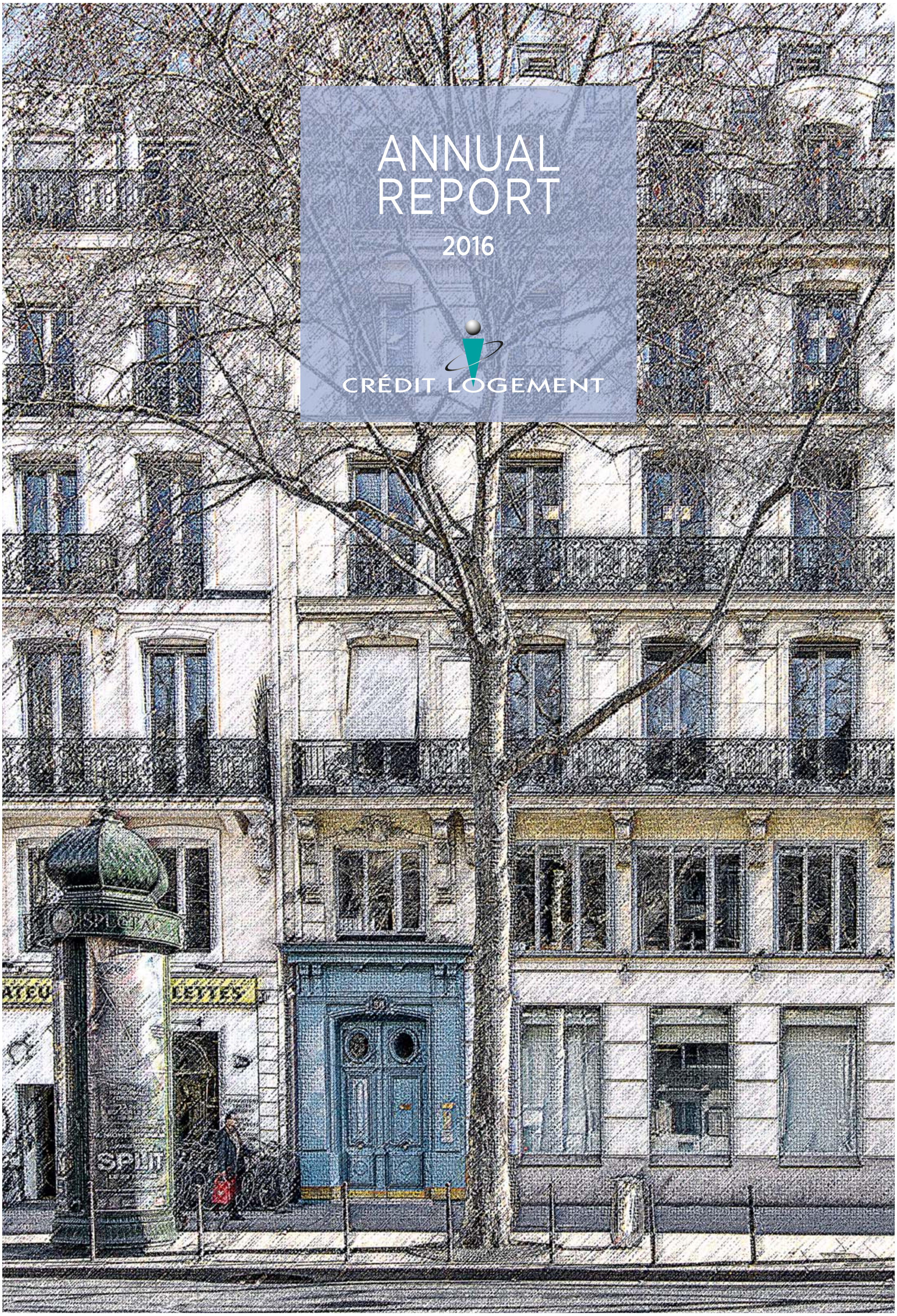
ANNUAL REPORT

2016

CRÉDIT LOGEMENT



Crédit Logement head office

A MESSAGE FROM THE EXECUTIVE MANAGEMENT TEAM

Crédit Logement celebrated its 40th anniversary with a new record.

With €122.85 billion in guarantee agreements delivered in 2016, it topped the previous record of €114 billion set in 2015.

It also recorded another symbolic figure in outstandings, which exceeded the €300 billion mark, reaching €301 billion as at 31 December 2016.

Historically-low interest rates and longer loan terms have injected fresh energy into the entire market, notably by giving first-time buyers the chance to own their own home, something that would not have been possible otherwise.

With interest rates remaining low throughout the year, a situation that was accentuated up until the end of 2016, loan renegotiation and refinancing continued, albeit not to the same degree as in 2015. Over the year as a whole, refinancing amounts accounted for 37% of total guaranteed production, compared with 44% in 2015.

With such a substantial volume of business, Crédit Logement's staff strove to be as responsive and efficient as possible in order to provide a consistently-high level of service to our partner banks.

Alongside the technical solutions that have been put in place to enable banks to secure guarantee approval in real time (through computerised data transfers and the Crelog.com extranet site), Crédit Logement is also working to help banks in the digitalization of their property loan processes. Their customers can now avail of a secure web service to submit an application for a property loan. They then receive a response from the bank that incorporates an online agreement in principle from Crédit Logement to guarantee the loan.

In 2017, Crédit Logement will continue to adapt to the new challenges that are bound to arise.

Interest rates on property loans have edged up slightly in the first three months of this year, but are still very attractive at under 2%.

Every member of the Crédit Logement team is confident for 2017, as the French property market boasts healthy fundamentals and a guarantee from Crédit Logement provides essential added value. They know that the service they provide is more than just a guarantee. It is a comprehensive package for banks: full coverage of credit risks; the support of experts in property loans, who can confirm the team's analysis and provide fresh insight when examining applications; fast decisions; and no final loss thanks to complete handling of the debt collection process.

BOARD OF DIRECTORS

December 31, 2016

Albert BOCLÉ,
Chairman.

Yves MARTRENCHAR,
Honorary Chairman.

BNP PARIBAS,
represented by Julien NIWINSKI,
Head of Finance,
French Retail Banking Division in France.

CRÉDIT AGRICOLE SA,
represented by Olivier BELORGEY,
Chief Financial Officer.

LCL – LE CRÉDIT LYONNAIS,
represented by Emmanuelle YANNAKIS[1],
Chief Financial Officer
in charge of Subsidiairies.

SOCIÉTÉ GÉNÉRALE,
represented by xxx AUVRAY-MAGNIN[2],
Head of Market Relations and Regulations,
Retail Banking in France.

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

BPCE,
represented by Sylvain PETIT
Head of Strategy.

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

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

HSBC France,
represented by Vincent de Palma,
Head of the Strategy and of the Customer Offer
Service and Wealth Management.

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

Madame Brigitte GEFFARD[3],
Head of Loans Acceptance and Debt Collection
at LCL, Le Crédit Lyonnais.

Madame Dominique FIABANE
Head of Retail Banking in France for BNP Paribas.

2 Appointed on 16th april 2015 and replacing
Mr Alain Brunet.
3 Appointed on 16th december 2015 and replacing
Mr Fabrice LABARRIERE.

STATUTORY AUDITORS

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

Deloitte & Associés,
represented by Jean-Vincent COUSTE

1 Appointed on 23th june 2016 and replacing
Mrs Marie-Christine CAFFET.

Share capital at December 31, 2016

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

SHAREHOLDERS	A	TOTAL AMOUNT	%
BNP Paribas	**2 969 694**	**207 878 580**	**16,5003%**
Crédit Agricole	**2 969 592**	**207 871 440**	**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%**
BPCE	**1 530 063**	**107 104 410**	**8,5014%**
Crédit Foncier	**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 Credit Institutions	**530**	**37 100**	**0,0029%**
Individuals	**274**	**19 180**	**0,0015%**
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, 2016

REGULATORY CAPITAL
7,61 billions euros

MUTUAL GUARANTEE FUNDS
4,92 billions euros

GROSS ANNUAL PRODUCTION
122,85 billion euros
752 777 loans
for 647 813 transactions

OUTSTANDING GUARANTEE
301,1 billion euros
3 221 764 loans

WORKFORCE
316 employees

LONG-TERM RATING
Moody's : Aa3 Stable
DBRS : AA Low

CRÉDIT LOGEMENT PROFILE

CREDIT LOGEMENT

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).

Its main shareholders are BNP Paribas, Crédit Agricole, LCL – Le Crédit Lyonnais and Société Générale, which each own 16.50%, alongside other shareholders Groupe Crédit Mutuel–CIC, Groupe BPCE, Crédit Foncier, La Banque Postale and HSBC.

As a property loan specialist catering for banks and their customers, Crédit Logement guarantees residential property loans for individuals, in the form of a joint and several guarantee.

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

In France, one out of every three loans is guaranteed by Crédit Logement, making it the market leader in guarantees for residential property loans.

CRÉDIT LOGEMENT'S SERVICES

The guarantee

As soon as a bank signs a guarantee agreement, it benefits from the expertise of Crédit Logement's professionals, who are specialised in analysing residential property risk for individuals.

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

As well as the guarantee covering the risk of final loss, Crédit Logement also manages the collection of unpaid loan instalments at no added cost. It therefore offers a complete service to its partners.

Crédit Logement seeks to reconcile two objectives: keeping commitments secure and, in the interest of all parties (lender, borrower and guarantor), avoiding events of default, which may lead to the – often financially disastrous – court-ordered sale of sureties.

THE ADVANTAGES OF THE CRÉDIT LOGEMENT GUARANTEE

The Crédit Logement guarantee offers much more than the standard loan guarantee obtained when a loan is taken out.

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

Speed

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

Flexibility

The guarantee is not linked to the property for which the borrower has requested the 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 to confirmation of maintenance of the guarantee by Crédit Logement.

No early release fee is charged if the borrower decides to sell his or her property before the end of the loan.

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

Assistance

If a borrower encounters financial difficulties, Crédit Logement adopts an approach that encourages dialogue with the aim of helping the borrower to resume payment of the loan instalments. All available out-of-court solutions are considered: payment deferral, new repayment schedule, longer loan duration, etc.

Should it prove impossible to resume normal loan management, Crédit Logement supports the borrowers during the sale of the property, offering expert advice so that they can sell the property themselves at market value. Crédit Logement will only take legal action against a borrower to recover payment if no amicable solution can be reached.

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

Securing the market

Crédit Logement's decision to provide a guarantee is based on a set of criteria designed to ensure the borrower is solvent and able to meet the repayments.

As it is not solely based on the value of the financed property, which is subject to the uncertainties of property market cycles, the Crédit Logement guarantee not only contributes to limiting the impact of downturns in the property market, but also eliminates totally the risks for banks to loose any amount on defaulted loans.

THE FRENCH RESIDENTIAL PROPERTY MARKET *

The main stand-out event in the French property market in 2016 was the continued fall in interest rates on residential property loans throughout the year, particularly in the fourth quarter, when, excluding insurance and physical collateral costs, interest rates averaged 1.32% across all loan terms. The rate applied to some 15-year loans was even below 1%!

Such extremely low interest rates made for a vibrant market, as did stimulus measures for investment in new homes via the Pinel scheme and the strengthening of the zero-rate loan mechanism. Even so, growth in property loan production was below the level recorded in 2015.

After climbing by almost 27% in 2015 (excluding loan refinancing arrangements), loan production rose by just 3.7% in 2016.

The first half of the year was admittedly disappointing, with loan production growing by a mere 1.7% year-on-year compared to the 17.9% registered in the first half of 2015. This is because demand was weighed on by floods across France that took a heavy toll in certain areas, with repercussions that lasted several months, compounded by strikes and the ensuing petrol supply shortages.

The third quarter got off to a bad start in the wake of the terror attack in July. Yet, loan production picked up sharply starting in September and the number of offers accepted rose by 30.7% quarter-on-quarter.

In such an exceptional lending context, the fourth quarter brought confirmation of this market momentum, with a 9.1% year-on-year increase in loan production.

* Observatoire de la Production de Crédits Immobiliers (research group centred on property loan production), excluding loan refinancing

On this basis, based on accepted offers, loan production amounted to €157,169 billion in 2016, compared with €151,511 billion in 2015 (excluding loan refinancing).

Loans paid are estimated at €141 billion, compared with €128 billion in 2015.

The interest rate levels (excluding insurance and collateral costs) observed over the course of 2016: 2.02% in the first quarter, 1.69% in the second quarter, 1.46% in the third quarter and 1.32% in the fourth, lent themselves well to a continuation of the loan refinancing momentum observed in 2015. However, this momentum was not as robust, with loan refinancing transactions amounting to an estimated €65 billion, compared with €76 billion in 2015.

If we look at how the structure of property production has evolved, measured according to offers accepted, we can see wide differences from one market to the next.

The new home market continued to grow steadily, with a 9% rise in 2016, following the 34.7% increase registered in 2015. This growth was fuelled by lending conditions, the provisions of the Pinel scheme in favour of property development, and improvements in the zero-rate lending mechanism to finance the construction of single houses. With production amounting to €40.7 billion in 2016, compared to €37.3 billion in 2015, the share of new homes in the market as a whole went from 24.6% in 2015 to 25.9%.

Loan production in the existing homes market had registered a sharp increase of 27.4% in 2015. However, although lending conditions were excellent in 2016, demand was hit very hard by the floods across the country, compounded by strikes and the terror attacks. This meant that loan production for existing homes rose by just 3.1% in 2016. With production amounting to €110.2 billion, compared with €106.9 billion in 2015, the proportion of existing homes in the market edged down from 70.5% in 2015 to 70.1% in 2016.

With a 61.8% fall in production in three years, the market for renovation has fallen behind. There was €6.34 billion in production in 2016, compared with €7.2 billion in 2015, bringing the share of the renovation market even lower from 4.8% in 2015 to 4%.

Loans in the competitive sector rose by just 2.9% in 2016 compared with an increase of 29.2% in 2015. They continued to account for a very large proportion of the market as a whole, at 90.4% compared to 91.2% in 2015.

In addition to improved lending conditions, households were able to benefit in full from the zero-interest mechanism. This fuelled a rapid rise in the production of such loans, which climbed by

135.9% in 2016 after just 8.8% in 2015. The share of zero-rate loans in the market went from 1.6% in 2015 to 3.6%.

The average rate applied to loans in the competitive sector was 1.62%** in 2016, down from 2.13% in 2015, 2.72% in 2014 and 3.01% in 2013.

Average loan duration stood at 212 months in 2016. Consistently-long loan terms have helped revive first-time buyer volumes among young or low-income families.

The guarantee market

The latest research available on the breakdown of the guarantee market in France for 2015 (source: OFL/CSA and Despina model), expressed in distributed loan amounts (excluding loan refinancing), indicates a market share of more than 59% for financial guarantees (bank guarantees and insurance company guarantees) compared to a 35.3% market share for physical collateral.

Financial guarantees are now commonly used by all types of borrowers, both low income borrowers (3x the minimum wage or less): 58.2% taking out a financial guarantee compared with 30.3% taking out a property loan, and more affluent borrowers (5x the minimum wage or more): 57.9% taking out a financial guarantee compared with 29.9% taking out a property loan.

COMMITMENTS DURING THE YEAR

Crédit Logement recorded a year-on-year increase of close to 8% in loan production, with 647,813 property transactions guaranteed for €122.9 billion.

On this basis, production excluding refinancing transactions has continued to grow, climbing by more than 20% year-on-year.

Net production, corresponding to the guarantees arranged during the financial year, amounted to €69.4 billion and outstandings reached the €300 billion mark.

In a very vibrant market, Crédit Logement’s staff had to handle very large volumes of applications for guarantee. Even so, guarantee agreements were approved for three quarters of these applications on the day of receipt.

**Source: Observatoire Crédit Logement/CSA

This is due to the existence of powerful computerised links, which made it possible to approve most applications automatically, as well as, to a large degree, the dedication of the Production Department staff, who consistently provide a high quality service to customers.

Crédit Logement's expertise, responsiveness and capacity to handle peak periods in a fluid manner are key factors in the service that it provides, enabling it to firmly establish its position.

The average transaction amount guaranteed by Crédit Logement increased by €17,000 to €188,343 in 2016. Stripping out refinancing transactions, the average amount was €206,830, corresponding to an increase of €16,000.

The average loan duration, excluding refinancing transactions, increased by more than six months to 213 months.

Excluding refinancing transactions, 71% of the guarantee transactions were for property projects in the existing housing market. New housing (purchases and construction) represented 24% of the amounts guaranteed (17% and 7% respectively), which is slightly higher than the 2015 figure. Buy-to-let projects were stable at 20% of the amounts.

Borrowers aged 36 or under represented 41% of the beneficiaries of Crédit Logement guarantees. The percentage of non-executive employees was 43%.

By arranging guarantees for one in three of the property loans issued in the French property market, Crédit Logement is a confirmed leader in the guarantee of personal property loans.

DEBT COLLECTION

In addition to a guarantee that is an alternative to a mortgage and is intended to fully cover the risk of final loss, the service offered by Crédit Logement also includes the management of debt collection.

In 2016, Crédit Logement constantly endeavoured to improve its staff and its processes.

This involved consolidating organisational aspects, through greater staff specialisation and the development of efficient communication tools.

Following on from the formation of a team in 2015 to manage payments in arrears, another team was formed in the second half of 2016 to manage loans that have entered a household over-indebtedness procedure. This team provides a personalised response to each case by working in conjunction with household debt commissions and all parties to the loan.

The deployment of the Crelog.com secure debt collection extranet site was completed at partner banks during the year. By facilitating the transmission and follow-up of guarantee calls, this tool helped further speed up processing times. New functionalities making guarantee calls even simpler will be rolled out in the course of 2017.

Collection of guaranteed debts

Business volumes stabilised in 2016. The numbers of loans managed stood at 21,775 as at 31 December 2016, up by 3% on the previous year. The risk managed increased in the same proportions to €2.11 billion.

Payment incidents were reported to Crédit Logement on 9,739 loans and there were 9,169 stock exits (increase of 3.7%). The rate of unpaid loans restored to normal management compared to all exits edged down very slightly to 60.9%. However, the number of debts repaid in full rose by almost 2%, accounting for 27.3% of exits.

€151.6 million in payments were received and allocated to the mutual guarantee fund, representing a 34.6% increase on the previous year.

Financial claims on behalf of banks amounted to €349.5 million for the period.

Collection for third parties: CLR Servicing

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.

Business volumes decreased slightly during the year as risk improved. 5,948 debts were under management as at 31 December 2016 for a risk managed of €267.9 million. 1,438 debts in arrears were entrusted to Crédit Logement and there were 2,236 exits during the year. €40.7 million was collected.

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

CUSTOMER RELATIONS

Digitalization of property loan procedures

The digitalization of property loan procedures moved up a gear in 2016. This stems from two factors: 1) is has become more common for online banks to provide property loans; and 2) retail banks have started to embrace the digitalization of the home loan application process.

Online banks team up with Crédit Logement to offer property loans

French online banks are branching out from their original specialisation in high-end clients and savings accounts, into property loans, which have long been a way to capture market share. All have opted for the Crédit Logement guarantee, drawn to the Crédit Logement value chain: scope of intervention, competitive pricing, an automated process backed by human expertise and the management of payment defaults, and debt collection services.

Admittedly, online banks currently make up just 1% of the French property loan market, but this business already accounts for 5% of Crédit Logement's production, a figure that is bound to rise in the coming years.

The development of online property loan processes at retail banks

Retail banks are speeding up the digitalization of property loan processes, notably through online application portals for private individuals. They are expanding their offer with the incorporation of all necessary functionalities: interest rate proposals, financing plans and agreements in principle.

The "online agreement in principle" solution

Crédit Logement has developed an online service, available all day every day, that enables it to issue agreements in principle and accompany its partner banks in their shift towards online property loan processes.

Thanks to this innovative solution, borrowers can apply for a loan on a bank's website and simultaneously receive a response from the bank and Crédit Logement's agreement in principle to guarantee the loan.

This is a response to a growing demand from borrowers who are looking for a different "banking experience". In terms of service, it is a distinctive feature that works in banks' favour, particularly in relation to acceptance and timeframes. It also cuts down on the time needed to examine applications and enhances the security of processes for the banks.

One of Crédit Logement's partner banks tested the online agreement in principle feature in 2016. The solution was deemed a success based on the simulation volumes generated. Three new partners will avail of the service in 2017.

Customer relations channels

The volume of transactions processed by Crédit Logement was particularly high in the second half of the year. However, the Customer Service department was equal to the task, processing 190,000 calls and maintaining good service levels.

The Creditlogement.fr website (850,000 visits) and the Crelog.com extranet site were powerful communication tools, providing a forum for borrowers and all partner banks.

Two new editions of the "Crelog Infos" e-newsletter were sent out to 30,000 correspondents at our partner banks. This publication gives regular insight into the property market and the various aspects of how Crédit Logement works.
The sales teams maintained a strong presence in the field, working in conjunction with the Crédit Logement business departments, with a particular focus on:

- speeding up the deployment of the debt collection extranet site in order to automate and secure the guarantee call process;
- presenting the new strategy for managing over-indebtedness situations.

HUMAN RESOURCES MANAGEMENT

The Human Resources Department was particularly busy again in 2016 to ensure that all recruitment, career mobility and promotion needs were met.

The annual workforce increased by close to 4% in 2016 across all types of contracts, with continued extensive use of temporary staff to handle the large volume of business. Crédit Logement continued to hire young people as trainees and under work-study contracts (skills development).

One of Crédit Logement's priorities is to develop and maintain the skills of its staff. In 2016, it invested in 4,705 hours of training covering 272 members of staff.

Crédit Logement also continued to promote working from home, which now concerns a little under 10% of the workforce.

The company's strong business volumes and good earnings meant that staff were able to receive profit sharing (statutory and discretionary) equating to 15% of the gross remuneration base. The variable end-of-year bonus, based on individual performance targets, and partly indexed to earnings, was also high, rewarding staff for their efforts in achieving a record production year.

As in previous years, the competitiveness and employment tax credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi* - CICE) was allocated in full to recruitment.

A number of company-wide agreements were signed with the unions in 2016:

- agreement on almost all aspects of the compulsory annual negotiations for 2016;
- additional clause incorporated into the agreement on discretionary profit sharing for financial years 2015 to 2017;
- additional clause incorporated into the agreement on statutory profit sharing;
- additional clause incorporated into the agreement on *PERCO* collective retirement savings plans;
- additional clause incorporated into the company savings scheme regulations.

2016 also saw the application of new legislation with profound implications for labour law (the "*contrat responsable*", which stipulates employers' liabilities in relation to healthcare costs, employee savings schemes).

IT SYSTEMS AND ORGANISATION

To support the company's strategic goals and facilitate the continuous improvement of business processes, the focus in 2016 was on the deployment of:

- new web service data transfer links with partners;

- a new online agreement in principle web service;
- new functionalities for the “Production” and “Debt Collection” extranet sites;
- new dashboards to monitor and manage all activities pertaining to the architecture of the data management system.

It is important to note that all the technical projects and actions implemented made it possible to handle the substantial increase in production volumes, ensure quality of service, reinforce the secure operation of information system applications and improve cost efficiency.

Lastly, work to consolidate the "Multi-IS" architecture means it is now possible to manage several separate activities with the same application, which will help to anticipate the need for future developments at Crédit Logement and its subsidiaries.

CASH AND BALANCE SHEET MANAGEMENT

In 2016, cash management stayed faithful to its principles of cautious matching of liquidity and interest rates for bonds and reinvestment of cash coming from the mutual guarantee fund after allowing for a very adverse scenario of an acute property market crisis combined with a liquidity crisis.

Cash is composed of two main parts:

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

Cash is managed by a Cash Management Committee, in charge of cash management and 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 for approval a table of counterparty limits 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 members of the Cash Management Committee, directs operational management and monitors implementation by the Finance Department.

As at 31 December 2016, 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 2016 that were outside the scope of the Financial Guarantee Agreement. Collateralised deposits amounted to €6.5 billion as at 31 December 2016 and collateral received €1.6 billion.

Throughout the year, we also led a policy that involved purchasing very high quality core Euro zone sovereign and quasi-sovereign bonds eligible for ECB refinancing operations.

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

Accordingly, as at 31 December 2016, investment of available cash (stripping out the reinvestment of bonds) in fixed-rate long-term deposits (with an initial maturity of more than five years) stood at €765 million. Medium-term investments (between one and five years) stood at €1.6 million. The rest of the available cash, namely €2.1 billion, was invested for less than one year, or was held in deposits redeemable by the investor in less than one year.

These investments are mainly in the form of term deposits, reverse repos and securities of excellent quality eligible for ECB refinancing operations, macro hedge swap of the company rate position.

MANAGEMENT OF SUPPLEMENTARY CAPITAL

Tier One and Tier Two subordinated debt issuance

Ongoing transactions in 2016, stemming from the transaction carried out in 2006 and the restructuring operation in 2011, are as follows:

Tier One

- An issue of non-innovative deeply subordinated perpetual bonds in March 2006, held in Tier One for €800 million, for which the first possible date for exercising the early redemption option was March 2011.

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%.
- Equity loans taken out by partner banks of Crédit Logement, proportional to their outstanding loans under Crédit Logement guarantee, for a total of €1.7 billion.

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

AUDIT AND INTERNAL CONTROL

The Audit and Internal Control Department operates under the responsibility of a Director and comprises two separate sections:

- a Periodic Control and Audit Section, which implements a four-year audit plan. At the end of 2016, it comprised a manager and three auditors, one of whom is an IT specialist. The section can call on outside consulting firms with regard to subjects requiring significant technical expertise or a benchmark of market practices;
- a Permanent Control and Compliance Section, which coordinates the quality control units in the departments and monitors compliance. The managers of the quality control units report functionally to the Head of Audit and Internal Control.

The roles of the Audit and Internal Control Department are defined on the basis of the requirements of the decree of 3 November 2014 on internal control. The Audit and Internal Control Department reports to Executive Management at monthly meetings of the Internal Control Committee. All the work carried out by the Audit and Internal Control Department is also the subject of a half-yearly presentation to the Risk Committee specifically handling internal audit.

Periodic control and audits

The four-year audit plan was drawn up to allow a review of all the company's processes over the period 2016-2019. In 2016, audits focused essentially on the monitoring of operational risks, debt collection for third parties, the auction support activity, Crédit Logement's subsidiaries, cash, interest rate risk and taxation. The internal ratings systems relating to credit risk and liquidity risk are also subject to an annual review.

All the recommendations stemming from the various audits are recorded in a database that is examined each month at Internal Control Committee meetings, in accordance with a set timetable, and every six months for the database as a whole.

Permanent control and compliance

Permanent controls cover all of Crédit Logement's departments, with dedicated managers responsible for controlling the main areas of activity (commitments, debt collection, information systems, risk and finance) within Quality Control Units. Each year, an effort is made to improve and focus the control plans according to new risks identified through cross-company risk mapping. In 2016, more than 250 checkpoints were examined, covering all the company's activities.

Compliance contributes to the observance of legislative and regulatory provisions, professional and ethical standards, and the policies introduced by the Board of Directors and Executive Management. Crédit Logement has an ethics charter, which has been sent to all employees and is given to new employees during their induction. Apart from regular checks on money-laundering, the other compliance checks mainly cover updating of the procedures database, complaints handling, compliance with provisions on confidentiality and data protection requirements imposed by the French data protection agency (CNIL), as well as the control of essential outsourced activities. In 2016, all relevant members of staff received special training in how to counter money laundering and terrorist financing.

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 annually.

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.
The strategy employed to manage the various risks is implemented on an operations level by three special committees: aspects relating to credit risk for 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: portfolio of guarantees

Management of credit risk relating to the portfolio of guarantees hinges on the pooling of risk and is aimed at maintaining a high level of hedging 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 (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 homogenous 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. The technique chosen was that of the use of a conferred score, which has been shown to predict the level of probability of default at one year for the entire lifetime of the guaranteed transaction in order to construct an EAD segmentation tree for the different homogenous 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 Credit Conversion Factor (CCF) is applied to the guarantees arranged. A rate of conversion to off-balance sheet, modelling the arrangement rates over one year, is applied to guarantees delivered and not yet paid, for which Crédit Logement is only potentially at risk.

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

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

All of the work and reporting done by the Risk Management Department is reported every month to the Risk Policy Committee, which is overseen by Executive Management.

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

The calculation of the regulatory capital requirement (Pillar 1) and the results of permanent and periodic controls are presented to the Risk and Audit Committee, acting under delegation from the Board of Directors.

As at 31 December 2016, this internal rating system was applicable to an EAD of €333 billion, which breaks down into €309 billion of guarantees arranged and €24 billion of guarantees not yet arranged.

At this same date, the average PD of the portfolio at one year was 0.28%.

The ability of the Debt Collection Department to return delinquent loans to normal management, or to quickly take the required protective measures for transactions in default, leads to an estimate of the portfolio's average LGD, on output from the model, of 14.97%.

Given the regulatory provisions, an additional prudent margin is applied to this estimate with a counter cyclical aim, providing a "downturn" LGD. The average LGD used for calculating the Pillar 1 capital is therefore around 18%.

Given these parameters, the Risk Weighted Assets (RWA) of the portfolio stood at €27.7 billion, corresponding to a weighting of 8.32%, down by 93bp.

As at 31 December 2016, the minimum regulatory capital under Pillar 1 for guarantee portfolio credit risk stood at €2.2 billion, bearing in mind that nearly 18% of this requirement, namely €399 million, corresponded to the regulatory increase to be applied to the LGD to obtain a "downturn" LGD.

The mutual guarantee fund, set up to address guarantee portfolio credit risk, represents more than twice the amount of the regulatory capital requirement (Pillar 1) for this portfolio. The equity capital, the reserves and the mutual guarantee fund together represent almost three times this same requirement.

Excluding the equivalent value in euros of the EAD of loans guaranteed in Switzerland of €59.5 million[1], the credit risk for the guarantee portfolio comes 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 high 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.

[1] Crédit Logement discontinued all guarantee operations with respect to this country in 2015.

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

Furthermore, during the internal capital calculation process (Pillar 2), 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 can be considered ten times higher than would be required by observing the loss history of the portfolio, with a confidence interval of 99.975%.

Operational risks

Due to its size, its single-product business, the very small number of transactions deriving from its cash management activity and its governance choices, Crédit Logement has opted for the "standard" method to cover operational risks.

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

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

Crédit Logement has implemented a system for collecting and measuring operational risk events, mainly on a reporting basis, with quarterly monitoring. 33 risk events were reported in 2016 (compared with 36 in 2015), which were mainly related to the information system. These were classified as minor incidents, below the criticality threshold applied by the company.

Beyond a strictly financial and regulatory approach, Crédit Logement is taking advantage of this procedure to improve its processes and increase their reliability. In 2016, work continued to adapt security measures to changing threats, namely by improving local network access security and protecting information assets.

The host of the recovery site used in the Contingency and Business Continuity Plan (*PUPA – Plan d'Urgence et de Poursuite d'Activité*) uses mirroring to address the unavailability of premises or of the entire local network.
In the event of a major incident, the objective is to ensure, within 24 hours of unavailability, the continued processing of guarantee applications and, in the following days, the continued processing of debt collection and account keeping.

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

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

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

The capital requirement for operational risk stood at €43 million as at 31 December 2016.

Liquidity risk management and the liquidity ratio

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

For the management of this liquidity risk, a stress test was developed regarding the loss experience of the guarantee portfolio. This is applied as long as it remains sufficiently conservative relative to the latest known risk parameters. At the end of 2016, this extreme stress scenario included a deterioration of the risk parameters that would lead to a more than fivefold increase in expected losses on sound debt at the peak of the stress, and delays in recovering certain liquid assets.

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

Crédit Logement's internal model for managing liquidity risk, which is based mainly on this extreme crisis scenario and on several liquidity indicators in various timeframes (day, month, quarter), was validated in May 2011 by the ACPR and, as required, showed a still-positive gap over the first three years as at 31 December 2016.
The emergency response plan in place to handle a liquidity crisis was tested in 2016 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 write-down on a straight-line basis of book equity over a period of 10 years. In particular, the regulatory stress test of a 200bp change in the whole yield curve is applied, on the basis – since the beginning of 2015 – of a floor rate equivalent to the ECB overnight deposit rate, and a limit has been set for the sensitivity of NPV to this stress.
As at 31 December 2016, the sensitivity of NPV over 10 years in the event of a 200bp drop in interest rates was 9.08% of the share capital after taking into account the macro-hedging swap portfolio.

Market risk, counterparty risk and other risks

At the end of 2016, Crédit Logement did not hold any instruments classified as isolated open positions or in a trading book. Crédit Logement is therefore not subjected 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 shares in the SCI. The value of the shares on the balance sheet as at

31 December 2016 has been adjusted to the amount of the cash collateral guaranteeing this redemption, namely €6.8 million.

Other than this investment and the two subsidiaries described hereafter, Crédit Logement does not have any other shareholdings. Therefore, Crédit Logement has no "equities" risk.

INTERNAL CAPITAL VALUATION PROCESS

Various actions have been carried out since 2012 to improve and secure the process of calculating Crédit Logement's internal capital:

- the resources and operational capabilities of the Risk Management function have been enhanced;
- cross-company risk mapping has been updated and enhanced;
- the Board of Directors has validated the strategy for management of various risks through measurement indicators, strategic limits and warning thresholds that the risk monitoring indicators must not exceed;
- reviews have been performed to update the methodologies for modelling calculation of the internal capital requirements necessary to cover credit risk, for both the guarantee portfolio and the cash investment portfolio, to bring them up-to-date and improve them;
- the "Pillar 2" dossier, sent to the French supervisor in January 2013, has been updated.
- the task of validating internal models has been entrusted to the Risk Management function’s control unit.

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 on each of the risks to which it is exposed. It completed this risk map in 2015 by factoring in the risks referred to in the decree 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 for covering all risks is obtained by adding the results obtained from each of the risks identified. Crédit Logement therefore uses no correlation effect or offsetting between the various risks.

Guarantee portfolio credit risk

In the internal approach, coverage of the expected risk on the guarantee portfolio is calculated over the lifetime of the guarantee portfolio, not over one year. Furthermore, for prudential reasons, unexpected losses are calculated based on a stressed correlation coefficient corresponding to the coefficient that would be used for the guarantee portfolio following a crisis of a magnitude comparable to the Spanish crisis of 2008.

Investment portfolio credit risk

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

Market risk

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

Operational risk

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

Liquidity risk

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

Interest rate risk

This risk is measured based on the sensitivity of the Net Present Value (NPV) of its balance sheet and net banking income (at 12 months and 24 months) to a variation in interest rates. 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 cause an increase in the EAD of the guarantee portfolio covering loans in Swiss francs to cross-border workers who have purchased homes in France, and therefore in the Pillar 1 regulatory capital requirements relating to this portfolio. This possible change in the regulatory capital requirements is estimated using Crédit Logement's internal model.

Other risks

As regards "business risk", which includes all risks that could have a significant impact on the level of production (image risk, regulatory risk, etc.), Crédit Logement has synthesised the study of its exposure to this risk by defining a scenario in which its production drops 50% and stays at that level for 10 years. Under this scenario, and with the risk parameters applying at end-2016, using middle-of-the-range assumptions concerning the return on available cash, Crédit Logement remains profitable over the whole period in question.

Furthermore, an analysis of the risks referred to in the decree of 3 November 2014 did not give rise to any additional capital charge with respect to internal control.

Evaluation of internal capital

As at 31 December 2016, 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 2016, SNC Foncière Sébastopol carried out thirteen new auctions and sold on seven assets.

At the end of 2016, the thirty properties in stock represented a total net amount of €3,206,807, including an impairment provision of €174,000, compared with €2,431,350 as at 31 December 2015.

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 profit and loss account shows a loss of €21,914, 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 positioning itself in the initial guarantee of property loans to individuals.

In 2016, partnerships agreements entered into in previous years produced revenues that registered a significant increase to €1,196,291 compared with €72,856 in 2015. No claims were received during the year.

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

The profit and loss account shows a loss of €1,334,858 compared with a loss of €933,870 a year earlier. This result was mainly attributable to additional amortisation of capital expenditure to revive the business and the booking of a provision for the write down of intangible fixed assets.

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

ACCOUNTS FOR THE FINANCIAL YEAR

BALANCE SHEET

The balance sheet total as at 31 December 2016 was €10.6 billion, compared with €10.1 billion a year earlier, representing an increase of 4.7%.

OFF-BALANCE SHEET COMMITMENTS: OUTSTANDINGS

Crédit Logement's off-balance sheet outstandings, representing capital remaining due for guarantees covering the repayment of loans distributed by other institutions, is still growing and had reached €301.1 billion as at 31 December 2016, compared with €280.3 billion as at 31 December 2015.

Guarantee agreements not yet arranged totalled €53.9 billion at the end of 2016, compared with €35.5 billion at the end of 2015. The substantial increase stemmed from the very high production volumes recorded in the last quarter of 2016.

The net annual increase in outstandings was therefore €20.7 billion, representing a 7.4% increase, taking into account annual amortisation and early repayments totalling €47.2 billion. This last figure was particularly high due to the steady stream of refinancing transactions, fuelled by extremely low interest rates.

The solvency ratio at the end of the year

Crédit Logement's Pillar 1 solvency ratio, established in accordance with the decree of 23 December 2013, stood at 23.5% as at 31 December 2016, compared with 22.6% as at 31 December 2015 (23.2% on a pro forma basis factoring in a change in the equity loans taken into consideration in the ratio).

The Pillar 2 capital requirement, defined by the regulator in April 2014, stood at €7.3 billion as at 31 December 2016.

Change in regulatory capital

Prudential capital was practically unchanged as at €7.61 billion at 31 December 2016 compared with pro forma capital of €7.7 billion as at 31 December 2015, factoring in a change in the equity loan base covered by the grandfather clause. This was attributable to diverging trends and essentially stemmed from robust business volumes, which continued to fuel growth in the mutual guarantee fund, and the decrease in AT1 and T2 capital following the application of the grandfather clause to AT1 securities ans T2 equity loans, as well as the amortization of subordinated T2 securities.

	31/12/2016	31/12/2015	Change
Equity capital on the liability side of the balance sheet	1,856,951	1,749,156	107,795
Fund for general banking risks	609	609	
Mutual guarantee fund	4,922,791	4,569,682	353,109
Income (losses) to be allocated	(107,795)		-107,795
Deductions	(1,653,681)	(1,503,919)	-149,762
COMMON EQUITY CAPITAL TIER 1	**5,018,875**	**4,815,528**	**203,347**
Subordinated Tier 1 securities	800,000	800,000	
Deductions	(164,445)	(58,519)	-105,926
TIER 1 EQUITY CAPITAL	**5,654,430**	**5,557,009**	**97,421**
Subordinated loans	1,712,624	1,712,624	
Subordinated securities – Tier 2	412,698	500,000	-87,302
Add-back of Tier 1 capital incorporated into Tier 2 capital	164,445	58,519	105,926
Mutual guarantee fund held in Tier 2	1,700	1,711	-11
Deductions	(336,206)	(176,941)	-159,265
ADDITIONAL EQUITY CAPITAL	**1,955,261**	**2,095,913**	**-140,652**
TOTAL REGULATORY CAPITAL (numerator)	**7,609,691**	**7,652,922**	**-43,231**
Weighted risks - advanced IRB model	27,627,428	27,982,244	
Weighted risks - standard method	3,765,097	3,973,487	
Other assets not corresponding to loan obligations	428,591	411,441	
Operational risk	537,662	542,347	
TOTAL BASEL II WEIGHTED RISKS (denominator)	**32,358,778**	**32,909,519**	**-550,741**
Common Equity Tier 1 solvency ratio	**15.51%**	**14.63%**	
Tier 1 solvency ratio	**17.47%**	**16.89%**	
SOLVENCY RATIO	**23.52%**	**23.25%**	
Pillar 2 capital requirements	**7,284,703**	**6,748,893**	

Common Equity Tier 1

The total amount of Common Equity Tier 1 capital was €5.0 billion as at 31 December 2016, compared with €4.8 billion in 2015, representing an increase of €203 million:

- the mutual guarantee fund held in Common Equity Tier 1 increased by €353 million to €4.9 billion at the end of 2016, compared with €4.6 billion in 2015;
- deductions rose by €150 million due to an increase in non-performing loans.

Tier 1 capital

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

This additional capital decreased by €106 million over the year, tied to the grandfather clause applicable to subordinated debt.

Tier 2 capital

This also decreased by €141 million, due: 1) to the grandfather clauses applicable to a portion of the equity loans (-€159 million); and 2) to the beginning, in 2016, of the impairment on a straight-line basis of perpetual subordinated debt securities (-€87 million) maturing in 2021. These decreases were offset by the add-back to Tier 2 of deductions recorded in relation to the grandfather clause applicable to Tier 1 subordinated securities (+€106 million).

The above variations are expressed in relation to pro forma figures for 2015. This is because the calculation basis for the grandfather clause applicable to Tier 2 equity loans was revalued by €300 million in 2016 to take account of the production of the June 2012 equity loans. The regulatory capital was consequently calculated on a pro forma basis as at 31 December 2015 to render the accounting data comparable.

PROFIT AND LOSS ACCOUNT

Net banking income stood at €217.7 million, compared with €434.7 million a year earlier, representing a decrease 49.4%.

Of this, net financial income fell by 72.8% in relation to the previous year, mainly due to the fact that, in contrast to the previous year, there was no replacement of deposits carrying above-market interest rates with deposits paying the market rate of interest, which had made it possible to book a balancing cash adjustment of €143.5 million, as well as the following factors:

- average capital rose by 9.8%, fuelled by the strong business volumes during the year, although income dropped by 12.8% in relation to the previous year as a result of the steady fall in interest rates in the past four years;
- there was an increase in income deriving from the reinvestment of capital contributed by the partners as part of the ongoing swap hedging programme to counter the effect of variations in the benchmark index (1 year Euribor) on reinvestments;

In spite of still robust business volumes, particularly in the second half of the year, commissions dropped by 14.1% under the combined impact of a fall in transactions arranged and early repayments.

Income deriving from transactions in the investment portfolio moved down sharply in 2016 as a result of the disposal of the entire portfolio of money market funds in 2015.

Other income fell by 27.1%, mainly tied to lower billing amounts on services provided to Crédit Logement Assurance.

Overheads totalled €51.5 million, compared with €62.8 million in 2015, representing a decrease of 17.9%.

This decrease breaks down as follows:

- personnel expenses decreased by 4.2%, essentially due to the variable portion of remuneration packages, notably the profit-sharing amount which, after an exceptional 2015, remained high but was in keeping with annual profit levels, as the company's employees continued to share in the excellent earnings recorded for the year. The remuneration packages allocated to all managers are detailed in C1 of the Appendix;
- other administrative costs decreased by 40.3%, mainly as a result of the fall in taxes and duties, as well as the completion of studies into changes in the business model and the bolstering of capital;
- depreciation and amortisation charges and impairment provisions increased by 4.7%.

In terms of productivity, the cost-to-income ratio, i.e., the ratio between overheads and net banking income, stood at 23.7% against 14.4% the previous year.

As a result of these developments, gross operating income, before non-recurring income and expenses, corporation tax and regulatory provisions, stood at €166.2 million, down by 55.3% on the previous financial year.

The corporation tax expense was €56.5 million, compared with €135.8 million in 2015.

Overall, net profit for the financial year came to €107.8 million, pointing to a return on equity of 6.4% in 2016.

OUTLOOK AND SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

As interest rates showed signs of moving back up in the first few months of this year, loan refinancing transactions are beginning to dip, although they still account for a very large proportion of guarantee applications, i.e. more than 35% in the first two months of 2017.

That said, applications for guarantees on new purchases remain vibrant, which suggests that production will be significant again this year, even though a rise in interest rates could upset this trend, which has been unfailing since the first months of 2015.

However, despite their slight increase at the end of 2016, the persistently-low interest rates are still having a negative impact on the return on cash holdings, as investments that have matured have been replaced for more than four years now by new investments at much lower rates.

Furthermore, according to information received from the ACPR, the Supervisory College of the ACPR is contemplating a revision to the additional capital requirement to which Crédit Logement is currently subject, which would require it, in accordance with Article L 511-41-3 II of the French monetary and financial code (*Code Monétaire et Financier*), to hold total capital that would, at all times, be at least equivalent to 2% of its secured outstandings.

PROPOSED APPROPRIATION OF EARNINGS

The net distributable profit of €407,686,861.19 breaks down as follows:

• net profit for the financial year	€107,795,061.13
• plus retained earnings from the previous year	€299,891,800.06

The following appropriation is proposed:

• legal reserve	€5,389,753.06
• dividends allocated to shares	€102,407,829.09
• retained earnings	€299,889,279.04

Other specific resolutions proposed

By virtue of the publication of the decree of 17 March 2017 under No. 2017-340 on the remuneration of the managers of listed limited companies (*sociétés anonymes*), the shareholders will be asked to approve, for the first time, the principles and criteria used to determine and allocate the elements constituting the total remuneration packages of the company's managers.

The shareholders will be asked to approve the nomination, announced at the 30 March 2017 meeting of the Board of Directors, of Mr Olivier Bélorgey to replace resigning member CRÉDIT AGRICOLE SA.

Since that term of office expires at the end of the present shareholders' meeting, the shareholders will be asked to approve its renewal for a period of six years.

The shareholders will also be asked to renew the terms of office of BNP PARIBAS, LCL – Le CRÉDIT LYONNAIS-, Ms Brigitte Geffard, Mr Éric Pinault and Mr Albert Boclé, each for a period of six years.

Lastly, since the term of office of one of Crédit Logement's statutory auditors, Deloitte & Associés, is set to expire, the shareholders are asked to renew it for another six years.

In accordance with the regulations in force, the Audit Committee examined several applications from statutory audit firms on 24 March 2017 and issued a recommendation to the Board regarding the proposal to be made at the shareholders' meeting with respect to the appointment of a statutory auditor.

Since the appointed statutory auditor is not a natural person or a closely-held company, Crédit Logement is not required to appoint a deputy statutory auditor in accordance the new provisions of the "Sapin 2" law (Art. L. 823-1 C. Com.).

BALANCE SHEET
AT DECEMBER 31, 2016
in thousand euros

	2016	2015	Notes		2016	2015	Notes
CASH, CENTRAL BANKS, CCP	**3**	**9**		**DEBTS TOWARDS CREDIT INSTITUTIONS**	**32 471**	**35 676**	**A7**
				Term	32 471	35 676	
DEPOSITS ON CREDIT INSTITUTIONS	**7 910 770**	**8 073 706**	A1				
On sight	472 641	355 238		**CUSTOMER TRANSACTIONS**	**23 068**	**22 135**	A7
Term	7 438 129	7 718 468					
				OTHER LIABILITIES	**17 714**	**61 518**	A8
CUSTOMER TRANSACTIONS	**1 244 734**	**1 079 010**	A3	**ACCRUALS**	**706 893**	**643 971**	A8
Other customer loans	635	582					
Bad debt	1 244 099	1 078 428		**DEPRECIATIONS FOR RISK AND EXPENSES**	**214**	**1 058**	A8
				SUBORDINATED DEBT	**7 962 885**	**7 609 968**	
BONDS AND OTHER FIXED-INCOME SECURITIES	**987 321**	**555 794**	A4-1	Mutual guarantee deposits	4 924 491	4 571 424	A9-1
				Subordinated borrowings	1 712 624	1 712 624	A9-2
SHARES AND OTHER VARIABLE-INCOME SECURITIES	**6 787**	**6 663**	A4-1	Accrual on borrowings	1 631	1 724	A9-2
				Surbordinated securities	1 300 000	1 300 000	A9-2
INTERESTS IN AFFILIATED COMPANIES	**9 050**	**9 625**	A4-2	Accruals on subordinated securities	24 139	24 196	A9-2
INTANGIBLE FIXED ASSETS	**3 994**	**3 495**	A5	**FUNDS FOR GENERAL BANKING RISKS**	**610**	**610**	A9-3
TANGIBLE FIXED ASSETS	**13 173**	**13 741**	A5	**SHAREHOLDERS' EQUITY**	**1 856 951**	**1 749 155**	
				Capital	1 259 850	1 259 850	A9-4
OTHER ASSETS	**7 107**	**2 443**	A6	Reserves	132 467	120 666	A9-4
				Regulatory provisions	56 947	56 947	A9-3
ACCRUALS	**417 867**	**379 605**	A6	Retained earnings	299 892	75 677	
				Earnings for the year	107 795	236 015	
TOTAL ASSETS	**10 600 806**	**10 124 091**		**TOTAL LIABILITIES**	**10 600 806**	**10 124 091**	
Guarantee commitments implemented	**301 095 817**	**280 343 833**	A12-1	Guarantee commitments received from credit institutions	2 637 151	2 927 647	A11
Guarantee commitments not yet implemented	**53 920 921**	**35 535 020**	A12-1				
COMMITMENTS GIVEN	**355 016 738**	**315 878 853**		**COMMITMENTS RECEIVED**	**2 637 151**	**2 927 647**	

PROFIT AND LOSS ACCOUNT
AT DECEMBER 31, 2016
in thousand euros

	2016	2015	Notes
Interest income	119 878	296 469	B1
Interest expenses	-55 612	-60 116	
Income from variable-income securitie	62	59	B2
Commission (income))	151 639	176 334	B3
Commission (expenses)	- 1 320	-1 414	
Income on marketable securities	123	19 313	B4
Gain or loss on exchange	-1	6	B5
Other banking operating income	3 292	4 519	B6
Other banking operating expenses	-370	-511	
NET BANKING INCOME	**217 691**	**434 659**	
General operating expense	-47 596	-59 009	B7
Allowances for depreciation and amortisation on tangible and intangible fixed assets including equity securities	-3 927	-3 752	B8
OVERHEADS	**-51 523**	**-62 761**	
GROSS OPERATING INCOME	**166 168**	**371 898**	
Cost of credit risk	-548		B9
OPERATING INCOME	**165 620**	**371 898**	
Gains on long terms investments and changes in provisions	-1 373	-43	B10
INCOME BEFORE TAX	**164 247**	**371 855**	
Non-recurring income/loss			
Corporate income tax	-56 452	-135 840	B11
NET INCOME FOR THE YEAR	**107 795**	**236 015**	

STATUTORY AUDITORS REPORT
ON THE ANNUAL FINANCIAL STATEMENTS

To the shareholders,

In fulfilment of the assignment entrusted to us by your General Meeting, we present our report on the financial year ending 31 December 2016, on:

- the audit of Crédit Logement's annual financial statements as they are attached to the present report;
- explanations of our assessments;
- the specific information and checks specified by the law.

The annual financial statements were adopted by the Board of Directors. It is our duty to express an opinion on these statements on the basis of our audit.

I. Opinion on the annual financial statements

We have performed our audit according to the professional standards applicable in France. These standards require the performance of checks to provide reasonable assurance that the annual financial statements do not contain significant anomalies. An audit consists of checking, by sample investigation or through other selection methods, the elements justifying the amounts and information shown in the annual financial statements. It also consists of assessing the accounting principles followed, the significant estimates accepted and the overall presentation of the financial statements. We consider that the information that we have collected is sufficient and appropriate to form the basis of our opinion.

We certify that, with regard to French accounting rules and principles, the annual financial statements are in order and honest and give a true image of the result of the transactions in the elapsed financial year and the financial situation and assets of the company at the end of this year.

II. Substantiation of assessment

In application of the provisions of article L. 823-9 of the French Commercial Code relative to the substantiation of our assessment, we bring the following items to your attention.

Test on value

The "non-performing loans" note in the appendix explains that when it is ascertained that the debt is not recoverable, any amount remaining due is deducted from the mutual guarantee fund. As part of our assessment of the significant estimates used for accounts closure, we examined the control system relative to the identification and monitoring of risks for the guarantee business, the assessment of risks of non-recovery and their coverage by the mutual guarantee fund.

The "securities portfolio" note in the appendix (accounting methods and principles) explains the methodology used to value the securities portfolios (marketable securities, investment securities and equity securities) and to constitute any necessary depreciation.

As part of our examination of the significant estimates used for closing the accounts, we examined the system for monitoring and examining these securities, leading to assessment of the necessary level of depreciation.

The assessments thus made come within the framework of our audit of the annual financial statements as a whole and have therefore contributed to forming our opinion expressed in the first part of this report.

III. Specific checks and information

In accordance with the professional standards applicable in France, we have also carried out the specific checks specified by the law.

We have no comment to make on the honesty and coherence with the annual financial statements of the information given in the Board of Directors' management report and in the documents sent to shareholders concerning the financial situation and the annual financial statements.

Paris and Neuilly sur Seine, 6 April 2017

Statutory Auditors

C.T.F.
Christophe LEGUÉ

Deloitte & Associés
Jean-Vincent COUSTEL

NOTES TO THE FINANCIAL STATEMENTS

I - PRESENTATION OF THE ACCOUNTS

The rules applied for drawing up Crédit Logement's financial statements are based on principles adopted by the French National Accounting Board (Comité de Réglementation Comptable, CRC), on the regulation of the French Banking and Financial Regulations 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 drawing up and publication of individual annual financial statements for Financial Institutions.

The balance sheet, profit and loss account and notes have been drawn up in accordance with Regulation 2014-03 on the general accounting plan issued by the French Accounting Standards Authority (ANC), 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 on 31 December 2014.

The items making up assets, liabilities and off-balance-sheet commitments expressed in foreign currency are recorded and valued 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 date of closure of the financial year. Gains or losses that occur are booked to the income statement.

No change in accounting methods took place during 2016.

II - ACCOUNTING PRINCIPLES AND METHODS

ASSETS

DEPOSITS ON CREDIT INSTITUTIONS

Deposits are broken down in the notes as follows:

- on sight or term;
- based on the residual duration.

CUSTOMER CREDIT

Other customer loans

They represent loans granted to the company's salaried staff, and come in two types:

- capped loans for a maximum period of three years;
- zero-rate cash advances for the mutual guarantee fund due in relation to the surety for one or more residential loans for the duration of the loans guaranteed.

Bad debt

This item includes all amounts settled in connection with unpaid instalment (principal and interest), penalties, event of default and any collection costs and fees 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 the debt cannot be recovered, the amount still due is withdrawn from the mutual guarantee fund in accordance with the regulations of the said fund.

According to the abovementioned Regulation 2014-07 of 26 november 2014 on the accounting treatment of credit risk in companies coming under the Financial Regulations Committee (Comité de la Réglementation Bancaire et Financière, CRBF), bad debts have been divided according to the following categories :

- doubtful debts;
- compromised doubtful debts.

The definition of each category retained is described at the end of this note under off-balance sheet commitments.

On account of the existence of the mutual guarantee fund, which covers the loss ratio for the guarantee portfolio on residential loans, such bad debt is not provisioned.

SECURITY PORTFOLIO

We differentiate between three types of securities:

- marketable securities;
- investment securities;
- equity securities and interests in affiliated companies.

The presentation of the portfolio in 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.

Marketable securities

Marketable securities are fixed- or variable-income securities that are not recognised neither as trading securities, nor as investment securities, nor among the type of securities referred to in chapter 5, title 3, Book II of the aforementioned Regulation 2014-07 of 26 November 2014 (trading securities, other long-term securities, equity securities and shares in associated undertakings).

These securities are booked at their acquisition date for their acquisition price, net of costs and accrued interest. Securities are withdrawn based on the FIFO method.

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 other securities, the cost price is the acquisition price.

At year-end, the value of the securities is retained for the lowest 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 booked as valuation allowances. Unrealised capital gains are not recorded.

Investment securities

According to chapter 4 of Regulation 2014-07 of 26 November 2014, investment securities 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 resources.

They are subscribed with the manifest intention and ability to hold them until maturity. These securities must not be subject to any existing restriction, legal or other, which may be likely to call into question the intention to hold them until the securities mature. The classification as investment securities is no obstacle to their designation as items covered 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 securities is thus gradually adjusted to their redemption value. The interest relating to these securities is booked to the income statement in the section "Other interest and equivalent income".

For securities that have been reclassified from the "marketable securities" category, they are recorded at their acquisition price and the depreciation booked previously is written back over the residual term of the securities concerned. The intention to hold them to maturity must be clear, and they must also be covered by permanent resources in order to finance them through to their maturity.

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

An allowance for depreciation is booked if there is a strong probability that the institution will not keep the securities until maturity due to new circumstances, for example, when the impairment of the quality of the issuers' signature might compromise the redemption at maturity, in which case the depreciation is classified as the cost of risk. Unrealised capital gains are not recorded.

Equity securities and interests in affiliated companies

According to chapt V of abovementioned Regulation 2014-07 of 26 november 2014, the heading for “equity securities and interests in affiliated companies” groups together securities whose long-term ownership is considered to be useful for the company's activity. Such securities are recorded on the balance sheet at their acquisition value.

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

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

FIXED ASSETS

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

Our establishment opted for the so-called “forward-looking” simplification measure set out in Article 17 of Regulation 2004-06 repeated and substituted by ANC Regulation 2014-03.

Tangible fixed assets involving buildings have been divided using the simplified re-allocation method, by component, based on the relevant net accounting values on January 1st, 2005.

The change in method in 2005 has no impact, whether on net assets or tax income.

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

Fully depreciated capital assets are not restated.

Taking into account the nature of our fixed assets relating to buildings, only four components have been used, namely:

- structural components;
- Roof / front;
- technical equipment;
- fixture and fittings.

The depreciations are shown hereinafter:

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

ACCRUALS AND OTHER ASSETS

Deferred expenses

These are composed mainly of the costs and expenses arising from the issue of deeply subordinated securities. The expenses are settled during the year in which the transaction is put in place and are spread in accounting terms over a period of up to five years, on a prorata basis, which matches the early exist option available on each operation.

From the tax standpoint, the expenses actually paid out are deducted and the expenses allocated to each fiscal year are factored back in.

Income to be received

It concerns, a guarantee product implemented with a different tariff structure. The special characteristic relates to the postponement of the payment of the guarantee commission to the release of the guarantee and the collection of the fee is settled against the released share of the mutual fund at the end of guarantee.

LIABILITIES

TRANSACTIONS WITH CREDIT INSTITUTIONS

Within the framework of financial guarantee agreements in accordance with Art. L211-38 of the French Monetary and Financial Code (CMF) established during the financial year, cash security deposits can be put in place. Regular adjustments under the framework agreement are performed each quarter.

TRANSACTIONS WITH THE CLIENTELE

GUARANTEE DEPOSITS RECEIVED

In 2009, under the tax regime to aid investment in French overseas municipalities, shares in a real-estate company (SCI) in New Caledonia were purchased.

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 low-cost housing company, thus underwriting the promise by this company concerning the repurchase of shares in the SCI. Each year, the value of securities on the balance sheet is adjusted to the balance of the cash collateral account.

Other amounts due

These include sums payable to borrowers, either for the mutual fund guarantee release, overpayments received on guarantee fees, or sums whose allocation is still to be determined.

The sums release under the mutual guarantee (restitution de mutualisation – mutualisation restitution), owed to borrowers whose loans have been completed, according to information unchallenged by the lending banks, held by Crédit Logement and for which the banks cannot find the original borrowers, are listed under “Other Amounts Due – Segregation.

OTHER LIABILITIES

They comprise amounts due that can be broken down as follows:

- sums to be paid back for the collection activity on behalf of third parties, which are unavailable in light of the collection and payback periods;
- sums due to suppliers (invoices for overheads or fixed assets);
- sums due to staff and employee profit-sharing linked to the company's growth;
- tax and social security liabilities.

In accordance with article L.441-6 paragraphs 8 and 9 of the French Commercial Code, the settlement deadline for amounts due is fixed either at the 30th day following the date of reception of goods or execution of the requested service, without exceeding 45 days from the end of the month, or 60 days from the date of issue of the invoice.

The balance of accounts payable, distributed by payment due date, is shown in the appendix.

ACCRUALS – LIABILITIES - PRE-BOOKED INCOME

In response to the continuous guarantee service as practiced by our company, guarantee commissions are allocated to earnings based on a constant equal to the total amount of commissions acquired for a contract, divided by the duration of the loan expressed in years, multiplied by a factor F, factoring in adjustments for the first and final year.

This formula makes it possible to respect the principle of adequacy between the staggered allocation rate for commissions and the commitment rate for expenses attributable to the transactions in question.

Deferred income concerns guaranteed files on which the guarantee commission is payable as soon as the loan is put in place by the lender.

Prepaid income concerns guaranteed files on which the guarantee commission is payable at the end of the loan. The receivable concerning the guarantee commission is recorded as an asset under “income receivable” and the collection will be made by deducting against the mutual guarantee release at the normal or early term of the loan.

This account is also used to recognise the amount of cash guarantees received to cover positive interest rate swap valuations pursuant to the FBF (French Banking Federation) master agreement to forward market operations signed with our counterparties.

RESERVE FOR RISKS AND EXPENSES

They include reserves for litigation, compensation risks, damages and fees for legal proceedings resulting from ongoing proceedings or those subject to appeal.

A reserve is booked:

- if the company has actual commitment in relation to a third party on the date of closure;
- and if, on the date of closure, it is probable that the company will have to withdraw resources for the benefit of this third party, without at least an equivalent service from the third party after the date of closure;
- and if it is possible to reliably estimate this resource withdrawal.

SUBORDINATED DEBT

MUTUAL GUARANTEE FUNDS

According to Regulation 2014-07 of 26 november 2014 related to the financial statement of the banking sector and approved by the the abovementioned Regulation of 26 december 2014, the guarantee funds are grouped together under “subordinated debt”.

The guarantee system used by Crédit Logement is based on the principle of mutualisation, as reflected in the financial contribution of each borrower in a mutual guarantee fund intended to take the place of any borrower who defaults on loan repayments, partially for unpaid instalments and totally when an event of default has been pronounced.

In accordance with mutual guarantee fund regulations, the contribution of each borrower may be returned after Crédit Logement's commitment has been released on a pro rata of the fraction not used by the legal department in connection with the defaulting borrowers.

The calculation of the mutualisation restitution rate takes into account the risk of non-repayment prudentially evaluated on all the dossiers contributing to the fund (ex-ante provisioning), and also the expected recovery rate on non-performing loans.

An amended version of the regulations of the mutual guarantee fund (FMG), applicable from 1 January 2014, makes the restoral of mutualisation subject to the prior agreement of the French Prudential Supervisory Authority (ACPR) and the Board of Directors. It also covers the other recognised losses in proportion to its weight in the regulatory capital.

SUBORDINATED SECURITIES AND SUBORDINATED BORROWINGS

These various issues were carried out in accordance with article L228-97 of the Commercial Code (Code de Commerce), with law n° 2003-706 dated 1st August 2003 and with article 2 of rule 90-02 dated 23/02/1990 of the Committee for Financial and Banking Regulation (Comité de la Règlementation Bancaire et Financière, CRBF). In the event of the company's liquidation, the nominal liabilities will be paid back in line with the seniority of the debt : first, unsecured debt, then Tier Two debt, then subordinated borrowings, and lastly Tier One.

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

16,000 undated deeply subordinated securities of 50,000 € nominal were issued on 16 March 2006 and can be taken in additional Tier 1 capital. However, as they do not meet all the criters laid down in EU Regulation 575/2013, they are subject to grandfathering.

They include :

- an early call option, at the exclusive initiative of the issuer, which can be exercised quarterly from 16 March 2011, providing that prior agreement has been obtained from the French Prudential Supervisory and Resolution Authority (ACPR).
- a clause taking them from fixed-rate remuneration to variable rate, applicable to holders of these securities after 16 March 2011 and are quoted on the Luxembourg market.

Subordination conditions
Interest is payable annually in aeras on 16 March of each year, at the fixed rate of 4.604% until 16 March 2011 and quarterly in aeras on March 16 at the Euribor 3 month rate plus 115 bp. However, the company may, if its financial situation requires it for the continuation of its business, postpone the payment of the said interest, this being able to be assigned, together with the principal, for absorption of any losses sustained by the company.

Dated bond issue (lower Tier Two) – FR 0011000231

5,000 dated subordinated bonds were issued with a par value of 100,000 euros on 16 February 2011, in accordance with Article 2 of Regulation 90-02 dated 23 February 1990 of the Committee for Financial and Banking Regulation, and can be included into Tier 2 capital. However, as they do not meet all the criters laid down in UE Regulation 575/2013, they are subject to grandfathering.

They are quoted on the Luxembourg market. Interest is payable quarterly in arrears on 16 February of each year, at a fixed rate of 5.454 %.

Subordinated borrowings

Subordinated borrowings, granted to the company by its shareholders and partners, are held in the Tier 2 capital, and are of two types:

- subordinated borrowings that are undated, but that may be paid back after eight years solely on the initiative of the borrower, and subject to the prior agreement of the of the French Prudential Supervisory and Resolution Authority (ACPR). These subordinated borrowings do not meet all the criteria laid down in EU Regulation 575/2013 and there are subject to a grandfather clause;
- subordinated borrowings that were amended in 2014, and which have a twelve year term but may be paid back after five years solely on the initiative of the borrower, and subject to the prior agreement of the French Prudential Supervisory and Resolution Authority (ACPR). These subordinated borrowings meet all the criteria laid down in EU Regulation 575/2013 and are held in full in Tier 2.

FUNDS FOR GENERAL BANKING RISKS

The booking of a provision for general banking risks, as provided for under Article 3 of the CRBF Regulation 90-02, is intended to cover general risks linked to the banking activity.

The fund for general banking risks includes general provisions that have not been booked to cover various expenses or likely risks and that are clearly identified.

The amounts retained are net of tax in accordance with the conditions of Article 9 of CRBF Regulation 90-02.

EQUITY

Share capital

In accordance with the combined general meeting of shareholders dated 9 May 2012, the equity capital was composed of 17,997,861 ordinary shares of €70 each, fully paid up. These new shares were issued value date 1rst January 2012. The entitlements conferred by each share are fixed as follows.

Distribution of profit according to article 18 of the Articles of Association:

"From the distributable profit, deductions are made for any amount that the general meeting may decide to carry over to the following financial year or assign to the creation of any extraordinary reserve, contingency fund or other fund, whether with special assignment or not.

The general meeting, reviewing the financial statements for the year, may grant to each shareholder the option to receive in cash or 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 implemented within the framework of contracts of services and signed in the form of bank guarantees in the context of an auction. It is booked for an amount representing a maximum of 10% of the amount of the upset price, without the amount of this guarantee being able to be less than 3,000 euros.

The guarantee is valid for an undatet period and expires, according to the case:

- on the day of the auction, with the purchase by a third party other than the guaranteed party;
- the date of payment of the auction price and associated fees, in the case where the purchase is for the benefit of guaranteed party.

Crédit Logement provides bank guarantees for the benefit of the ordering district court and on behalf of its customer and books this guarantee in its off balance sheet.

Guarantee commitments distributed by other credit institution

The guarantee offered by Crédit Logement, “la caution solidaire” to cover residential loans granted to retail customers, is booked for the amount of capital still due by the borrowers at the end of each year.

In accordance with abovementioned Regulation 2014-07 of 26 november 2014, commitments relative to deposit agreements given have been broken down into the following categories as of this year:

- healthy outstanding guarantee ;
- healthy outstanding guarantee for restructured loans;
- doubtful guarantee;
- compromised doubtful guarantee;
- doubtful outstandings by contagion.

Debts outstanding have been segmented based on the following criteria:

- Healthy loans outstanding. All loans not meeting the conditions of non-performing loans, including the following aspects:
  - the first three instalments unpaid before a guarantee claim are included in off-balance-sheet guarantee liabilities. The method applied to calculate this amount is to obtain from our main partners the delinquency rates at one month, two months and three months, and apply, by a conservative approach, the maximum rates obtained to all the healthy off-balance-sheet loans outstanding;
  - customer order guarantee commitments not yet put in place have been included in off-balance-sheet items since 2013.
- Healthy outstanding guarantee for restructured loans: commitments that have been restructured at non-market conditions. They have been identified and must remain in this category through to their final instalment, except for in cases of failure to comply with the terms and conditions set; in this way, the transfer will be made directly into the category for compromised doubtful debt;
- Doubtful guarantee : all commitments with a recognised credit risk in the following cases:
  - existence of one or more outstanding payments covering a period of at least three months;
  - knowledge of a deteriorated financial position for a counterparty, including without any outstanding payments recorded previously;

- existence of contentious proceedings relative to a dispute between the institution and the counterparty.

  The conditions for a return to healthy outstanding debt are only justified if regular payments have resumed for the amounts corresponding to the initial contractual instalments or to market conditions.

- Compromised doubtful guarantee : this category includes the following commitments:
  - any commitments that have remained doubtful for one year and for which no reclassification as healthy outstanding guarantee is likely, or when an event of default is pronounced;
  - any failure to comply with the instalments and due dates set as part of a restructuring (restructured healthy guarantee).

- Doubtful by contagion. The classification of a counterparty into one of two categories of doubtful guarantee automatically results in all of the guarantee and commitments relating to this counterparty being given an identical rating.

GUARANTEE COMMITMENTS RECEIVED

Mutual guarantee fund reconstitution commitment

Commitment given by Crédit Logement's shareholders and/or partners on a prorata of their guaranteed commitments to reconstitute the mutual guarantee fund under the rules applying to contribution settled before the 1st January 2014 in the event of the latter being used up. This commitment is updated on a half-yearly basis.

Commitments to forward financial instruments

Recording and qualification principles of the operation.

Transactions on forward financial instruments outstanding at the date of closure are shown in the off-balance-sheet commitments. Transactions on forward financial instruments covering interest rates and foreign exchange are recorded in accordance with the provisions of the abovementioned Regulation 2014-07 of 26 november 2014.

Although they do not figure in the publishable off-balance-sheet, the amounts are booked in the off-balance-sheet accounts for their notional amount are detailed in the note appendix A13. They represent the volume of transactions and not the risks that are associated with them.

For over the counter commitments on interest rate instruments, the amounts are recognised off balance sheet for the notional of the contracts.

When each transaction is established, the category of position is immediately assigned, namely:

- Isolated opened positions. Contracts classified in the portfolios of isolated opened positions are valued at the lowest of the acquisition price or their market value. Unrealised capital gains are not booked and unrealised capital losses are subject to provision for risk only if there is a counterparty risk.
- Micro-hedging transactions. For transactions qualified as macro-hedging, 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 the results symmetrically with the recognition of income and expenses on the items hedged.
- Macro-hedging transactions. For transactions qualified as micro-hedging, the expenses and income are booked on a pro rata basis to the income statement.

The adjustments recognised at the conclusion of a contract are booked to the income statement over the lifetime of the contract. In case of termination or assignment of a contract, or its replacement by another contract, the adjustments recognised are immediately booked to the income statement. They are depreciated on a pro rata basis for macro hedging and micro-hedging transactions.

The expenses and income are booked on a pro rata basis to the income statement. The counterpart to this entry is booked to the accruals-liabilities accounts until the date of collection or disbursement of the funds.

The valuation rules are defined in the compensation master agreement to which the transaction is attached, according to the generally-applicable rules in the markets.

If the difference is negative, they are subject to a risk and liabilities provision only in case of isolated uper positions or, for micro-hedging transactions, when the unrealised gains on the hedged asset are recognised.

Firm transactions on interest-rate instruments

Hedging transactions

With the aim of making the results insensitive to short rates, Crédit Logement has decided to contract hedging swaps (seller variable/buyer fixed rate), commonly called interest-rate swaps. They are booked according to the categories specified title 5 of N°2014-07 regulation as of 26 november 2014 relating to credit institutions accounts.

Mechanism of credit risk mitigation on cash investments

This mechanism serves to cover the risk of financial loss in the event that a counterparty to a financial instrument fails to meet its contractual obligations.

To mitigate this risk, Crédit Logement has opted for the establishment of "FBF framework" contracts for collateralisation on derivatives signed with bank counterparties which provide for netting of exposure and the establishment of a regular margin call (cash deposit) which makes it possible to reduce the real exposure. Regular adjustments under the framework agreement are performed each week.

Other securities received as collateral

Financial guarantee framework agreements, established in 2013, specify the conditions under which partner banks, 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 be of several types:

- cash deposits in our books (these sums are recorded under cash guarantees on the liabilities side of the balance sheet);
- cash account opened in the name of our counterparty and pledged to us;
- eligible securities quoted 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 businesses and legal entities.

Regular adjustments to the collateral under the framework agreement are performed each quarter.

OTHER INFORMATION

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

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

As a director, the Chairman of the Board of Directors solely receives remuneration in the form of directors' fees, in accordance with the terms and conditions approved by the Board at its meeting of 3 April 2013. The Chairman received €3,900 in directors' fees in financial year 2016. 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 managers (CEO and Deputy CEOs) 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.

These remuneration packages contain a fixed component (executive office, and salary for the Deputy CEOs alone) and a variable component that is capped at a certain proportion of the fixed component.

The fixed component of the remuneration package intended for the CEO and Deputy CEOs 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 CEO and 20% of the gross fixed remuneration paid to the Deputy CEOs. 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. This was the case in 2016, as a result of business volumes for the year, the outcome of changes relating to the business model and the management of capital.

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

Lastly, the corporate officers may benefit from a supplementary pension scheme, introduced further to a 2007 decision by the Board of Directors (cf. detailed terms in C4 of the Appendix), as well as a company car, added back as a benefit in kind.

EMPLOYEE BENEFITS

Commitments relating to end-of-career benefits and the supplementary pension scheme for executive staff (collective supplementary pension insurance policy with defined benefits covering all executive staff under certain conditions) are covered by collective funds managed by an insurance company.

Crédit Logement pays a contribution to these funds on a regular basis, with the difference between the actuarial value of such commitments and the value of the funds managed by the insurance company not necessarily provisioned in Crédit Logement's accounts.

CONSOLIDATION SCOPE

Those companies which have no significant characteristic in accordance with the criteria set out in the regulatory provisions are not included in the consolidation scope. Under these conditions, the companies Crédit Logement Assurance, SNC Foncière Sébastopol and SCI Martawi are not consolidated.

As such, Crédit Logement does not draw up 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 thousand euros)

NOTE A 1 - DEBT AND BREAKDOWN BY PERIOD LEFT TO RUN

	< 3 months	3 months to 1 year	1 to 5 years	> 5 years	Total
CREDIT INSTITUTIONS	**1 377 476**	**777 470**	**2 282 897**	**3 472 927**	**7 910 770**
Sight debt	472 638				472 638
Term debt	870 000	719 000	2 281 000	3 472 289	7 342 289
Related debt	34 838	58 470	1 897	638	95 843
CUSTOMER DEBT	**1 244 146**	**114**	**166**	**308**	**1 244 734**
Other customer loans	47	114	166	308	635
Bad debt	1 244 099				1 244 099
BONDS AND OTHER FIXED-INCOME SECURITIES	**351 179**	**2 310**	**249 780**	**384 052**	**987 321**

NOTE A 2 - DEPOSITS BREAKDOWN

	Affiliated companies	Equity interests	Other companies	Individuals	Total
DEPOSITS ON CREDIT INSTITUTIONS		7 766 494	144 276		7 910 770
DEPOSITS ON CUSTOMERS				1 244 734	1 244 734
BONDS AND OTHER FIXED-INCOME SECURITIES		552 690	434 631		987

NOTE A 3 - CUSTOMERS LOANS

NOTE A 3-1 - CHANGE IN OUTSTANDING CUSTOMER LOANS

	31/12/2015	Releases	Repayments	Debt write-offs	**31/12/2016**
Cash loans - loans to company staff	582	403	350		635
Bad debt	1 078 428	349 505	156 768	27 133	1 244 032
Bad debts other third party		616			616
Provisions for bad debts third party					-549
TOTAL	**1 079 010**	**350 524**	**157 118**	**27 133**	**1 244 734**

NOTE A 3-2 - CREDIT RISK: BREAKDOWN BY CATEGORY OF OUTSTANDINGS

	Healthy debt	O/w, restructured healthy	**Bad debt**	O/w, compromised bad	**Total outstanding debt**
Cash loans - loans to company staff	635				635
Bad debt			1 243 483	1 235 102	1 243 483
TOTAL	**635**		**1 243 483**	**1 235 102**	**1 244 118**

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 bodies	Other issuers			
	Listed	Unlisted	Total		
BONDS AND OTHER FIXED-INCOME SECURITIES					
Bonds received throught repo.	250 000		250 000		
Related debt	1 157		1 157		
SECURITIES RECEIVED	**251 157**		**251 157**		
Bonds	733 832		733 832	744 639	720 000
Related Debt	2 332		2 332		
INVESTMENT SECURITIES	**736 164**		**736 164**	**744 639**	**720 000**
SHARES AND EQUITY RELATED SECURITIES					
Other securities		8 907	8 907	6 787	
Allowance for depreciation		-2 120	-2 120		
Marketable securities		**6 787**	**6 787**	**6 787**	
Investment in related companies		10 209	10 209	9 050	
Provision for impairment		-1 159	-1 159		
INVESTMENT SECURITIES		**9 050**	**9 050**	**9 050**	
TOTAL SECURITIES PORTFOLIO	**987 321**	**15 837**	**1 003 158**	**760 476**	

(*) No trading or investment portfolio has been set up.

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

	% interest	Share capital	Shareholders' equity other than capital *	Income at 31/12/2015	Gross inventory value	Net inventory value
OTHER SECURITIES						
Crédit Logement Assurance	81,74	6 681	1 892	-934	6 829	5 670
SNC Foncière Sébastopol	99,90	15		-520	15	15
ADVANCES ANS ASSOCIATED CURRENT ACCOUNTS						
SNC Foncière Sébastopol					3 365	3 365
INTERESTS IN AFFILIATED COMPANIES					**10 209**	**9 050**

* Figures at 31/12/15

NOTE A 5 - FIXED ASSETS

GROSS FIXED ASSETS	Gross value at year-start	Acquisitions	Sales or Internal transfers	Gross value at year-end	Net value at year-end
INTANGIBLE FIXED ASSETS	**31 207**	**3 026**	**-587**	**33 646**	**3 994**
Assets under construction	812	1 331	-699	1 444	1 444
Software and licenses	30 395	1 695	112	32 202	2 550
TANGIBLE FIXED ASSETS	**37 824**	**1 105**	**-8 486**	**30 443**	**13 173**
Assets under construction	775	604	-707	672	672
Land	2 909			2 909	2 909
Structural components	5 479			5 479	3 531
Roof / Front	2 078			2 078	465
Transport equipment	154		-154		
Office equipment	450	3	-1	452	34
Club Affaires equipment and tools	87	1	-5	83	11
Office furniture	1 541	54	-61	1 534	424
Club Affaires furniture	123			123	37
Computer equipment	3 619	337	-183	3 773	580
Fixture & fittings an rental premises	12 141	3	-6 800	5 344	1 421
Fixture & fittings an building	3 909	37	-67	3 879	1 388
Technical equipment	4 559	66	-508	4 117	1 701
TOTAL	**69 031**	**4 131**	**-9 073**	**64 089**	**17 167**

DEPRECIATION OR PROVISIONS	Gross value at year-start	Charges	Writte backs	Gross value at year-end
INTANGIBLE FIXED ASSETS	**27 712**	**2 527**	**-587**	**29 652**
Software and licenses	27 712	2 527	-587	29 652
TANGIBLE FIXED ASSETS	**24 083**	**1 400**	**-8 213**	**17 270**
Land				
Structural components	1 899	49		1 948
Roof / Front	1 511	102		1 613
Transport equipment	153	1	-154	
Office equipment	398	21	-1	418
Club Affaires equipment and tools	72	5	-5	72
Office furniture	1 114	59	-63	1 110
Club Affaires furniture	85	1		86
Computer equipment	3 081	292	-180	3 193
Fixture & fittings an rental premises	10 771	317	-7 165	3 923
Fixture & fittings an building	2 429	283	-221	2 491
Technical equipment	2 570	270	-424	2 416
TOTAL	**51 795**	**3 927**	**-8 800**	**46 922**

NOTE A 6 - OTHER ASSETS AND ACCRUALS

	31/12/2016	31/12/2015		**31/12/2016**	31/12/2015
			Cash collateral on IRS	17 190	
Deposit guarantee fund (FGDR)	24	20	Currency adjustment	68	81
Deposits and sureties given	206	207	Loss to amortize on financial instr.	504	272
Tax and social security receivables	5 347	342	Pre-paid expenses	1 082	933
Debtors (staff)	75	81	Deferred expenses	1 169	1 450
Other debtors (customers)	1 444	1 635	Accrued revenue on guarantee	394 503	373 935
Other debtors	11	158	Accruals on interest rate swap	3 331	2 559
			Other accruals	16	301
			Other funds transfer to be charged	4	74
Other assets	**7 107**	**2 443**	**Accruals**	**417 867**	**379 605**

NOTE A 7 - DEBTS TO CREDIT INSTITUTIONS AND CUSTOMER

	31/12/2016	31/12/2015
Deposit of cash collateral	32 426	35 660
Related payables	45	16
Credit Institutions	**32 471**	**35 676**
Cash collateral received	6 787	6 663
Other amounts due - Confined amounts	16 281	15 472
Due to customer	**23 068**	**22 135**

NOTE A 8 - OTHER LIABILITIES, ACCRUALS AND PROVISIONS

	31/12/2016	31/12/2015		**31/12/2016**	31/12/2015
Tax and social security liabilities	6 475	48 711	Cashed in advance income on guarantee	347 684	325 351
Accounts payable – miscellaneous (staff)	3 647	3 281	Accrued income on guarantee	257 884	247 183
Accounts payable – miscellaneous (suppliers)	3 971	4 250	Accruals on interest rate swap	2 125	1 689
			IRS capital gain to be spread	14 336	
Staff liabilities	2 100	3 347	Currency adjustment	67	80
Other payables	1 521	1 929	Forward financial instrument adjustment accounts (cash margin calls)	84 790	69 600
			Other accruals	7	68
OTHER LIABILITIES	**17 714**	**61 518**	**ACCRUALS**	**706 893**	**643 971**

PROVISIONS FOR CONTINGENCIES

Type	31/12/2015	Allowed	Write-backs	Unused write-backs	31/12/2016
Provisions for litigations	1 058	175		-1 019	214
TOTAL	**1 058**	**175**		**-1 019**	**214**

ACCOUNTS PAYABLE SCHEDULE

In accordance with article L.441-6-1 of Code de Commerce introduce by LME law

Type	< 30 days	Within 30 and 60 days	> 60 days	Total
Accounts payable as at 31/12/2016	**953**			**953**
Accounts payable as at 31/12/2015	901			901

NOTE A 9 - SHAREHOLDERS' EQUITY AND ASSIMILATED

NOTE A 9 -1 - MUTUAL GUARANTEE FUND

	Balance at year start	Incoming	Outgoing	Balance at year-end
Gross mutual guarantee fund in euro	4 702 428	694 907	-314 696	5 082 639
Gross mutual guarantee fund in foreign currency	1 894	2	-13	1 883
Use of mutual guarantee fund to cover irrecoverable bad debts	-132 898	-27 699	566	-160 031
Mutual guarantee fund in balance sheet liabilities	**4 571 424**	**667 210**	**-314 143**	**4 924 491**
Bad debt to recover in balance sheet assets	-1 078 428	-349 505	183 901	-1 244 032
Mutual guarantee fund available after doubtful debts	**3 492 996**	**317 705**	**-130 242**	**3 680 459**
Bad debt to recover balance sheet assets	1 078 428	349 505	-183 901	1 244 032
Expected loss on doubtful debts - loss forecast	-441 777	-124 542	73 968	-492 351
Recover forecasts on non performing loans	636 651	224 963	-109 933	751 681
Mutual guarantee fund less euro expected losses on doubtful debt to recover	**4 129 647**	**542 668**	**-240 175**	**4 432 140**

NOTE A 9-2 – SUBORDINATED DEBT

DEEPLY SUBORDINATED BORROWINGS	Issue date	Due date	31/12/2016 Amounts	31/12/2016 Associated debt	31/12/2015 Amounts	31/12/2015 Associated debt
	30/12/2009 30/12/2010 30/06/2011 30/12/2011		194 284 395 579 415 186 286 008		194 284 395 579 415 186 286 008	
UNDETERMINED			**1 291 057**	**1 612**	**1 291 057**	**1 701**
	30/06/2012 30/06/2013	30/12/2026 30/12/2026	300 830 120 737		300 830 120 737	
DETERMINED			**421 567**	**19**	**421 567**	**23**
TOTAL SUBORDINATED BORROWINGS			**1 712 624**	**1 631**	**1 712 624**	**1 724**
SUBORDINATED SECURITIES	Issue date/ due date	Number of titles				
Perpetual securities Code ISIN FR 0010301713	16/03/2006 indeterminated	16 000	800 000	296	800 000	363
Term securities Code ISIN FR 0011000231	16/02/2011 16/02/2021	5 000	500 000	23 843	500 000	23 833
TOTAL SUBORDINATED SECURITIES			**1 300 000**	**24 139**	**1 300 000**	**24 196**
TOTAL SUBORDINATED DEBT			**3 012 624**	**25 770**	**3 012 624**	**25 920**

NOTE A 9 -3 – FUNDS FOR GENERAL BANKING RISKS AND REGULATORY PROVISIONS

	Balance at year start	Charges for the year	Write-backs for the year	Balance at year-end
Regulatory provision for medium and long-term credit risks	56 947			56 947
Funds for general banking risks	610			610
TOTAL	**57 557**			**57 557**

NOTE A 9 -4 - CHANGE IN CAPITAL AND RESERVES

- Crédit Agricole and LCL le Crédit Lyonnais	33,00 %	- Crédit Mutuel and CIC	9,50 %
- BNP Paribas	16,50 %	- SF2 - Groupe La Banque Postale	6,00 %
- Société Générale and Crédit du Nord	16,50 %	- HSBC France	3,00 %
- Groupe BPCE and Crédit Foncier de France	15,50 %		

The share capital (fully paid-up) comprises:	31/12/2015	Increase/ allocation	Reduction/ allocation	**31/12/2016**
- 17 997 861 Category A shares,	1 259 850			1 259 850
	1 259 850			**1 259 850**
Legal reserve	53 428	11 801		65 229
General reserve	67 238			67 238
TOTAL	**120 666**	**11 801**		**132 467**

NOTE A 10 - AMOUNT OF RECEIVABLES OR PAYABLES ASSOCIATED WITH EACH ITEM ON THE BALANCE SHEET

	31/12/2016	31/12/2015		**31/12/2016**	31/12/2015
Credit institutions	95 843	77 195	Credit institutions	**45**	16
Interests in affiliated companies	16	16	Subordinated debt	**25 771**	25 920
Bonds and other fixed-income securities	3 489	3 210	Other liabilities: tax and social		
Other assets : tax pay back	5 347	342	security liabilities	**6 476**	48 710
Other accruals			Other accruals :		
. on guarantee	394 503	373 935	. On financial instrument	**2 125**	1 689
. on suppliers	16	301			
. on financial instrument	3 331	2 559			
Accrued revenue	**502 545**	**457 558**	**Expenses due and accrued**	**34 417**	**76 335**
Other accruals :			Other accruals :		
. issue expenses to amortize	1 169	1 450	. sureties with INITIO tariff	**257 884**	247 183
. on suppliers	1 082	933	. sureties with CLASSIC tariff	**347 684**	325 343
Pre-paid expenses	**2 251**	**2 383**	**Pre-booked income**	**605 568**	**572 526**

NOTE A 11 - OFF-BALANCE SHEET COMMITMENTS RECEIVED

	31/12/2015	Changes	31/12/2016
Counter-guarantees received (from our shareholders or not) relative to the commitment to reconstitute the mutual guarantee fund	2 927 647	-290 496	2 637 151
GUARANTEE RECEIVED FRON CREDIT INSTITUTIONS	**2 927 647**	**-290 496**	**2 637 151**

Financial guarantee Framework (art. L211-38 of CMF)			
Eligible abs euro listed titles	262 954	-50 247	212 707
Receivable on Credit Logement subordinated borrowings	753 655	-94 001	659 654
Eligible claims from loans, credit or finance to enterprises, legal persons	800 422	-81 665	718 757
OTHER INFORMATIONS : OTHER ASSETS RECEIVED AS SECURITIES COLLATERAL	**1 817 031**	**-225 913**	**1 591 118**

NOTE A 12 - OFF-BALANCE SHEET COMMITMENTS GIVEN

NOTE A 12 - 1 - CHANGE IN COMMITMENTS GIVEN

	31/12/2015	Put in place	Depreciation /Amortisation	Final repaiments	31/12/2016
Guarantee for individual residential loans - Commitments in place	280 322 623	69 372 411	-19 704 126	-28 913 353	301 077 555
Unpaid due payments estimated on real estate loan	21 127		-3 016		18 111
	280 343 750	69 372 411	-19 707 142	-28 913 353	301 095 666
Commitments not yet in place	35 535 020		18 385 901		53 920 921
Guarantee for individual residential loans	**315 878 770**	**69 372 411**	**-1 321 241**	**-28 913 353**	**355 016 587**
Financial guarantee	83	83		-15	151
GUARANTEE GIVEN ON CUSTOMER	**315 878 853**	**69 372 494**	**-1 321 241**	**-28 913 368**	**355 016 738**

NOTE A 12- 2 - BREAKDOWN BY TIME LEFT TO RUN

Guarantee commitment customer order	< 3 months	3 months to 1 year	1 to 5 years	> 5 years	TOTAL
Guarantee for individual residential loans	162 129	1 206 014	14 644 559	285 064 853	301 077 555
Commitments not yet in place		53 920 921			53 920 921
Unpaid due payments estimated on real estate loan	18 111				18 111
Financial guarantee	151				151
TOTAL	**180 391**	**55 126 935**	**14 644 559**	**285 064 853**	**355 016 738**

NOTE A 12 - 3 - CREDIT RISK : BREAKDOWN BY CATEGORY OF OUTSTANDING DEBT

Guarantee commitment customer order	**Healthy debt**	O/w, restructured healthy	**Bad debt**	O/w, compromised bad	**Total debt**
Guarantee for individual residential loans	300 030 380	70 321	1 047 175	424 724	301 077 555
Unpaid due payments estimated on real estate loan before gaurantee call	18 111				18 111
Commitments not yet in place	53 920 921				53 920 921
Financial guarantee	151				151
TOTAL	**353 969 563**	**70 321**	**1 047 175**	**424 724**	**355 016 738**

NOTE A 13 - TERM FINANCIAL INSTRUMENTS

OTC interest rate transactions	Notional amount	Premium on options	Market value (interest include)	Market value (without interest)
Covered by FBF Framework	1 970 000	67 600	67 019	66 336
Not covered by framework	150 000		11 312	10 785
TOTAL	**2 120 000**		**78 331**	**77 121**

No transfer from one type to another in 2016

OTC interest rate transactions - by maturity	< 3 month	3 month to 1 year	1 year à 5 years	> 5 years	TOTAL
. micro hedge			50 000	290 000	340 000
. macro hedge (fix rate receivable)		140 000	570 000	1 070 000	1 780 000
TOTAL		**140 000**	**620 000**	**1 360 000**	**2 120 000**

NOTE B - INFORMATION ON PROFIT ANS LOSS ACCOUNT (in thousand euros)

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

	31/12/2016	31/12/2015
Interest on demand deposit accounts	58	185
Interest on term deposit accounts (counterparty for subordinated borrowings)	8 067	11 080
Interest on term accounts for "cash from capital subscriptions, Category B shares"		2 472
Interest on term deposit accounts and cash adjustment	75 248	239 295
Income on term financial instruments	25 551	22 236
Transactions with credit institutions	**108 924**	**275 268**
Loans to Crédit Logement staff	4	5
Interest on bad debt (interest for late payments on secured debt)	3 349	3 056
Transactions with customers	**3 353**	**3 061**
Interest on securities received	2 266	14 182
Interest income on investment securities	11	314
Interest income on financial securities	5 324	3 644
Interest on bonds and fixed-income securities	**7 601**	**18 140**
TOTAL INTEREST INCOME AND ASSIMILATED	**119 878**	**296 469**
Interest on right deposit	-32	-13
Interest or interest compensation	-44	-17
Interest on repo transactions	-965	
Interest on undated subordinated borrowings	-13 841	-16 845
Interest on deeply subordinated securities and synthetic securitisations	-34 695	-36 636
Interest on cash collateral	-123	-121
Expenses on investment security	-233	
Interest on term subordinated borrowings	-5 679	-6 484
TOTAL INTEREST EXPENSES AND ASSIMILATED	**-55 612**	**-60 116**

NOTE B 2 - INCOME ON VARIABLE-INCOME SECURITIES

	31/12/2016	31/12/2015
Interest on the current account associated with SNC Foncière Sébastopol	62	59
TOTAL INCOME ON VARIABLE-INCOME SECURITIES	**62**	**59**

NOTE B 3 - COMMISSION (INCOME AND EXPENSES)

	31/12/2016	31/12/2015
Commission on off-balance sheet commitments given on residential loans	151 639	176 334
TOTAL COMMISSION (INCOME)	**151 639**	**176 334**
Banking commission and fees	-1 133	-1 220
Commission and fees on synthetic securitisations and subordinated securities	-187	-194
TOTAL COMMISSION (EXPENSES)	**-1 320**	**-1 414**

NOTE B 4 - INCOME ON INVESTMENT PORTFOLIO TRANSACTIONS AND ASSIMILATED

	31/12/2016	31/12/2015
Capital gains on marketable security disposals		19 192
Provision allocation and write backs on securities	123	121
TOTAL INVESTMENT PORTFOLIO TRANSACTIONS	**123**	**19 313**

NOTE B 5 - GAIN OR LOSS ON TRADING PORTFOLIO

	31/12/2016	31/12/2015
Capital gain on exchange	-1	6
TOTAL RESULT ON TRADING PORTFOLIO	**-1**	**6**

NOTE B 6 - OTHER OPERATING BANKING INCOME AND EXPENSES

	31/12/2016	31/12/2015
Third-party collection income (management and collection fees)	2 902	3 013
Ancillary income (Crédit Logement Assurance/SNC Foncière Sébastopol)	241	943
Other ancillary income	116	508
Other income	33	55
TOTAL OTHER OPERATING INCOME	**3 292**	**4 519**
SNC Foncière Sébastopol loss	-207	-334
Other expenses	-163	-177
TOTAL OTHER OPERATING EXPENSES	**-370**	**-511**

NOTE B 7 - GENERAL OPERATING EXPENSES

	31/12/2016	31/12/2015
Salaries and wages	-17 036	-16 525
Social security taxes	-7 995	-8 316
Salary-based taxes	-2 728	-2 857
Pension expenses	-2 928	-2 802
Performance-related bonus	-339	-300
Employee profit-sharing	-2 100	-3 347
Allowances for disputes	317	-96
Staff costs	**-32 809**	**-34 243**
Tax	**-5 602**	**-10 362**
Rentals	-1 317	-1 352
Transport	-134	-136
Other external services	-8 261	-12 316
Reserves on disputes	527	-600
External services	**-9 185**	**-14 404**
Other administrative costs	**-14 787**	**-24 766**
TOTAL GENERAL OPERATING EXPENSES	**-47 596**	**-59 009**

NOTE B 8 - DEPRECIATION AND ALORTISATION ON FIXED ASSETS INCLUDING EQUITY SECURITIES

	31/12/2016	31/12/2015
Software and licenses	-2 527	-2 472
Intangible fixed assets	**-2 527**	**-2 472**
Structural components	-49	-49
Roof / Front	-102	-102
Transport equipment	-1	-16
Office equipment	-21	-28
Club Affaires equipment and tools	-5	-4
Office furniture	-59	-57
Club Affaires furniture	-1	-1
Computer equipment	-292	-255
Fixture & fittings an rental premises	-317	-238
Fixture & fittings an building	-283	-264
Technical equipment	-270	-266
Tangible fixed assets	**-1 400**	**-1 280**
TOTAL	**-3 927**	**-3 752**

NOTE B 9 - COST OF RISK

	31/12/2016	31/12/2015
Bad debt allowances for depreciations	-548	
TOTAL	**-548**	

NOTE B 10 - CORPORATE INCOME TAX

	31/12/2016	31/12/2015
Capital losses on fixed asset disposals	-271	-43
Capital gain on fixed assets	57	
Allowances on subsidiaries	-1 159	
TOTAL *	**-1 373**	**-43**

NOTE B 11 - CORPORATE INCOME TAX

	31/12/2016	31/12/2015
On ordinary income	-56 452	-135 840
TOTAL	**-56 452**	**-135 840**
*** including corporate income tax instalments already paid**	**-61 496**	**-97 256**

NOTES C - OTHER INFORMATIONS (in thousand euros)

NOTE C 1 - TOTAL AMOUNT OF COMPENSATION FOR THE YEAR

	Compensation	Advances and loans	Off balance-sheet commitments
To all administrative bodies *	33		1 357
To all executives **	901	9	931
- fix compensation	600		
- variable compensation	242		
- fringe benefits and pension	59		

* No benefits and compensation paid to subsidiary during year 2016

NOTE C 2 - TOTAL AMOUNT OF THE FEES OF THE STATUTORY AUDITORS FOR THE YEAR

	Fees
Statutory audit	158
Ancillary services	12

NOTE C 3 - AVERAGE STAFF BREAKDOWN BY LEVEL

	31/12/2016	31/12/2015
Executives*	2	2
Managers	215	213
Supervisors	68	58
Employees	31	32
TOTAL	**316**	305

* without managing Director

NOTE C 4 - OTHER SOCIAL COMMITMENTS OUTSOURCED AND NOT PROVISIONED

Supplementary pension for managers		**Voluntary or compulsory retirement benefits**	
Value of the collective funds managed externally	3 972	Value of the collective funds managed externally	1 622
Present value of commitments	6 324	Present value of commitments	1 688
Provisioned amount at year end	2 267		
Collective supplementary pension insurance policy with defined benefits		Collective "end-of-career benefits" insurance policy	
Beneficiaries: all managers, subject to certain conditions of status ans seniority when retiring		Beneficiaries: all company staff	
Increase of 2% per year up to 20% of annual earnings when retiring			
Premium paid by the company are subject to 24% social security costs			
Expected annual pension of the corporate officers as at 31/12/2016 following rules edicted by art.D 225-104-1 of Commercial law : 89			

Rules and methods

. Updates are carried out for each contract type using the "unit cost per year of service" method based on global or individual data provided to an independent actuarial company.

. Total commitments are calculated for the total careers forecast for participants.

. Actuarial debt corresponds to commitments updated on the end date for each contract.

. Year end benefits will be paid out based on staff seniority and common law rules.

NOTE C 5 - "AD HOC" COMPANIES

At the close of accounts, there were no interests in "ad hoc" companies.

NOTE C 6 - PROPOSED ALLOCATION OF INCOME

Income for the year ended	107 795
Retained earnings for the previous year	299 892
INCOME TO BE ALLOCATED	**407 687**
BREAKDOWN OF ALLOCATION	
- Legal reserve	5 390
- General reserve	
- Dividends	102 408
- Retained earnings	299 889
TOTAL	**407 687**

FINANCIAL RESULTS
in thousand euros

	2012	2013	2014	2015	**2016**
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)	359 697	297 057	288 804	496 580	**274 870**
Earnings before tax, depreciation and provisions	172 747	127 266	118 800	376 183	**168 915**
Corporate income tax	59 990	45 892	45 720	135 840	**56 452**
Earnings after tax, depreciation and provisions	104 278	73 910	69 598	236 015	**107 795**
Profit distributed	52 194	70 192			**102 408**
Earnings per share for operations (in euros)					
Earnings after tax but before depreciation and provisions	6,27	4,52*	4,06*	13,35*	**6,25**
Earnings after tax, depreciation and provisions	5,79	4,11*	3,87*	13,11*	**5,99**
Dividend per share	2,90	3,90			**5,69**
Workforce					
Average headcount**	270	280	288	305	**316**
Payroll	13 473	14 336	15 246	16 525	**17 036**
Staff benefits	8 708	8 951	9 782	11 118	**10 923**

* Adjusted numbers
** Without managing director