3	31 856
Software and licenses	29 652	2 207	-3	31 856
TANGIBLE FIXED ASSETS	17 270	1 460	-320	18 410
Land				
Structural components of buildings	1 948	48		1 996
Roof/facade	1 613	85		1 698
Office equipment	418	41	-99	360
Club Affaires machinery and equipment	72	4	-2	74
Office furniture	1 110	62		1 172
Club Affaires furniture	86	1		87
Computer hardware	3 193	354	-211	3 336
Fixtures and fittings - non building	3 923	318		4 241
Fixtures and fittings - building	2 491	282		2 773
Technical equipment	2 416	265	-8	2 673
TOTAL	46 922	3 667	-323	50 266

All fixed assets are used exclusively for the purposes of Crédit Logement's own operations.

NOTE A 6 - OTHER ASSETS AND ACCRUALS

	31/12/2017	31/12/2016		31/12/2017	31/12/2016
Deposit guarantee fund (FGDR)	12	24	Forward financial instrument adjustment accounts (cash margin calls)	52 673	17 190
Deposits and sureties given	206	206	Currency adjustment accounts	46	68
			Losses to be amortised on forward financial instr.	2 668	504
Amounts in respect of tax and social security payments	407	5 347	Prepaid expenses	925	1 082
Sundry debtors (staff)	87	75	Expenses to be spread forward	494	1 169
Other sundry debtors (customers)	1 042	1 444	Accrued income on guarantees	408 947	394 503
Other sundry debtors (other)	15	11	Accrued income on forward financial instruments	6 937	3 331
			Miscellaneous accrued income	9	16
			Other accruals		4
Other assets	1 769	7 107	ACCRUALS	472 699	417 867

NOTE A 7 - AMOUNTS DUE TO CREDIT INSTITUTIONS AND CUSTOMERS

	31/12/2017	31/12/2016
Accounts and borrowings		
- Deposits of cash collateral	15 201	32 426
- Accrued interest	94	45
Credit institutions	15 295	32 471
Cash collateral received	6 913	6 787
Other amounts due - including segregated amounts	18 128	16 281
Customers	25 041	23 068

NOTE A 8 - OTHER LIABILITIES, ACCRUALS AND PROVISIONS

	31/12/2017	31/12/2016		31/12/2017	31/12/2016
	Amounts payable on borrowed securities	105 269			Prepaid income on guarantees
Amounts due in respect of tax and social security payments	9 166	6 475	Deferred income on guarantees	265 736	257 884
Sundry creditors (staff)	3 885	3 647	Accrued expenses on forward financial instruments	8 255	2 125
Sundry creditors (suppliers)	2 801	3 971	Gains spread forward on forward financial instr.	50 629	14 336
Amounts payable to staff	2 444	2 100	Currency adjustment accounts	45	67
Other sundry creditors	1 800	1 521	Forward financial instrument adjustment accounts (cash margin calls)	67 650	84 790
			Other accruals		7
Other liabilities	125 365	17 714	Accruals	773 026	706 893

Provisions for liabilities and charges

Category	31/12/2016	Charges	Releases	Release of unused prov.	31/12/2017
Provisions for litigation	214	162		-141	235
TOTAL	214	162		-141	235

Schedule of accounts payables

Pursuant to Article L.441-6-1 of the French commercial code (Code de Commerce) introduced by the law on the modernisation of the economy (Loi de Modernisation de l'Economie - LME)

	< 30 days	30 to 60 days	> 60 days	Total
As at 31 December 2017	1 039			1 039
As at 31 December 2016	953			953

NOTE A 9 - SHAREHOLDERS' EQUITY AND EQUIVALENTS
NOTE A 9-1 - MUTUAL GUARANTEE FUND

	Opening balance	Incoming	Outgoing	Closing balance
Mutual guarantee fund in euros	5 082 639	848 456	-401 120	5 529 975
Mutual guarantee fund in foreign currency	1 883		-221	1 662
Use of the mutual guarantee fund to cover irrecoverable written-off debt	-160 031	-51 440	539	-210 932
Mutual guarantee fund - liabilities	4 924 491	797 016	-400 802	5 320 705
Doubtful loans to be recovered - assets	-1 244 032	-315 117	224 310	-1 334 839
Available mutual guarantee fund after doubtful loans	3 680 459	481 899	-176 492	3 985 866

Doubtful loans to be recovered - assets	1 244 032	315 117	-224 310	1 334 839
Expected loss on doubtful loans - estimated write-off of irrecoverable debt	-492 351	-141 395	90 110	-543 636
Estimated recovery on doubtful loans	751 681	173 722	-134 200	791 203
Mutual guarantee fund after expected loss on doubtful loans	4 432 140	655 621	-310 692	4 777 069

NOTE A 9-2 - SUBORDINATED DEBT

Equity loans	Issue date	Due or early repayment date	31/12/2017		31/12/2016	
			Amount	Accrued interest	Amount	Accrued interest
	30/12/2009				194 284	
	30/12/2010		395 579		395 579	
	30/06/2011		415 186		415 186	
	30/12/2011		286 008		286 008	
Undated			1 096 773	1 606	1 291 057	1 612
	30/06/2012	30/12/2026	300 830		300 830	
	30/06/2013	30/12/2026	120 737		120 737	
Dated			421 567	17	421 567	19
Total equity loans			1 518 340	1 623	1 712 624	1 631
SUBORDINATED SECURITIES	Issue date / Due date	Number of securities				
Perpetual bonds ISIN FR 0010301713 (partial redemption of 9,475 securities on 26/11/17)	16/03/2006 indeterminate	6 525	326 250	119	800 000	296
Redeemable bonds ISIN FR 0011000231 (partial redemption of 2,220 securities on 28/11/2017)	16/02/2011 16/02/2021	2 780	278 000	13 251	500 000	23 843
Redeemable bonds ISIN FR 0013299468	28/11/2017 28/11/2029	5 000	500 000	629		
Total subordinated securities			1 104 250	13 999	1 300 000	24 139
TOTAL SUBORDINATED DEBT			2 622 590	15 622	3 012 624	25 770

NOTE A 9-3 - FUND FOR GENERAL BANKING RISK AND REGULATORY PROVISIONS

	Opening balance	Charges for the year	Releases for the year	Closing balance
Regulatory provision for medium and long-term credit risks	56 947		-3 894	53 053
Fund for general banking risks	610			610
TOTAL	57 557		-3 894	53 663

NOTE A 9-4 - CHANGES IN SHARE CAPITAL AND RESERVES

The main shareholders are divided into groups of shareholders containing the parent entity and the subsidiaries that belong to it:				
- Crédit Agricole and LCL Le Crédit Lyonnais	33,00 %	- Crédit Mutuel and CIC		9,50 %
- BNP Paribas	16,50 %	- SF2 - Groupe Banque Postale		6,00 %
- Société Générale and Crédit du Nord	16,50 %	- H.S.B.C. France		3,00 %
- BPCE / Crédit Foncier de France	15,50 %			
The share capital, fully paid-up, comprises:	31/12/2016	Increase / allocation	Decrease / allocation	31/12/2017
- 17,997,861 ordinary shares	1 259 850			1 259 850
	1 259 850			1 259 850
Legal reserve	65 229	5 390		70 619
General reserve	67 238			67 238
TOTAL	132 467	5 390		137 857

NOTE A 10 - RECEIVABLES AND PAYABLES ASSOCIATED WITH EACH BALANCE SHEET ITEM

ASSETS	31/12/2017	31/12/2016	LIABILITIES	31/12/2017	31/12/2016
Credit institutions	25 092	95 843	Credit institutions	93	45
Interests in affiliated companies	9	16	Subordinated debt	15 622	25 771
Bonds and other fixed-income securities	8 520	3 489	Other liabilities: tax and social security liabilities	9 166	6 476
Other assets: tax claims	407	5 347	Accruals:		
Accruals:			- forward financial instruments	8 255	2 125
- guarantees	408 946	394 503			
- suppliers	8	16			
- forward financial instruments	6 937	3 331			
Accrued income	449 919	502 545	Deferred expenses	33 136	34 417
Accruals:			Accruals:		
- issue costs to be amortised	494	1 169	- sureties - Initio tariff	265 736	257 884
- suppliers	925	1 082	- sureties - classical tariff	380 711	347 684
Prepaid expenses	1 419	2 251	Deferred income	646 447	605 568

NOTE A 11 - OFF-BALANCE SHEET COMMITMENTS RECEIVED

	31/12/2016	Changes	31/12/2017
. Counter-guarantee received (from shareholders or otherwise) relative to the commitment to replenish the mutual guarantee fund	2 637 151	-263 880	2 373 271
TOTAL GUARANTEE COMMITMENTS RECEIVED FROM CREDIT INSTITUTIONS	2 637 151	-263 880	2 373 271
Master financial guarantee agreement pursuant to Art. L211-38 of the French monetary and financial code (CMF)			
Eligible securities traded in euros	212 707	-4 932	207 775
Claim on Crédit Logement - equity loans	659 654	-133 354	526 300
Eligible receivables resulting from loans, credits or funding to legal persons	718 757	12 448	731 205
ADDITIONAL INFORMATION: OTHER SECURITIES RECEIVED AS COLLATERAL - PLEDGES	1 591 118	-125 838	1 465 280

NOTE A 12 - OFF-BALANCE SHEET COMMITMENTS GIVEN
NOTE A 12-1 - CHANGES IN COMMITMENTS GIVEN

	31/12/2016	Incoming	Amortisation/diff.	Outgoing	31/12/2017
Guarantees on property loans - Guarantee agreements arranged	301 077 555	84 074 587	-22 401 225	-37 050 697	325 700 220
Estimated unpaid instalments on property loans before call-in of guarantee	18 111		1 851		19 962
	301 095 666	84 074 587	-22 399 374	-37 050 697	325 720 182
Guarantee agreements not yet arranged	53 920 921		-17 232 849		36 688 072
Guarantee of property loans to retail customers	355 016 587	84 074 587	-39 632 223	-37 050 697	362 408 254
Financial guarantees	151	49		-151	49
GUARANTEE COMMITMENTS AT THE REQUEST OF CUSTOMERS	355 016 738	84 074 636	-39 632 223	-37 050 848	362 408 303

NOTE A 12-2 - BREAKDOWN BY RESIDUAL TERM

	< 3 months	3 months to 1 year	1 to 5 years	> 5 years	TOTAL
Guarantees at the request of customers					
Guarantees on property loans - Guarantee agreements arranged	117 913	1 134 122	14 996 137	309 452 048	325 700 220
Guarantee commitments not yet implemented		36 688 072			36 688 072
Estimated unpaid instalments before call on guarantee	19 962				19 962
Financial guarantees	49				49
TOTAL	137 924	37 822 194	14 996 137	309 452 048	362 408 303

NOTE A 12-3 - CREDIT RISK: BREAKDOWN BY EXPOSURE CATEGORY

Guarantees at the request of customers	Sound loans	o/w restructured loans	Doubtful loans	o/w non-performing loans	Total outstandings
Guarantees outstandings	324 827 018	201 348	873 202	393 055	325 700 220
Estimated unpaid installments before call on guarantee	19 962				19 962
Guarantee commitments not yet implemented	36 688 072				36 688 072
Financial guarantees	49				49
TOTAL	361 535 101	201 348	873 202	393 055	362 408 303

NOTE A 13 - FORWARD FINANCIAL INSTRUMENTS

Interest rate instruments - over-the-counter	Notional value	Margin call paid / received	Market value (coupon included)	Market value (coupon excluded)
Covered by the FBF master agreement	4 058 700	14 977	15 160	16 996
Outside agreement scope	150 000		8 550	8 040
TOTAL	4 208 700		23 710	25 036

No transfer between categories was made in 2017.

Interest rate instruments - by remaining term	< 3 months	3 months to 1 year	1 to 5 years	> 5 years	TOTAL
Firm micro-hedging transactions			484 700	794 000	1 278 700
Firm macro-hedging transactions (fixed rate for buyer)		190 000	620 000	2 120 000	2 930 000
TOTAL		190 000	1 104 700	2 914 000	4 208 700

NOTE B - INFORMATION ON THE INCOME STATEMENT (in thousands of euros)
NOTE B 1 - INTEREST INCOME AND EQUIVALENT - INTEREST EXPENSE AND EQUIVALENT

	31/12/2017	31/12/2016
Interest on demand deposit accounts	24	58
Interest on term deposit accounts (counterparty for equity loans)	7 448	8 067
Interest on term loans and advances and capital gain on the redemption of subordinated securities	95 532	75 248
Income on forward financial instruments	35 300	25 551
Transactions with credit institutions	138 304	108 924
Loans to Crédit Logement staff	3	4
Interest on doubtful loans (late payment interest on guaranteed debt)	4 979	3 349
Transactions with customers	4 982	3 353
Interest on securities received under repurchase agreements	5 750	2 266
Interest income on securities held for sale		11
Interest income on debt securities held to maturity	13 219	5 324
Miscellaneous income on securities transactions	64	
Interest on bonds and fixed-income securities	19 033	7 601
TOTAL INTEREST INCOME AND EQUIVALENT	162 319	119 878
Interest on demand deposit accounts	-124	-32
Interest or balancing payment on term loans and capital loss on the redemption of subordinated securities	-41 435	-44
Interest on securities transferred under repurchase agreements		-965
Interest on undated equity loans	-13 208	-13 841
Interest on subordinated securities	-33 068	-34 695
Interest on cash collateral	-126	-123
Expenses on debt securities held to maturity	-2 003	-233
Expenses on forward financial instruments	-12 081	-5 679
TOTAL INTEREST EXPENSE AND EQUIVALENT	-102 045	-55 612

NOTE B 2 - PROCEEDS FROM VARIABLE-INCOME SECURITIES

	31/12/2017	31/12/2016
Interest on partner current account with SNC Foncière Sébastopol	43	62
TOTAL PROCEEDS FROM VARIABLE-INCOME SECURITIES	43	62

NOTE B 3 - COMMISSION (INCOME AND EXPENSE)

	31/12/2017	31/12/2016
Guarantee commissions relating to off-balance-sheet commitments given on guaranteed property loans	180 462	151 639
TOTAL COMMISSION (INCOME)	180 462	151 639
Bank commission and fees	-867	-1 133
Commission and fees on the issue of subordinated securities	-3 511	-187
TOTAL COMMISSION (EXPENSE)	-4 378	-1 320

NOTE B 4 - GAIN OR LOSS ON INVESTMENT PORTFOLIO AND EQUIVALENT

	31/12/2017	31/12/2016
Capital loss on the disposal of securities held for sale	-70	
Charges to and reversals of provisions on options	126	123
TOTAL GAIN OR LOSS ON INVESTMENT PORTFOLIO	56	123

NOTE B 5 - GAIN OR LOSS ON TRADING PORTFOLIO AND EQUIVALENT

	31/12/2017	31/12/2016
Loss on foreign exchange transactions		-1
Gain on foreign exchange transactions	6	
TOTAL GAIN OR LOSS ON TRADING PORTFOLIO	6	-1

NOTE B 6 - OTHER INCOME AND EXPENSE FROM BANKING OPERATIONS

	31/12/2017	31/12/2016
Income from debt collection on behalf of third parties (management and recovery fees)	2 413	2 902
Ancillary income (Crédit Logement Assurance / SNC Foncière Sébastopol)	114	241
Other ancillary income	114	116
Miscellaneous income	4	33
TOTAL OTHER OPERATING INCOME	2 645	3 292
Loss on SNC Foncière Sébastopol	-299	-207
Miscellaneous expenses	-211	-163
TOTAL OTHER OPERATING EXPENSE	-510	-370

NOTE B 7 - GENERAL OPERATING EXPENSES

	31/12/2017	31/12/2016
Salaries and wages	-17 769	-17 036
Social security charges	-8 258	-7 995
Salary-based taxes	-2 769	-2 728
Expenses related to retirement benefits	-2 663	-2 928
Discretionary employee profit-sharing	-179	-339
Statutory employee profit-sharing	-2 444	-2 100
Provisions for litigation	2	317
Personnel costs	-34 080	-32 809
Taxes	-5 986	-5 602
Rentals	-1 283	-1 317
Transport and travel	-121	-134
Other external services	-9 508	-8 261
Provisions for litigation	-23	527
External services	-10 935	-9 185
Other administrative expenses	-16 921	-14 787
TOTAL GENERAL OPERATING EXPENSES	-51 001	-47 596

NOTE B 8 - CHARGES TO DEPRECIATION AND AMORTISATION AND FIXED ASSET IMPAIRMENT

	31/12/2017	31/12/2016
Software and licenses	-2 207	-2 527
Intangible fixed assets	-2 207	-2 527
Structural components	-48	-49
Roof/facade	-85	-102
Transport equipment		-1
Office equipment	-41	-21
Club Affaires machinery and equipment	-4	-5
Office furniture	-62	-59
Club Affaires furniture	-1	-1
Computer hardware	-354	-292
Fixtures and fittings - non building	-318	-317
Fixtures and fittings - building	-282	-283
Technical equipment	-265	-270
Tangible fixed assets	-1 460	-1 400
TOTAL	-3 667	-3 927

NOTE B 9 - COST OF RISK

	31/12/2017	31/12/2016
Provisions for write-down of doubtful loans		-548
TOTAL		-548

NOTE B 10 - GAINS OR LOSSES ON NON-CURRENT ASSETS

	31/12/2017	31/12/2016
Capital losses on the disposal of fixed assets	-13	-271
Capital gains on the disposal of fixed assets		57
Provisions for impairment of participating interests	-999	-1 159
TOTAL	-1 012	-1 373

NOTE B 11 - CORPORATE INCOME TAX

	31/12/2017	31/12/2016
On ordinary income	-61 653	-56 452
Additional tax assessment	-1 480	
Contribution on distributed income	-3 072	
TOTAL *	-66 205	-56 452
* of which corporate income tax instalments already paid	-56 558	-61 496

NOTE B 12 - CHARGES TO / REVERSALS FROM MUTUAL GUARANTEE FUND AND REGULATORY PROVISIONS

	31/12/2017	31/12/2016
Release of provisions for risks relating to medium- and long-term transactions	3 894	
TOTAL	3 894	

NOTE C - OTHER INFORMATION (in thousands of euros)

NOTE C 1 - TOTAL REMUNERATION AMOUNT ALLOCATED FOR THE YEAR

	Remuneration	Advances and loans	Off-balance sheet commitments
To members of all governance bodies *	37		1 455
To all managers	960	9	1 312
- fixed component	662		
- variable component	245		
- benefits in kind and add-back of death, disability and related benefits	53		
To all "regulated" staff members	1 255		

* no benefit or remuneration was paid by subsidiaries during the year

NOTE C 2 - TOTAL STATUTORY AUDITORS' FEES FOR THE YEAR

	Fees
Statutory audit	175
Ancillary services*	22

* These services include the verification of the 2016 CSR report and a letter of comfort in respect of the 28 November 2017 securities issue

NOTE C 3 - AVERAGE WORKFORCE BY OCCUPATIONAL CATEGORY

	31/12/2017	31/12/2016
Management *	2	2
Senior members of staff	226	215
Supervisors	68	68
Employees	29	31
TOTAL	325	316

* Excluding company officers

NOTE C 4 - OTHER OUTSOURCED EMPLOYEE-RELATED COMMITMENTS

The commitments corresponding to services rendered in respect of the various employee benefit schemes are covered by collective funds administered by external entities.			
Supplementary pension schemes for senior members of staff		Benefits in respect of voluntary or compulsory retirement	
Value of the collective fund administered externally	6 897	Value of the collective fund administered externally	1 829
Amount corresponding to actuarial commitments	7 092	Amount corresponding to actuarial commitments	1 833
Collective defined-benefit supplementary pension insurance scheme (Art. 39 of French tax code - <i>CGI</i>) Beneficiaries: certain senior members of staff, subject to certain coefficient and seniority-based retirement conditions 2% accrued annually up to a maximum of 20% of the salary paid in the retirement year Bonuses paid by the company are subject to the 24% flat-rate social security contribution (<i>forfait social</i>) Estimated annual service cost payable to company officers as at 31/12/2017 under Art. D 225-104-1 of the French commercial code: 106		Collective post-employment benefit scheme Beneficiaries: all employees of the company	
Rules and methods			
These amounts are updated, by type of contract, according to the "unit cost per year of service" method by an independent actuarial firm based on aggregate or individual information.			
Total commitments are calculated over the entire projected careers of the participants.			
Actuarial liabilities correspond to commitments updated on the reporting date for each policy.			
Post-employment benefits will be paid according to employee seniority under the rules of common law.			

NOTE C 5 - SPECIAL-PURPOSE ENTITIES

The company did not hold any interest in a special-purpose entity as at the reporting date.

NOTE C 6 - PROPOSED APPROPRIATION OF EARNINGS

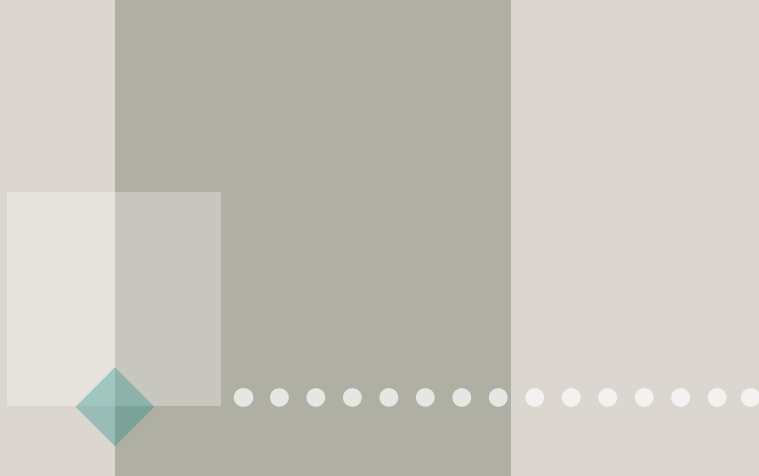
Profit for the year	120 607
Retained earnings from the previous year	299 889
Earnings to be allocated	420 496
Breakdown of allocated earnings	
Legal reserve	6 030
General reserve	
Dividends - shares	114 646
Retained earnings	299 820
TOTAL	420 496

FINANCIAL RESULTS

in thousand euros

	2013	2014	2015	2016	2017
Financial position at year-end					
Share capital	1 259 850	1 259 850	1 259 850	1 259 850	1 259 850
Number of shares issued	17 997 861	17 997 861	17 997 861	17 997 861	17 997 861
Total earnings for effective operations					
Revenues (net of tax)	297 057	288 804	496 580	274 870	345 475
Earnings before tax, depreciation and provisions	127 266	118 800	376 183	168 915	187 479
Corporate income tax	45 892	45 720	135 840	56 452	66 205
Earnings after tax, depreciation and provisions	73 910	69 598	236 015	107 795	120 607
Profit distributed	70 192			102 408	114 646
Earnings per share for operations (in euros)					
Earnings after tax but before depreciation and provisions	4,52	4,06	13,35	6,25	6,74
Earnings after tax, depreciation and provisions	4,11	3,87	13,11	5,99	6,70
Dividend per share	3,90			5,69	6,37
Workforce					
Average headcount*	280	288	305	316	325
Payroll	14 336	15 246	16 525	17 036	17 769
Staff benefits	8 951	9 782	11 118	10 923	10 921

* Without managing director



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