2018
Annual Report

CRÉDIT LOGEMENT

A MESSAGE FROM THE EXECUTIVE MANAGEMENT TEAM

Guarantee agreements delivered by Crédit Logement exceeded €100 billion for the fourth consecutive year in 2018, with €106 billion in guaranteed loans across more than 480,000 transactions.

That said, the market dynamics were different from 2017, as this performance was fuelled by business in the second half of the year.

Stripping out loan refinancing, production increased in 2018, whereas the proportion of loan refinancing decreased.

All in all, guaranteed loans continued to climb in 2018 and exceeded €345 billion by the end of the year.

Helped by historically-low interest rates throughout the year, the terms on loans increased by more than 10 months in 2018 alone. Never before have terms on conventional bank loans been so long.

From the spring, and in an effort to offset the increase in housing prices and the refocusing of measures to support investment in new-build homes, banks relaxed their lending conditions further by lowering their down payment requirements in a bid to provide solutions for younger home-seekers in lower income brackets.

The transactions that are being financed still involve a controlled risk, albeit one that is higher than in 2017. Hence, the risk that some thought had disappeared, could resurface again.

Although the first months of 2019 paint a mixed picture, one clear observation can be made regarding the first quarter: interest rates continue to fall, loan terms are staying long and the volume of loans is considerable. On average, the profile of the loans being presented to Crédit Logement for guarantee is not as solid as a year or two ago.

With this in mind, the second expert-based analysis performed by Crédit Logement and comprehensive risk coverage are valuable tools. In the present environment, they provide added value to banks by ensuring that residential property financing is both dynamic and secure.

Crédit Logement will continue to closely monitor developments on the market. By perpetuating a process that consists in analysing the creditworthiness of borrowers and their repayment capacity, and not solely basing our decisions on the value of the properties to be financed, which is exposed to market cycles, we can continue to fulfil our role and meet the needs of our partner banks and their customers in keeping with the principle of the mutualisation of risk.

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-MAGNIN,
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.

CRÉDIT FONCIER DE FRANCE,
represented by Benoît CATEL**,**
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.

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

Mrs Brigitte GEFFARD,
Head of Loans Acceptance at
LCL, Le Crédit Lyonnais.

Mrs Dominique FIABANE
Senior Advisor DG Domestics Markets
for BNP Paribas

Mrs Martine LASSÈGUES
Deputy Head of Retail banking in France
at Société Générale.

STATUTORY AUDITORS

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

Deloitte & Associés,
represented by Sylvie BOURGUIGNON

Share capital at December 31, 2018

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

with 17 997 861 shares worth 70 euros each

SHAREHOLDERS	NUMBERS OF SHARES	TOTAL AMOUNT	%
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%**
Other loans institutions	**530**	**37 100**	**0,0029%**
Physical persons	**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 EHRLER
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, 2018

REGULATORY CAPITAL
7,53 billion euros

MUTUAL GUARANTEE FUNDS
5,65 billion euros

GROSS ANNUAL PRODUCTION
106,03 billion euros
575 414 loans
for 482 589 transactions

OUTSTANDING GUARANTEE
345,8 billion euros
3 353 739 loans

WORKFORCE
328 employees

LONG-TERM RATING
Moody's: Aa3 stable
DBRS : AA low stable

CRÉDIT LOGEMENT: A REPUTABLE NAME IN THE FINANCING OF HOUSING

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 guaranties for property loans catering for banks and their customers for over 40 years, Crédit Logement arranges guaranties in the form of surety bonds for residential property loans granted to retail customers.

The Crédit Logement financial guarantee is based on the principle of the mutualisation of risk, with each borrower contributing to a mutual guarantee fund (the *Fonds Mutuel de Garantie* - FMG).

In the French residential property market, 55% of loans are covered by financial guaranties and a little over 42% by physical collateral.

Crédit Logement works with all French banks and guarantees one in every three property loans, making it a key player in the financing of residential housing.

CRÉDIT LOGEMENT'S SOLUTIONS

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 guaranties to fully cover the risk of loss, an assurance that physical collateral cannot provide, 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 surety), limiting events of default that can lead to costly disputes, often with disastrous financial implications.

Drawing on its experience in debt collection, Crédit Logement also markets a number of solutions for effective collection by banks of past-due payments on property loans that are not covered by a Crédit Logement guarantee.

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 mandatory training subsequent to the European Mortgage Credit Directive (MCD).

THE ADVANTAGES FOR BORROWERS OF THE CRÉDIT LOGEMENT GUARANTEE

The Crédit Logement guarantee is far more than a surety mechanism tied to a loan.

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 available with a physical collateral mechanism.

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 take steps to assist him or her by encouraging a dialogue. All available out-of-court solutions will be considered: payment deferral, new repayment schedule, extended loan duration, etc.

Should the resumption of instalment payments on the loan prove impossible, Crédit Logement will help the borrower with the sale of the property. 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 more than 50% of cases.

THE ADVANTAGES FOR BANKS OF THE CRÉDIT LOGEMENT GUARANTEE

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 examination of the application by Crédit Logement secures and lends weight to the bank's own analysis of the financing plan.

By taking into account the creditworthiness of borrowers, and not solely basing its decisions on the value of the financed property, which is subject to the uncertainties of property market cycles, the Crédit Logement guarantee aims to secure the property financing process by:

- limiting borrower default events;
- providing the most appropriate response to personal difficulties.

By looking after the collection of defaulted backed by its guaranties, Crédit Logement eliminates the risk that banks might incur any losses on their loans.

An effective economic guarantee

Through its comprehensive debt collection service, and the settlement of unpaid debts, the Crédit Logement solution provides banks with more protection against default-related losses than a mortgage portfolio and requires less capital through more favourable risk-weighting.

Since the guarantee provided by Crédit Logement is recognised as being identical to a physical collateral guarantee in the eyes of the Basel Committee (Basel III framework) and the credit rating agencies, banks that avail of the Crédit Logement guarantee qualify to use various forms of refinancing, e.g. through covered bonds and 'SFH' (*sociétés de financement de l'habitat*).

FINANCING RESIDENTIAL PROPERTY IN FRANCE *

2018 ended on a more positive note than it had begun. Loan production stalled in the first half of 2018, despite exceptionally good credit conditions: unprecedented increase in the term of loans and interest rates at all-time lows and below inflation. However, with the arrival of spring, most banks relaxed their lending conditions even further, applying very low down payment rates to cater for borrowers in increasingly-low income brackets.

As a result, the production of loans (excluding loan refinancing) came to €171.97 billion in 2018, representing a fall of a little under 2% by comparison with 2017.

We should not read too much into this fall, since 2017 had been an exceptional year with the production of more than €175 billion in property loans (excluding debt refinancing) and it follows three years of continuous growth.

While the trend was not as pronounced as in the previous three years, the average interest rates* (excluding insurance and collateral costs) observed throughout 2018 (1.49% in the first quarter, 1.47% in the second quarter and 1.44% in the third and fourth quarters) once again lent themselves well to loan refinancing, which amounted to €19.06 billion, compared with €45.73 billion in 2017, i.e. still 10% of production.

Loans paid are estimated to have amounted to €155.5 billion, compared with €166.6 billion in 2017 (down 6.7%).

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

The production of loans for new-build homes fell in 2018 as a result of a reduction in government support schemes (zero-interest loans and the "Pinel" buy-to-rent scheme) and the end of measures in favour of first-time buyers. With production amounting to €47.98 billion in 2018, compared to €51.03 billion in 2017, the share of new homes in the market as a whole fell from 29.1% in 2017 to 27.5%.

* Sources: Property loan production observatory (Observatoire de la Production de Crédits Immobiliers - OPCI) and Crédit Logement observatory / CSA (both excluding loan refinancing)

After a difficult first half, the production of loans to finance the acquisition of existing properties enjoyed the full effect in the second half of the year of the very attractive lending conditions applied by banks. It edged up by 0.7% overall during the year to €118.86 billion. The proportion of existing homes as a percentage of total production increased from 67.3% the previous year to 69%.

The competitive sector captured some of the demand from households that were no longer eligible for zero-interest loans and state-subsidised loans for first-time buyers (*Prêts Accession Sociale* - 'PAS'). As a result, its share of the market rose slightly to 90.4%, compared with 89.6% in 2017.

After declining 27.7% the previous year, the production of zero-interest loans fell by a further 23.4% in 2018 and its share of the market fell sharply to 3.3%, compared with 4.2% in 2017. The production of "PAS' was stable (edging up by 0.1% in 2018), with a market share of 6.3%.

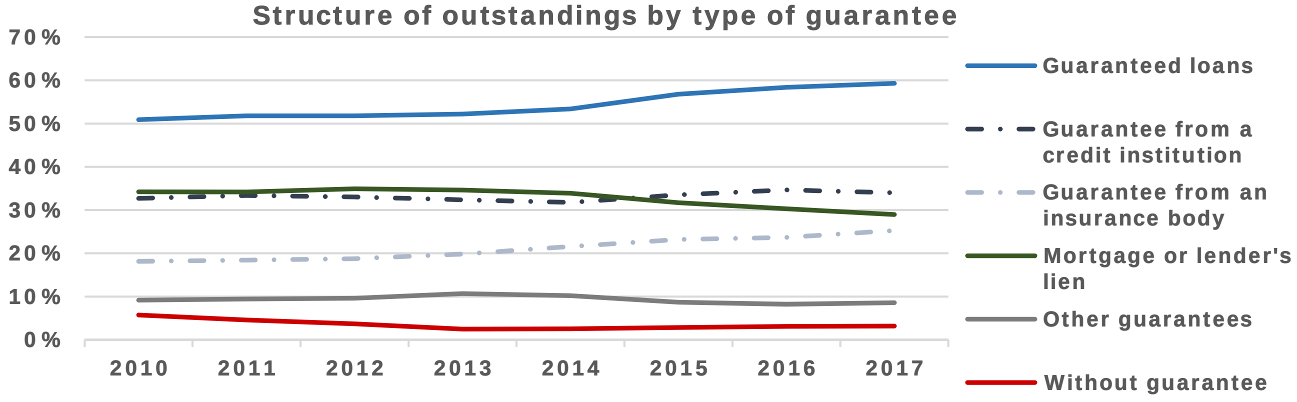
The average term of bank loans has never been so long. It stood at almost 221 months in 2018, compared with an average of 215 months in 2017. That brings the total increase in the average loan term to 22 months since 2013!

The lending conditions applied by banks, with a combination of interest rates that were below inflation, long loan terms and very low down payment requirements, helped households fulfil their property acquisition ambitions, despite an increase in property prices.

Residential loans guarantees

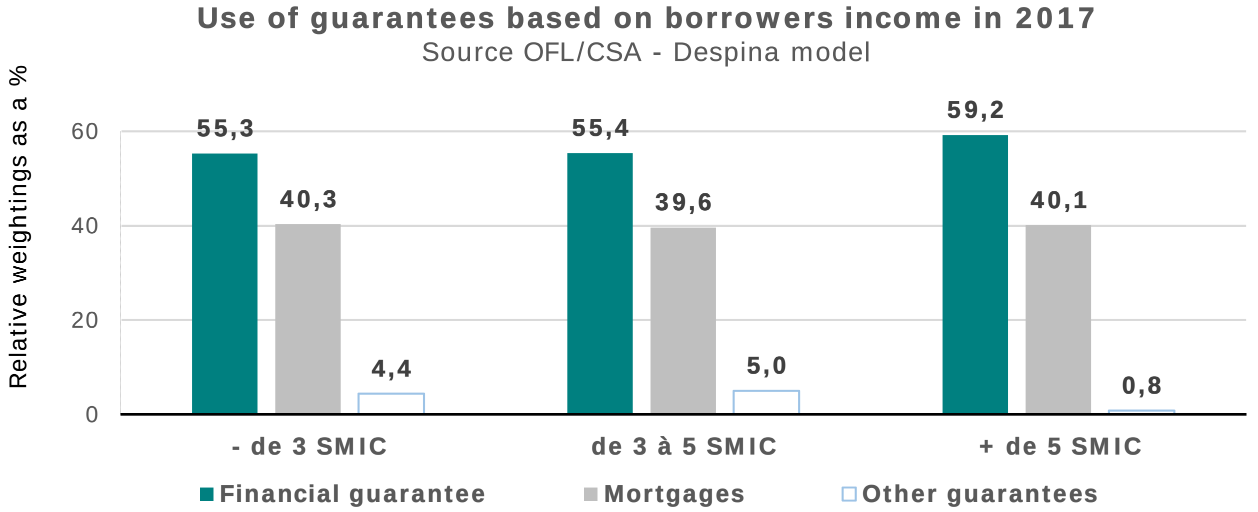
In the French property market, borrowers essentially rely on financial guaranties (bank guaranties and insurance company guaranties) when taking out a loan. The latest research available on the breakdown of the guarantees in France for 2017 (source: OFL/CSA and Despina model), expressed in total distributed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

At 57.9%, loans backed by a guarantee account for the largest proportion of outstandings, compared with 30% for mortgages (source: ACPR (French prudential supervision and resolution authority) - 2017 annual survey into the financing of housing).



Until the year 2000, mortgages were the most common guarantee mechanism applied to low-income borrowers. Financial guarantee have since become the most common form of collateral for borrowers, regardless of what income bracket they fall into.

In 2017, 55.3% of low-income borrowers were protected by a guarantee and 40.3% were covered by a mortgage mechanism. These percentages stood at 59.2% and 40.1% respectively in the case of borrowers in high-income brackets.



COMMITMENTS DURING THE YEAR

Crédit Logement recorded a year-on-year increase of 0.6% in its production levels, with 482,589 property transactions guaranteed for €106 billion.

It is important to note that, while down by almost 45% compared to 2017, loan refinancing still accounted for 12.1% of total guaranties.

Stripping out refinancing, the level of production rose by more than 13% again in 2018 year-on-year.

The average transaction amount guaranteed by Crédit Logement increased by €16,300 to €219,717. Excluding refinancing, it averaged €232,270, increasing by a little over €12,000.

Guaranties arranged by Crédit Logement amounted to €66.3 billion in 2018, representing a decline of 21.4% relative to 2017, bearing in mind that the first half of 2017 had included the arrangement of a large volume of refinancing guaranties from the second half of 2016.

Accordingly, commissions on arranged guaranties amounted to €174.1 billion, down 21.3%.

Payments into the mutual guarantee fund also declined by approximately 21% with €673.4 million collected.

With a 6.8% rate of early repayments, the level of outstandings nonetheless increased by 6.2% compared to 2017 and now exceeds €345 billion.

DEBT COLLECTION

Collection of guaranteed debts

The exposure amount decreased slightly to €1.98 billion in 2018 across a total of 20,203 loans managed, representing a decline of approximately 4% in amount and number.

Banks triggered the guarantee mechanism on 8,258 loans during the year and there were 9,086 exits from the stock of loans.

Of these 9,086 exits, more than 55% related to loans that re-entered the usual loan management cycle.

Debts repaid in full accounted for a little over 23% of all exits.

€203.2 million in payments were received and allocated to the mutual guarantee fund, representing a 16.6% increase on 2017.

Financial claims on behalf of banks amounted to €282.4 million for the period.

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 €225.8 million as at 31 December 2018, representing 2,911 debts.

€36 million was collected during the year and 565 new unpaid debts were entrusted to Crédit Logement.

More than 550 auction support applications were received and examined as part of the “auction support and sell-on” service.

CASH AND BALANCE SHEET MANAGEMENT

In 2018, 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 subordinated 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 2018, 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 2018 that were outside the scope of the financial guarantee agreement. Furthermore, the company continued to step up its policy (approved in 2016) of acquiring sovereign and quasi-sovereign transferable securities issued in the Eurozone. Collateralised deposits amounted to €4.3 billion as at 31 December 2018 and collateral received came to €750 million.

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, available cash totalled €5.2 billion as at 31 December 2018. Long-term investments of available cash, with an initial maturity of more than five years and carrying a fixed rate (excluding the reinvestment of bond issues) amounted to €1.8 billion. Medium-term investments (between one and five years) amounted to €1.3 billion. 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 mainly take 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. Furthermore, securities exchange transactions were performed in 2018, subsequent to which the securities received were recognised as trading account securities.

MANAGEMENT OF ADDITIONAL CAPITAL

Tier One and Tier Two subordinated debt issuance

Crédit Logement did not perform any new capital market transactions in 2018.

Ongoing transactions as at 31 December 2018 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.
- Subordinated loans taken out by partner banks of Crédit Logement, proportional to their outstanding loans under Crédit Logement guarantee, for a total of €1.1 billion. The decrease registered between 31 December 2017 (when they stood at €1.5 billion) and 31 December 2018 corresponds to the exercise of a call on 30 December 2018 in an amount of €396 million on

facilities arranged on 30 December 2010. These instruments were no longer recognised as Tier 2 capital after their call date in accordance with the regulations applicable to Crédit Logement.

Each of these instruments was issued prior to the implementation of Basel III and is covered by a grandfather clause, with the exception of the restructured subordinated loans, for €422 million, 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 guaranties hinges on the mutualisation 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 guaranties arranged.

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

Furthermore, as Crédit Logement's guarantee is an alternative to other lender guaranties, 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 internal rating model provides for a system of permanent controls, which is implemented by the Risk Management Department and 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 regulatory +.report is drawn up by the unit in charge of validating the models developed by the Risk Management Department.

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 2018, this internal rating system was applicable to an EAD of €373 billion, breaking down into €355 billion in guaranties arranged and €18 billion in guaranties not yet arranged.

As at that same date, the rate of default at one year on the guarantee portfolio was 0.22%, stable by comparison with the previous year. The portfolio’s probability of default at one year was estimated at an average of 0.30%.

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 12.45% 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 16.13%.

Given these parameters, the risk-weighted assets (RWA) of the portfolio stood at €29.6 billion, corresponding to a weighting of 7.94%, down by 23bp over the year.

As at 31 December 2018, the minimum regulatory capital requirement under Pillar 1 for guarantee portfolio credit risk stood at €2.9 billion, bearing in mind that 19% of this requirement, namely €554 million, corresponded to the application of a capital conservation buffer and that close to 19%, i.e. €545 million, corresponded to the regulatory increase to be applied to the LGD to obtain a "downturn" LGD.

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

Excluding the equivalent value in euros of the EAD of loans guaranteed in Switzerland (guarantee operations were discontinued in this country in 2015) in the amount of €48.2 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 "standardised" 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. 18 risk events were reported in 2018 (compared with 31 in 2017) and 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 2018, work continued to adapt security measures to changing threats, notably by testing the efficiency of existing measures. No critical vulnerability was identified.

The host of the recovery site used in the Contingency and Business Continuity Plan (*Plan d'Urgence et de Poursuite d'Activité* - PUPA) handles 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 mechanisms 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 €30 million as at 31 December 2018.

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 management policy and the requirements resulting from its role as a guaranter.

For the management of this liquidity risk, an extreme 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 2018, 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 remains positive at all times. 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 stress scenario and on several liquidity indicators in various timeframes (day, month, quarter), was approved by the ACPR in May 2011 and, as required, showed a still-positive gap over the first three years as at 31 December 2018.

The emergency response plan in place to handle a liquidity crisis was tested in 2018 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 rate 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 rate curve stands out as the most adverse scenario.

As at 31 December 2018, the sensitivity of NPV over 10 years in the event of a 200bp drop in interest rates corresponded to 7.50% of the share capital after taking into account the macro-hedging swap portfolio.

Market risk, counterparty risk and other risks

At the end of 2018, 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 collectivities, 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 2018 has been adjusted to the amount of the cash collateral guaranteeing this redemption, namely €7 million.

Other than this investment and the two subsidiaries described later on in this report, 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 by factoring in the risks referred to in the French order of 3 November 2014 on internal control.

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

With 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 plan to collateralise investments with its main counterparties was implemented in 2013 and is still ongoing.

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 provoke.

Liquidity risk

Liquidity gaps in the portfolio of liquid assets are examined under an extreme stress scenario to verify that Crédit Logement would be in a position honour all of its commitments, even under 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 rate 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 guaranties 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 capital.

Measurement of internal capital

As at 31 December 2018, the amount of internal capital needed to cover all risks to which the company is exposed (expected and unexpected losses) was €2.1 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 2018, SNC Foncière Sébastopol carried out fourteen new auctions and sold on fourteen assets.

At the end of 2018, there were twenty-three properties in stock representing a total net amount of €2,244,388, including an impairment provision of €158,000, compared with €1,949,319 as at 31 December 2017.

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 €141,711, 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.

However, the development 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 the 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.

All partnership agreements have been terminated and production was effectively discontinued as of 2 November 2018.

The transfer over to Crédit Logement of Crédit Logement Assurance's guarantee commitments is earmarked for 2019.

Accordingly, 2018 revenue fell year-on-year from €1,504,980 to €794,229.

A claim was filed and closed in 2018 that represented a total expense of €6,115, compared with an expense of zero in 2017.

Furthermore, the company's IT tools were written off in full as at 31 December 2017.

The income statement for 2018 shows a profit of €80,312 compared with a loss of €589,269 a year earlier.

Based on the net asset value of Crédit Logement Assurance, there was no change in 2018 in the impairment of the securities held by Crédit Logement.

ACCOUNTS FOR THE FINANCIAL YEAR

BALANCE SHEET

Total assets as at 31 December 2018 amounted to €10.8 billion, stable by comparison with the figure as at 31 December 2017.

OFF-BALANCE SHEET COMMITMENTS: OUTSTANDINGS

Crédit Logement's off-balance sheet outstandings, representing capital remaining due for guaranties covering the repayment of loans distributed by other institutions, is still growing and had reached €345.8 billion as at 31 December 2018, compared with €325.7 billion as at 31 December 2017.

Guarantee agreements not yet arranged amounted to €39.4 billion at the end of 2018, compared with €36.7 billion at the end of 2017.

Outstandings for which surety agreements had been arranged therefore increased by a net amount of €20.1 billion, i.e. by 4.2%, factoring in annual amortisation and early repayments in the amount of €45.2 billion. While lower than in 2017, the rise in early repayments remained at a steady pace (6.8% of outstandings).

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 22.5% as at 31 December 2018, compared with 22.8% as at 31 December 2017. Pillar 2 capital, for which the methods of calculation were revised by the regulator in May 2017, must equate to at least 2% of outstanding guaranties. It stood at €6.9 billion as at 31 December 2018.

Change in regulatory capital

Prudential capital was practically unchanged at €7.5 billion as at 31 December 2018, compared with €7.6 billion as at 31 December 2017. This stability masks diverging trends and essentially stemmed from, on the one hand, a volume of business that continued to fuel growth in the mutual guarantee fund and, on the other hand, the repayment of a tranche of subordinated loans and the distribution of a special dividend.

	31/12/2018	31/12/2017	Change
Equity capital on the liability side of the balance sheet	1,709,174	1,871,256	-162,082
Fund for general banking risks	609	609	0
Mutual guarantee fund	5,649,040	5,317,747	331,293
Income (losses) to be allocated	(102,486)	(120,607)	18,121
Deductions	(1,726,345)	(1,725,108)	(1,237)
COMMON EQUITY TIER 1 CAPITAL	**5,529,992**	**5,343,897**	**186,095**
Tier 1 subordinated notes	326,250	326,250	0
Deductions	0	0	0
TIER 1 CAPITAL	**5,856,242**	**5,670,147**	**186,095**
Subordinated loans	1,122,761	1,518,340	-395,579
Tier 2 subordinated bonds	618,382	673,921	-55,539
Add-back of Tier 1 capital incorporated into Tier 2 capital	0	0	0
Mutual guarantee fund held in Tier 2	1,498	1,479	19
Deductions	(67,306)	(303,604)	236,298
ADDITIONAL EQUITY CAPITAL TIER 2	**1,675,335**	**1,890,136**	**-214,801**
TOTAL REGULATORY CAPITAL (numerator)	**7,531,577**	**7,560,283**	**-28,706**
Weighted risks - advanced IRB model	29,496,457	28,538,734	
Weighted risks - standard method	3,219,729	3,656,856	
Other assets not corresponding to loan obligations	459,345	438,004	
Operational risks	372,586	536,790	
TOTAL BASEL II WEIGHTED RISKS (denominator)	**33,548,117**	**33,170,384**	**377,733**
Common Equity Tier 1 solvency ratio	**16.48%**	**16.11%**	
Tier 1 solvency ratio	**17.46%**	**17.09%**	
SOLVENCY RATIO	**22.45%**	**22.79%**	
Pillar 2 capital requirements	**6,915,540**	**6,514,404**	

Common Equity Tier 1

The total amount of Common Equity Tier 1 capital was €5.5 billion as at 31 December 2018, compared with €5.3 billion in 2017, representing a net increase of €186 million:

- the mutual guarantee fund held in Common Equity Tier 1 increased by €331 million to €5.6 billion at the end of 2018, compared with €5.3 billion in 2017;
- retained earnings decreased by €150 million due to the distribution of a special dividend.

Tier 1 capital

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

Tier 2 capital

Tier 2 capital decreased by €215 million mainly due to the repayment of a tranche of subordinated loans in the amount of €396 million, partially offset by a lowering of the ceiling in respect of the grandfather clause in the amount of €236 million.

MATURITIES AND PAYMENT SCHEDULES FOR RECEIVABLES AND PAYABLES

The receivables analysed in this paragraph relate to the guarantee activity for third parties and various services provided to third parties. The payables correspond to amounts due to suppliers for purchases.

We have not included own-account banking transactions in the information provided hereafter, as we consider that they do not fall within the scope of the information that is required to be disclosed.

Schedule of payables and receivables (in thousands of euros)

	31/12/2018						31/12/2017					
	1 to 30 days	31 to 60 days	More than 60 days	More than 90 days	Payables and receiv. due	**Total**	1 to 30 days	31 to 60 days	More than 60 days	More than 90 days	Payables and receiv. due	**Total**
Accounts payable	341	118			137	**596**	268	52			719	**1 039**
Accounts receivable	1 205				1 121	**2 326**	1 045				21	**1 066**

Payables and receivables due at 31 December 2018 (in thousands of euros)

	Article D 441 I. -1°: Invoices received, unpaid and overdue at the end of the period						Article D 441 I. -2°: Invoices issued, unpaid and overdue at the end of the period					
	Day 0 (guide)	1 to 30 days	31 to 60 days	61 to 90 days	91 days or more	Total (1 day or more)	Day 0 (guide)	1 to 30 days	31 to 60 days	61 to 90 days	91 days or more	Total (1 day or more)
(A) Bands of late payment												
Number of invoices affected		22	6	2	5	35		1		1	1	3
Total amount (incl. tax) of invoices affected		128	13	-5	1	137		18		1 100	3	1 121
Percentage of total amount of purchases (incl. tax) for the year		1,13%	0,11%	-0,04%	0,01%	1,21%						
Percentage of revenue for the year (incl. tax)								0,01%		0,41%	0,00%	0,42%
(B) Invoices excluded from (A) relating to disputed or unrecognised payables and receivables												
Number of invoices excluded												
Total amount of invoices excluded												
(C) Reference payment terms used (contractual or statutory term - Article L.441-6 or Article L.443-1 of the French commercial code)												
Payment deadlines used to calculate late payments	■ Contractual term: from "on receipt" until "60 days from invoice date" ☐ Statutory term						■ Contractual term: from "15 days" to "30 days from invoice date" ☐ Statutory term					

INCOME STATEMENT

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

Net banking income amounted to €204.3 million, compared with €238.6 million a year earlier, representing a decrease 14.4%.

Of this, net financial income rose by 4.4% on the previous year, attributable to the following:

- an increase of 5.2% in the average proceeds from the investment of available cash, fuelled by strong business volumes during the year, albeit with a 17.8% drop in income on the previous year as a result of the continued fall in interest rates;
- 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 at the end of 2017 of two series of old Tier 1 and Tier 2 securities only partially qualifying as own funds and a new issue in the amount of €500 million as part of the management of regulatory capital, which enabled Crédit Logement to save €12 million between 2017 and 2018 on these issues.

However, bearing in mind that 2017 had been a record year, the fall in the number of guaranties arranged on new transactions and the decrease in early repayments resulted in a 22.6% decline in commissions on arranged guaranties.

Lastly, the 20.7% increase in other income from operations essentially stems from growth in income from the collection of debts on behalf of third parties.

Overheads totalled €53.4 million, compared with €54.7 million in 2017, representing a decrease of 2.3%.

This decrease breaks down as follows:

- personnel expenses declined by 0.9%, essentially due to changes in the variable component of remuneration packages;
- other administrative costs decreased by 6.9%, mainly due to two factors. The first of these factors was tied to the amount of taxes and duties directly related to the level of business for the year, and the second to the absence of charges on new capital management transactions;
- depreciation and amortisation charges and impairment provisions increased by 6.1%.

Furthermore, Crédit Logement did not book any sumptuary expenses in 2018.

As a result, gross operating income, before non-recurring income and expenses, corporate income tax and tax-driven provisions, amounted to €150.8 million, down by 18.0% on the previous financial year.

The corporate tax expense was €51.5 million, compared with €63.1 million in 2017.

Overall, after reimbursement of the social surcharge on corporate income tax, net profit for the financial year came to €102.5 million, pointing to a return on equity of 5.93% in 2018.

OUTLOOK AND SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

After rising in the last quarter of 2018, with no real bearing on the rates applied on property loans, market rates edged down again in the first quarter of 2019, settling at extremely low levels.

The rates on property loans are therefore still at the levels observed in recent years, averaging 1.44% in February 2019 according to the data gathered by the Crédit Logement CSA observatory. Still according to the observatory's data, the term on loans continues to lengthen, stabilising at 230 months in February 2019, a record level that was first reached in January 2019.

We expect this configuration to prevail at least for the first half of 2019.

Crédit Logement has not been affected by any significant event occurring since the end of the financial year.

PROPOSED APPROPRIATION OF EARNINGS

The distributable profit of €252,383,267.05 breaks down as follows:

• net profit for the financial year	€ 102,485,626.89
• plus retained earnings from the previous year	€ 149,897,640.16

The following appropriation is proposed:

• legal reserve	€5,124,281.34
• dividends allocated to shareholders	€246,570,695.70
• retained earnings	€688,290.01

The proposed payout therefore amounts to €246.57 million, giving a dividend of €13.70 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 proposed special resolution

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

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 25 April 2019.

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 Crédit Logement has not held securities admitted for trading on a regulated market since December 2017.

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

These provisions were clarified in the first report drawn up in 2018 and have undergone no changes since then.

List of the corporate offices and roles of each company officer in 2018.

The Board of Directors of Crédit Logement is composed of 13 directors. A list of their corporate offices and roles and of those of the company's senior managers is provided in the notes to this report.

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, 2018
in thousand euros

	2018	2017	Notes
CASH, CENTRAL BANKS, CCP	**5**	**6**	
DEPOSITS ON CREDIT INSTITUTIONS	**6 181 510**	**6 997 971**	A1
On sight	383 736	429 409	
Term	5 797 774	6 568 562	
CUSTOMER TRANSACTIONS	**1 347 449**	**1 335 591**	A3
Other customer loans	595	685	
Doubtful loans	1 346 854	1 334 906	
BONDS AND OTHER FIXED-INCOME SECURITIES	**2 360 760**	**1 745 225**	A4-1
SHARES AND OTHER VARIABLE-INCOME SECURITIES	**385 814**	**192 106**	A4-1
INTERESTS IN AFFILIATED COMPANIES	**6 986**	**6 651**	A4-2
INTANGIBLE FIXED ASSETS	**6 339**	**4 872**	A5
TANGIBLE FIXED ASSETS	**12 677**	**12 855**	A5
OTHER ASSETS	**13 533**	**1 769**	A6
ACCRUALS	**497 503**	**472 699**	A6
TOTAL ASSETS	**10 812 576**	**10 769 745**	
Guarantee outstandings	**345 777 089**	**325 720 231**	A12-1
Guarantee commitments not yet implemented	**39 387 280**	**36 688 072**	A12-1
COMMITMENTS GIVEN	**385 164 369**	**362 408 303**	

	2018	2017	Notes
Amounts due to Credit institution	**6 651**	**15 295**	**A7**
On sight	11	66	
Term	6 640	15 295	
Amounts due to customer	**24 218**	**25 041**	**A7**
OTHER LIABILITIES	**360 101**	**125 365**	**A8**
ACCRUALS	**817 508**	**773 026**	**A8**
DEPRECIATIONS FOR RISK AND EXPENSES	**1 152**	**235**	**A8**
SUBORDINATED DEBT	**7 893 162**	**7 958 917**	
Mutual guarantee deposits	5 650 538	5 320 705	A9-1
Subordinated borrowings	1 122 761	1 518 340	A9-2
Accrual on borrowings	1 611	1 623	A9-2
Surbordinated securities	1 104 250	1 104 250	A9-2
Accruals on subordinated securities	14 002	13 999	A9-2
FUNDS FOR GENERAL BANKING RISKS	**610**	**610**	**A9-3**
SHAREHOLDERS' EQUITY	**1 709 174**	**1 871 256**	
Capital	1 259 850	1 259 850	A9-4
Reserves	143 887	137 857	A9-4
Regulatory provisions	53 053	53 053	A9-3
Retained earnings	149 898	299 889	
Earnings for the year	102 486	120 607	
TOTAL LIABILITIES	**10 812 576**	**10 769 745**	
Guarantee commitments received from credit institutions	2 171 889	2 373 271	A11
COMMITMENTS RECEIVED	**2 171 889**	**2 373 271**	

PROFIT AND LOSS
AT DECEMBER 31, 2018
in thousand euros

	2018	2017	Notes
Interest income	123 645	162 319	B1
Interest expenses	-60 706	-102 045	
Income from variable-income securitie	37	43	B2
Commission (income))	139 615	180 462	B3
Commission (expenses)	-737	- 4 378	
Gain or loss on exchange	-2	6	B4
Income on marketable securities	-150	56	B5
Other banking operating income	2 893	2 645	B6
Other banking operating expenses	-315	- 510	
NET BANKING INCOME	**204 280**	**238 598**	
General operating expense	-49 529	-51 001	B7
Allowances for depreciation and amortisation on tangible and intangible fixed assets including equity securities	-3 890	-3 667	B8
CHARGES GNERALES D EXPLOITATION ET DOTATIONS AUX AMORTISSEMENTS ET PROVISIONS	**-53 419**	**-54 668**	
GROSS OPERATING INCOME	**150 861**	**183 930**	
Cost of credit risk			
OPERATING INCOME	**150 861**	**183 930**	
Gains on long terms investments and changes in provisions		-1 012	B9
INCOME BEFORE TAX	**150 861**	**182 918**	
Non-recurring income/loss			
Corporate income tax	-48 375	-66 205	B10
Allowances/write back for provisions		3 894	B11
NET INCOME FOR THE YEAR	**102 486**	**120 607**	

STATUTORY AUDITORS REPORT
ON THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018

To the general meeting of the shareholders of Crédit Logement

Opinion on the annual financial statements

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 2018, 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 2018 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.

Specific verifications

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

Disclosures made in the management report and in the other documents provided to the shareholders relating to the company's financial position and annual financial statements

With the exception of the matter referred to in the following paragraph, 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 other documents provided to the shareholders.

We have the following observation with regard to the fair presentation and consistency with the annual financial statements of the disclosures relating to payment terms, referred to in Article D.441-4 of the French commercial code: as stipulated in the management report, such disclosures do not include banking transactions and related transactions, as your company holds the view that they do not fall within the scope of the disclosures to be made.

Disclosures relating to corporate governance

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 is required to exercise professional judgement throughout the audit and furthermore to:

- 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, ascertain 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.

La Défense and Paris, 10 April 2019

The Statutory Auditors

Deloitte & Associés,	CTF,
Sylvie Bourguignon.	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 2018.

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	5 years
Technical equipment	Straight-line	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 ans 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.

The maturity of this transaction is set for the 30th of June 2019

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 2010 was repaid on 30 December 2018. 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 members of the management body (Chairman of the Board, directors and effective managers).

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 €4517,50 in directors' fees in financial year 2018. 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	**421 213**	**677 235**	**2 200 454**	**2 882 608**	**6 181 510**
Demand accounts	383 731				383 731
Term accounts	30 000	665 000	2 194 300	2 882 593	5 771 893
Accrued interest	7 482	12 235	6 154	15	25 886
LOANS AND ADVANCES TO CUSTOMERS	**1 346 894**	**102**	**122**	**331**	**1 347 449**
Other customer loans and advances	40	102	122	331	595
Doubtful loans	1 346 854				1 346 854
BONDS AND OTHER FIXED-INCOME SECURITIES	**145 036**	**179 033**	**656 432**	**1 380 259**	**2 360 760**

NOTE A 2 - BREAKDOWN OF LOANS AND ADVANCES

	Affiliated companies	Equity interests	Other companies	Retail customers	Total
LOANS AND ADVANCES TO CREDIT INSTITUTIONS		6 124 717	56 793		6 181 510
LOANS AND ADVANCES TO CUSTOMERS			267 625	1 079 824	1 347 449
BONDS AND OTHER FIXED-INCOME SECURITIES		800 890	1 559 870		2 360 760

NOTE A 3 - LOANS AND ADVANCES TO CUSTOMERS

NOTE A 3-1 - CHANGES IN CUSTOMER OUTSTANDINGS

	31/12/2017	Releases / Disbursements	Repayments / Collections	Write-offs	31/12/2018
Cash loans - loans to staff	685	124	214		595
Doubtful loans	1 334 839	282 697	204 068	66 681	1 346 787
Other third party doubtful loans	616				616
Impairment of other third party doubtful loans	-549				-549
TOTAL	**1 335 591**	**282 821**	**204 282**	**66 681**	**1 347 449**

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	595				595
Doubtful loans			1 346 854	1 338 250	1 346 854
TOTAL	**595**		**1 346 854**	**1 338 250**	**1 347 449**

NOTE A 4 - SECURITIES PORTFOLIO

NOTE A 4-1 - BREAKDOWN OF SECURITIES PORTFOLIO

	Acquisition value				Market or net asset value	Redemption value
	Issued by public agencies	Other issuers				
		listed	unlisted	Total		
BONDS AND OTHER FIXED-INCOME SECURITIES						
Trading account securities - Securities borrowed		**21 545**		**21 545**	**21 545**	
Trading account securities		**21 545**		**21 545**	**21 545**	
Securities received under repurchase agreements		250 000		250 000	261 323	
Accrued interest		795		795		
Securities received under repurchase agreements		**250 795**		**250 795**	**261 323**	
Bonds	940 692	1 137 499		1 137 499	2 107 399	2 090 095
Accrued interest	4 677	5 552		5 552		
Debt securities held to maturity	**945 369**	**1 143 051**		**1 143 051**	**2 107 399**	**2 090 095**
SHARES AND OTHER VARIABLE-INCOME SECURITIES						
Trading account securities - Securities borrowed		323 884		323 884	323 884	
Trading account securities		323 884		323 884	323 884	
UCITS		55 070		55 070	54 889	
Other securities			8 907	8 907	7 041	
Impairment provision		-181	-1 866	-2 047		
Securities held for sale		**54 889**	**7 041**	**61 930**	**61 930**	
Interests in affiliated companies			9 143	9 143	6 986	
Impairment provision			-2 157	-2 157		
PARTICIPATING INTERESTS			**6 986**	**6 986**	**6 986**	
TOTAL SECURITIES PORTFOLIO	**945 369**	**1 794 164**	**14 027**	**1 808 191**	**2 783 067**	

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	-377	-589	6 829	4 672
SNC Foncière Sébastopol	99.90	15		-299	15	15
Partner advances and current accounts						
SNC Foncière Sébastopol					2 299	2 299
INTERESTS IN AFFILIATED COMPANIES					**9 143**	**6 986**

* Data as at 31/12/2017

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	**36 728**	**3 911**	**0**	**40 639**	**6 339**
Assets under construction	1 818	1 265	-1 282	1 801	1 801
Software and licenses	34 910	2 646	1 282	38 838	4 538
TANGIBLE FIXED ASSETS	**31 265**	**1 268**	**-1 118**	**31 415**	**12 677**
Assets under construction	197	112	-145	164	164
Land	2 909			2 909	2 909
Structural components of buildings	5 479	20		5 499	3 455
Roof/facade	2 091		81	2 172	387
Office equipment	452	1		453	53
Club Affaires machinery and equipment	87	1	-1	87	11
Office furniture	1 588	30	33	1 651	415
Club Affaires furniture	123			123	35
Computer hardware	3 873	228	-1 115	2 986	450
Fixtures and fittings - non building	5 381	27	6	5 414	852
Fixtures and fittings - building	4 194	34	16	4 244	1 210
Technical equipment	4 891	815	7	5 713	2 736
TOTAL	**67 993**	**5 179**	**-1 118**	**72 054**	**19 016**

DEPRECIATION, AMORTISATION OR PROVISIONS	Opening balance	Charges	Reductions	Closing balance
INTANGIBLE FIXED ASSETS	**31 856**	**2 444**	**0**	**34 300**
Software and licenses	31 856	2 444		34 300
TANGIBLE FIXED ASSETS	**18 410**	**1 446**	**-1 118**	**18 738**
Land				
Structural components of buildings	1 996	48		2 044
Roof/facade	1 698	87		1 785
Office equipment	360	40		400
Club Affaires machinery and equipment	74	3	-1	76
Office furniture	1 172	64		1 236
Club Affaires furniture	87	1		88
Computer hardware	3 336	317	-1 117	2 536
Fixtures and fittings - non building	4 241	321		4 562
Fixtures and fittings - building	2 773	261		3 034
Technical equipment	2 673	304		2 977
TOTAL	**50 266**	**3 890**	**-1 118**	**53 038**

NOTE A 6 - OTHER ASSETS AND ACCRUALS

	31/12/2018	31/12/2017		31/12/2018	31/12/2017
Deposit guarantee fund (*FGDR*)	8	12	Forward financial instrument adjustment accounts (cash margin calls)	52 133	52 673
Deposits and sureties given	212	206	Currency adjustment accounts	31	46
			Losses to be amortised on forward financial instr.	3 540	2 668
Amounts in respect of tax and social security payments	10 919	407	Prepaid expenses	940	925
Sundry debtors (staff)	66	87	Expenses to be spread forward	338	494
Other sundry debtors (customers)	2 287	1 042	Accrued income on guarantees	430 376	408 947
Other sundry debtors (other)	41	15	Accrued income on forward financial instruments	10 137	6 937
			Miscellaneous accrued income	8	9
			Other accruals		
Other assets	**13 533**	**1 769**	**ACCRUALS**	**497 503**	**472 699**

NOTE A 7 - AMOUNTS DUE TO CREDIT INSTITUTIONS AND CUSTOMERS

	31/12/2018	31/12/2017
Accounts and borrowings		
- Deposits of cash collateral	6 524	15 201
- Accrued interest	127	94
Credit institutions	**6 651**	**15 295**
Cash collateral received	7 041	6 913
Other amounts due - including segregated amounts	17 177	18 128
Customers	**24 218**	**25 041**

NOTE A 8 - OTHER LIABILITIES, ACCRUALS AND PROVISIONS

	31/12/2018	31/12/2017		31/12/2018	31/12/2017
Amounts payable on borrowed securities	345 429	105 269	Prepaid income on guarantees	405 808	380 711
Amounts due in respect of tax and social security payments	3 492	9 166	Deferred income on guarantees	274 756	265 736
Sundry creditors (staff)	4 794	3 885	Accrued expenses on forward financial instruments	10 028	8 255
Sundry creditors (suppliers)	2 053	2 801	Gains spread forward on forward financial instr.	51 635	50 629
Amounts payable to staff	1 513	2 444	Currency adjustment accounts	29	45
Other sundry creditors	2 820	1 800	Forward financial instrument adjustment accounts (cash margin calls)	75 252	67 650
			Other accruals		
Other liabilities	**360 101**	**125 365**	**Accruals**	**817 508**	**773 026**

Provisions for liabilities and charges

Category	31/12/2018	Charges	Releases	Release of unused prov.	31/12/2018
Provisions for litigation	235	917			1 152
TOTAL	**235**	**917**			**1 152**

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	5 529 975	673 422	-276 923	5 926 474
Mutual guarantee fund in foreign currency	1 662		16	1 678
Use of the mutual guarantee fund to cover irrecoverable written-off debt	-210 932	-67 560	878	-277 614
Mutual guarantee fund - liabilities	**5 320 705**	**605 862**	**-276 029**	**5 650 538**
Doubtful loans to be recovered - assets	-1 334 839	-282 697	270 749	-1 346 787
Available mutual guarantee fund after doubtful loans	**3 985 866**	**323 165**	**-5 280**	**4 303 751**

Doubtful loans to be recovered - assets	1 334 839	282 697	-270 749	1 346 787
Expected loss on doubtful loans - estimated write-off of irrecoverable debt	-543 636	-115 542	110 305	-548 873
Estimated recovery on doubtful loans	**791 203**	**167 155**	**-160 444**	**797 914**
Mutual guarantee fund after expected loss on doubtful loans	**4 777 069**	**490 320**	**-165 724**	**5 101 665**

NOTE A 9-2 - SUBORDINATED DEBT

SUBORDINATED LOANS	Issue date	Due or early repayment date	31/12/2018		31/12/2017	
			Amount	Accrued interest	Amount	Accrued interest
	30/12/2010				395 579	
	30/06/2011		415 186		415 186	
	30/12/2011		286 008		286 008	
Undated			701 194	1 593	1 096 773	1 606
	30/06/2012	30/12/2026	300 830		300 830	
	30/06/2013	30/12/2026	120 737		120 737	
Dated			421 567	18	421 567	17
Total equity loans			**1 122 761**	**1 611**	**1 518 340**	**1 623**
SUBORDINATED SECURITIES	Issue date / Due date	Number of securities				
Perpetual bonds	16/03/2006	6 525	326 250	122	326 250	119
ISIN FR 0010301713 (partial redemption of 9,475 securities on 26/11/2017)	indeterminate					
Redeemable bonds	16/02/2011	2 780	278 000	13 251	278 000	13 251
ISIN FR 0011000231 (partial redemption of 2,220 securities on 28/11/2017)	16/02/2021					
Redeemable bonds	28/11/2017	5 000	500 000	629	500 000	629
ISIN FR 0013299468	28/11/2029					
Total subordinated securities			**1 104 250**	**14 002**	**1 104 250**	**13 999**
TOTAL SUBORDINATED DEBT			**2 227 011**	**15 613**	**2 622 590**	**15 622**

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	53 053			53 053
Fund for general banking risks	610			610
TOTAL	**53 663**			**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	32,50 %	- Crédit Mutuel and CIC	10,00 %
- 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 %		

	31/12/2017	Increase / allocation	Decrease / allocation	31/12/2018
The share capital, fully paid-up, comprises:				
- 17,997,861 ordinary shares	1 259 850			1 259 850
	1 259 850			**1 259 850**
Legal reserve	70 619	6 030		76 649
General reserve	67 238			67 238
TOTAL	**137 857**	**6 030**		**143 887**

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

ASSETS	31/12/2018	31/12/2017	LIABILITIES	31/12/2018	31/12/2017
Credit institutions	25 886	25 092	Credit institutions	127	93
Interests in affiliated companies	11	9	Subordinated debt	15 613	15 622
Bonds and other fixed-income securities	11 024	8 520	Other liabilities: tax and social security liabilities	3 492	9 166
Other assets: tax claims	10 919	407	Accruals:		
Accruals:			- forward financial instruments	10 028	8 255
- guarantees	430 376	408 946			
- suppliers	8	8			
- forward financial instruments	10 137	6 937			
Accrued income	**488 361**	**449 919**	**Deferred expenses**	**29 260**	**33 136**
Accruals:			Accruals:		
- issue costs to be amortised	338	494	- sureties - Initio tariff	274 756	265 736
- suppliers	940	925	- sureties - classical tariff	405 808	380 711
Prepaid expenses	**1 278**	**1 419**	**Deferred income**	**680 564**	**646 447**

NOTE A 11 - OFF-BALANCE SHEET COMMITMENTS RECEIVED

	31/12/2017	Changes	31/12/2018
. Counter-guarantee received (from shareholders or otherwise) relative to the commitment to replenish the mutual guarantee fund	2 373 271	-201 382	2 171 889
TOTAL GUARANTEE COMMITMENTS RECEIVED FROM CREDIT INSTITUTIONS	**2 373 271**	**-201 382**	**2 171 889**

Master financial guarantee agreement pursuant to Art. L211-38 of the French monetary and financial code (CMF)			
Eligible securities traded in euros	207 775	-98 725	109 050
Claim on Crédit Logement - equity loans	526 300	-194 749	331 551
Eligible receivables resulting from loans, credits or funding to legal persons	731 205	-421 862	309 343
ADDITIONAL INFORMATION: OTHER SECURITIES RECEIVED AS COLLATERAL - PLEDGES	**1 465 280**	**-715 336**	**749 944**

NOTE A 12 - OFF-BALANCE SHEET COMMITMENTS GIVEN

NOTE A 12-1 - CHANGES IN COMMITMENTS GIVEN

	31/12/2017	Incoming	Amortisation/diff.	Outgoing	31/12/2018
Guarantees on property loans - Guarantee agreements arranged	325 700 220	66 218 415	-23 160 832	-23 000 767	345 746 121
Estimated unpaid instalments on property loans before call-in of guarantee	19 962		10 915		30 877
	325 720 182	66 218 415	-23 149 917	-23 000 767	345 776 998
Guarantee agreements not yet arranged	36 688 072		2 699 208		39 387 280
Guarantee of property loans to retail customers	**362 408 254**	**66 218 415**	**-20 450 709**	**-23 000 767**	**385 164 278**
Financial guarantees	**49**	**91**		**-49**	**91**
GUARANTEE COMMITMENTS AT THE REQUEST OF CUSTOMERS	**362 408 303**	**66 218 506**	**-20 450 709**	**-23 000 816**	**385 164 369**

NOTE A 12-2 - BREAKDOWN BY RESIDUAL TERM

Guarantees at the request of customers	< 3 months	3 months to 1 year	1 to 5 years	> 5 years	TOTAL
Guarantees on property loans - Guarantee agreements arranged	134 360	1 366 509	15 787 879	328 457 373	345 746 121
Guarantee commitments not yet implemented		39 387 280			39 387 280
Estimated unpaid installments before call on guarantee	30 877				30 877
Financial guarantees	91				91
TOTAL	**165 328**	**40 753 789**	**15 787 879**	**328 457 373**	**385 164 369**

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	344 975 421	267 621	770 700	269 113	345 746 121
Estimated unpaid installments before call on guarantee	30 877				30 877
Guarantee commitments not yet implemented	39 387 280				39 387 280
Financial guarantees	91				91
TOTAL	**384 393 669**	267 621	**770 700**	269 113	**385 164 369**

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	5 088 200	23 118	25 412	25 542
Outside agreement scope	100 000		6 022	5 794
TOTAL	**5 188 200**		**31 434**	**31 336**

No transfer between categories was made in 2018

Interest rate instruments - by remaining term	< 3 months	3 months to 1 year	1 to 5 years	> 5 years	TOTAL
Firm micro-hedging transactions			634 700	1 203 500	1 838 200
Firm macro-hedging transactions (fixed rate for buyer)		140 000	620 000	2 590 000	3 350 000
TOTAL		**140 000**	**1 254 700**	**3 793 500**	**5 188 200**

NOTE B - INFORMATION ON THE INCOME STATEMENT (in thousands of euros)

NOTE B 1 - INTEREST INCOME AND EQUIVALENT - INTEREST EXPENSE AND EQUIVALENT

	31/12/2018	31/12/2017
Interest on demand deposit accounts	47	24
Interest on term deposit accounts (counterparty for subordinated loans)	6 119	7 448
Interest on term loans and advances	40 013	95 532
Income on forward financial instruments	49 560	35 300
Transactions with credit institutions	**95 739**	**138 304**
Loans to Crédit Logement staff	3	3
Interest on doubtful loans (late payment interest on guaranteed debt)	6 305	4 979
Transactions with customers	**6 308**	**4 982**
Interest on securities received under repurchase agreements	803	5 750
Interest income on securities held for sale		
Interest income on debt securities held to maturity	20 104	13 219
Miscellaneous income on securities transactions	691	64
Interest on bonds and fixed-income securities	**21 598**	**19 033**
TOTAL INTEREST INCOME AND EQUIVALENT	**123 645**	**162 319**
Interest on demand deposit accounts	-40	-124
Interest or balancing payment on term loans	-38	-41 435
Interest on term account	-80	
Interest on undated subordinated loans and determined	-11 301	-13 208
Interest on subordinated securities	-24 646	-33 068
Interest on cash collateral	-128	-126
Expenses on debt securities held to maturity	-3 725	-2 003
Expenses on forward financial instruments	-20 748	-12 081
TOTAL INTEREST EXPENSE AND EQUIVALENT	**-60 706**	**-102 045**

NOTE B 2 - PROCEEDS FROM VARIABLE-INCOME SECURITIES

	31/12/2018	31/12/2017
Interest on partner current account with SNC Foncière Sébastopol	37	43
TOTAL PROCEEDS FROM VARIABLE-INCOME SECURITIES	**37**	**43**

NOTE B 3 - COMMISSION (INCOME AND EXPENSE)

	31/12/2018	31/12/2017
Guarantee commissions relating to off-balance-sheet commitments given on guaranteed property loans	139 615	180 462
TOTAL COMMISSION (INCOME)	**139 615**	**180 462**
Bank commission and fees	-633	-867
Commission and fees on the issue of subordinated securities	-104	-3 511
TOTAL COMMISSION (EXPENSE)	**-737**	**-4 378**

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

	31/12/2018	31/12/2017
Loss on foreign exchange transactions	-2	
Gain on foreign exchange transactions		6
TOTAL GAIN OR LOSS ON TRADING PORTFOLIO	**-2**	**6**

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

	31/12/2018	31/12/2017
Capital loss on the disposal of securities held for sale	-98	-70
Charges to and reversals of provisions on options	-52	126
TOTAL GAIN OR LOSS ON INVESTMENT PORTFOLIO	**-150**	**56**

NOTE B 6 - OTHER INCOME AND EXPENSE FROM BANKING OPERATIONS

	31/12/2018	31/12/2017
Income from debt collection on behalf of third parties (management and recovery fees)	2 440	2 413
Ancillary income (Crédit Logement Assurance / SNC Foncière Sébastopol)	82	114
Other ancillary income	143	114
Miscellaneous income	228	4
TOTAL OTHER OPERATING INCOME	**2 893**	**2 645**
Loss on SNC Foncière Sébastopol	-141	-299
Miscellaneous expenses	-174	-211
TOTAL OTHER OPERATING EXPENSE	**-315**	**-510**

NOTE B 7 - GENERAL OPERATING EXPENSES

	31/12/2018	31/12/2017
Salaries and wages	-17 447	-17 769
Social security charges	-7 999	-8 258
Salary-based taxes	-2 681	-2 769
Expenses related to retirement benefits	-2 587	-2 663
Discretionary employee profit-sharing	-1 057	-179
Statutory employee profit-sharing	-1 513	-2 444
Provisions for litigation	-497	2
Personnel costs	**-33 781**	**-34 080**
Taxes	**-5 344**	**-5 986**
Rentals	-1 254	-1 283
Transport and travel	-162	-121
Other external services	-8 568	-9 508
Provisions for risks and expenses	-420	-23
External services	**-10 404**	**-10 935**
Other administrative expenses	**-15 748**	**-16 921**
TOTAL GENERAL OPERATING EXPENSES	**-49 529**	**-51 001**

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

	31/12/2018	31/12/2017
Software and licenses	-2 444	-2 207
Intangible fixed assets	**-2 444**	**-2 207**
Structural components	-48	-48
Roof/facade	-87	-85
Transport equipment		
Office equipment	-40	-41
Club Affaires machinery and equipment	-3	-4
Office furniture	-64	-62
Club Affaires furniture	-1	-1
Computer hardware	-317	-354
Fixtures and fittings - non building	-321	-318
Fixtures and fittings - building	-261	-282
Technical equipment	-304	-265
Tangible fixed assets	**-1 446**	**-1 460**
TOTAL	**-3 890**	**-3 667**

NOTE B 9 - GAINS OR LOSSES ON FIXED ASSETS

	31/12/2018	31/12/2017
Capital losses on the disposal of fixed assets		-13
Capital gains on the disposal of fixed assets		
Provisions for impairment of participating interests		-999
TOTAL		**-1 012**

NOTE B 10 - CORPORATE INCOME TAX

	31/12/2018	31/12/2017
On ordinary income	-51 539	-61 653
Additional tax assessment		-1 480
Contribution on distributed income	3 164	-3 072
TOTAL *	**-48 375**	**-66 205**
* of which corporate income tax instalments already paid	-61 619	-56 558

NOTE B 11 - ALLOCATIONS AND REVERSALS ON REGULATED PROVISIONS (FRBG and others)

	31/12/2018	31/12/2017
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 *	35		1 513
To all managers	1 016	11	1 345
- fixed component	663		
- variable component	293		
- benefits in kind and add-back of death, disability and related benefits	60		
To all “regulated” staff members	1 481		

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

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

	Fees
Statutory audit	166
Ancillary services*	

NOTE C 3 - AVERAGE WORKFORCE BY OCCUPATIONAL CATEGORY

	31/12/2018	31/12/2017
Management *	2	2
Senior members of staff	239	226
Supervisors	62	68
Employees	25	29
TOTAL	**328**	**325**

* 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	7 573	Value of the collective fund administered externally	1 882
Amount corresponding to actuarial commitments	7 689	Amount corresponding to actuarial commitments	1 913
Collective defined-benefit supplementary pension insurance scheme (Art. 39 of French tax code - *CGI*) 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 *(forfait social)* Estimated annual service cost payable to company officers as at 31/12/2018 under Art. D 225-104-1 of the French commercial Code: 113		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	102 486
Retained earnings from the previous year	149 897
Earnings to be allocated	**252 383**
Breakdown of allocated earnings	
Legal reserve	5 124
General reserve	
Dividends - shares	246 571
Retained earnings	688
TOTAL	**252 383**

FINANCIAL RESULTS

in thousand euros

	2014	2015	2016	2017	**2018**
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)	288 804	496 580	274 870	345 475	**266 189**
Earnings before tax, depreciation and provisions	118 800	376 183	168 915	187 479	**155 720**
Corporate income tax	45 720	135 840	56 452	66 205	**48 375**
Earnings after tax, depreciation and provisions	69 598	236 015	107 795	120 607	**102 486**
Profit distributed			102 408	264 568*	**246 571**
Earnings per share for operations (in euros)					
Earnings after tax but before depreciation and provisions	4,06	13,35	6,25	6,74	**5,96**
Earnings after tax, depreciation and provisions	3,87	13,11	5,99	6,70	**5,69**
Dividend per share			5,69	14,70*	**13,7**
Workforce					
Average headcount**	288	305	316	325	**328**
Payroll	15 246	16 525	17 036	17 769	**17 447**
Staff benefits	9 782	11 118	10 923	10 921	**10 587**

* including distribution in December 2018 of part of the retained earning as at 31 december 2017

** Without managing director