

An aerial photograph of a city street, likely in Paris, showing a tram on tracks, dense residential buildings, and a park area. A semi-transparent circular graphic with a teal dot is centered over the text.

50 boulevard de Sébastopol

# ANNUAL REPORT 2014



## A MESSAGE FROM THE EXECUTIVE MANAGEMENT TEAM

In 2014, the French residential property market continued its gradual recovery in an environment that has felt the impact of a number of contradictory factors.

On the one hand, the still challenging economic conditions have resulted in yet another increase in unemployment figures and the introduction of legal and tax measures affecting market dynamics.

On the other hand, the supply of residential properties remains lower than demand, new measures to facilitate home ownership were introduced in the second half of the year, and historically low interest rates have boosted the market throughout the year. This last factor, combined with longer loan durations, has also encouraged many first-time buyers back to the market.

Prices continued to fall on the market for existing housing, although some strong regional disparities were observed. Prices tend to remain more or less stable in the larger towns and cities, with a more marked decrease in the more rural areas.

On the new housing market, property developers' order books seem to be filling up again, thanks to the combined effect of the renewed interest of first-time buyers and amendments to the ALUR Act.

Prices for second homes fell significantly, particularly for inland properties, and the volume of sales also dropped sharply.

2014 was an excellent year for Crédit Logement despite this unusual context, with €75 million in guarantees issued, representing 432,000 property loans.

These results confirm Crédit Logement's position as a leader on the French residential property market, guaranteeing approximately one out of three property loans.

Its performance can be partly explained by external factors such as low interest rates and the trend for loan refinancing (36% in terms of number of transactions, 32% in terms of amount).

In addition to these external factors, this success is possible because Crédit Logement's services meet the expectations of its partner banks, while the Crédit Logement guarantee is perfectly tailored to the needs of borrowers.

Banks obtain a better level of protection against credit risk, their employees receive support and assistance from property loan specialists who provide a second set of eyes to review and validate their assessment of loan applications, the guarantee decision is announced rapidly, they are covered against final loss and also benefit from a comprehensive debt collection service.

Borrowers benefit from competitive prices, a guarantee that is arranged rapidly meaning the loan can be disbursed without delay, and the possibility of transferring the guaranteed loan to a new purchase at no additional cost. Lastly, its policy of prioritising dialogue and seeking amicable solutions when a borrower defaults on a loan means that Crédit Logement acts as a buffer, encouraging debt rescheduling to achieve a return to normal loan management, and therefore avoiding court proceedings and the sale of the property whenever possible.

Figures for the first few months indicate that 2015 will be another busy year. Loan refinancing remains popular and an upturn in new property loans has already been observed. These positive trends are an encouraging sign for our economy. Crédit Logement intends to fully capitalise on this situation by continuing to respond to the needs of partner banks and their customers.

More than ever in this uncertain and changing world, Crédit Logement is an invaluable partner, providing impetus to the residential property financing market while simultaneously ensuring its security.

## BOARD OF DIRECTORS

December 31, 2014

**Albert BOCLÉ,**  
**Chairman,**  
Head of Strategy and Marketing  
for Retail Banking Activities  
of Société Générale

**Jean BOUYSET,**  
Honorary Chairman.

**Yves MARTRENCAR,**  
Honorary Chairman.

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

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

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

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

**LCL – LE CRÉDIT LYONNAIS,**  
represented by Olivier NICOLAS,  
Institutional and Chief Financial Officer.  
Director of Finance, Institutionnals,  
Commitments and Collection.

**HSBC France,**  
represented by Vincent de Palma,  
Director of the Strategy and of the Customer Offer  
Service and Property Management.

**SOCIÉTÉ GÉNÉRALE,**  
represented by Alain BRUNET,  
Head of Communication with Authorities,  
Retail Banking in France.

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

**CAISSE CENTRALE DU CRÉDIT MUTUEL,**  
(Groupe Crédit Mutuel – CIC) represented by  
Marie-Christine CAFFET,  
Director of the Development at  
Confédération Nationale du Crédit Mutuel.

**Monsieur Philippe ROUX,**  
Director of Commitments and Collection  
of LCL, Le Crédit Lyonnais.

**BPCE,**  
represented by Fabrice LABARRIÈRE  
Director of Retail Banking and Private Banking  
of Caisse d'Épargne.

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

## STATUTORY AUDITORS

C.T.F.,  
represented by Jean-Marie IDELON-RITON.

Deloitte & Associés,  
represented by Jean-Vincent COUSTEL.

**Share capital at December 31, 2014**

Private limited company with a share capital amounting 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%
<b>TOTAL</b>	<b>17 997 861</b>	<b>1 259 850 270</b>	<b>100,0000%</b>

## EXECUTIVE MANAGEMENT

**Jean-Marc VILON**

Chief Executive Officer

**Patrick LEPESCHEUX**

Deputy Chief Executive Officer  
Head of Production

**Éric VEYRENT**

Deputy Chief Executive Officer  
Head of Administration and Finance

**Éric EHLER**

Head of Human Resources

**Bernard FENDT**

Head of Risk

**Franck FRADET**

Head of Collection

**Philippe LAINÉ**

Head of Customer Relations

**Catherine LANVARIO**

Head of Communication

**Michel LAVERNHE**

Head of Information Systems

**Claire de MONTESQUIOU**

Head of Audit and Internal Control

**Jean-François ROUSSEL**

Head of Organization

## KEY FIGURES AT DECEMBER 31, 2014

**REGULATORY CAPITAL**

7,05 billions euros,

**MUTUAL GUARANTEE FUNDS**

4,14 billions euros

**GROSS ANNUAL PRODUCTION**

75,01 billion euros  
535 592 loans  
for 432 351 transactions

**OUTSTANDING GUARANTEE**

254,29 billion euros  
3 065 604 loans

**WORKFORCE**

288 employees

**LONG-TERM RATING**

Moody's : Aa3 Stable  
DBRS : AA Stable

## CRÉDIT LOGEMENT PROFILE

### INTRODUCTION

Crédit Logement is a “société de financement” (financial institution) that guarantees residential property loans for individuals, in the form of a joint and several guarantee. Loans are presented by its bank partners, most of which are also its shareholders.

The Crédit Logement financial guarantee is based on the principle of pooling risk, with each borrower contributing to a mutual guarantee fund (the FMG).

More than 7 million borrowers have already benefited from a Crédit Logement guarantee, thus allowing them to finance their property purchases without mortgages.

One out of three loans is guaranteed by Crédit Logement, making it the market leader for guarantees.

### 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. 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

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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 new lifestyle. It facilitates geographic and professional mobility, changes to personal circumstances, and the management of personal finances.

### **Role as a buffer**

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

If it is 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 only takes legal action 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 based only on the value of the financed property, which is subject to the uncertainties of property market cycles, the Crédit Logement guarantee contributes to limiting the impact of downturns in the property market.

### THE FRENCH RESIDENTIAL PROPERTY MARKET\*

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After an encouraging start to the year, the property markets were destabilised by certain aspects of the ALUR Act (on the rental and buy-to-let sector), and also by the wait-and-see attitude of buyers. However, in July 2014 the government announced reassuring measures to promote home ownership as a means to market recovery and to reinvigorate the zero-rate loan system.

That was all it took for the markets to regain strength in the summer of 2014, helped by the particularly attractive borrowing conditions. Interest rates fell to historical lows, and average loan durations lengthened.

To fully underscore the significance of the improvement in borrowing conditions, note that the drop in interest rates between December 2011 and December 2014 alone is equivalent to a 10 to 15% fall in house prices!

The market revival encouraged the return of young and lower income households, many of whom are first-time buyers with smaller own contributions.

The recovery stumbled in the first half of 2014, but loan production recovered during the 3<sup>rd</sup> quarter and reached stability in the 4<sup>th</sup> quarter. The slowdown observed in the spring nevertheless led to a drop in overall loan production for the year.

In 2014, production fell by 7.7% to €119.09 billion, excluding loan refinancing transactions, compared with €128.96 billion in 2013.

The large volume of loan refinancing transactions, which do not represent new credit flows and are not included in the €119.09 billion, should be noted. Their weight in 2014 relative to all loans granted was the same as in 2013, and similar to levels observed in the second half of the 1980s and the 1990s.

\* Source: Observatoire de la Production de Crédits Immobiliers (Property Loans Production Observatory), excluding loan refinancing

Loans paid are estimated at €112.5 billion, compared with €110 billion in 2013.

An examination of the structure of property production in 2014 shows that the new housing market regained strength in the 3<sup>rd</sup> quarter, even before the recovery plan was implemented. With a production of €27.55 billion in 2014 compared with €26.2 billion in 2013, new housing as a proportion of the total increased to 23.1% compared with 21.3% in 2013.

The market for existing housing suffered during the first half year, but recovered during the summer and remained steady over the 4<sup>th</sup> quarter. Production fell by 3% in 2014, to stand at €83.55 billion compared with €86.17 in 2013. Existing housing as a proportion of total production rose sharply to 70.2% in 2014 compared with 66.8% in 2013.

In 2013 the market for renovation had recovered faster than the market as a whole, but fell by 51.9% in 2014. Production stood at €7.9 billion in 2014 compared with €16.61 billion in 2013, and its market share fell from 11.9% in 2013 to just 6.7% in 2014.

Loans in the competitive sector, which had pulled the entire market upwards in 2013, fell off slightly as did the market as a whole, with a drop of 8.0% in 2014. These loans represented 89.3% of the market as a whole, compared with 89.7% in the previous year.

Despite a marked recovery in the 4<sup>th</sup> quarter, production of zero-rate loans continued to decline overall, falling by 8.0% in 2014 after a 35.0% drop in 2013. As a proportion of the market as a whole, these loans represented just 1.9% in 2014.

Loans using home-buyers' savings plans (*plans d'épargne logement*) are gradually disappearing and accounted for only 0.4% of production, compared with 0.5% in 2013.

Over 2014, the average interest rate for loans in the competitive sector stood at 2.73%\*\* compared with 3.02% in 2013 and 3.79% on average in 2012. Interest rates fell in 2014 by 80 bp for fixed-rate loans and 90 bp for variable-rate loans.

The proportion of variable rate\*\*\* production fell to 2.5% compared with 6.4% a year earlier.

\*\* source: Observatoire Crédit Logement / CSA

\*\*\* capped variable rate, therefore excluding formulas with fixed monthly instalments, but with a possible extension of the duration.



After 12 months of hesitation, the average loan duration moved significantly in the summer of 2014, gaining seven months between spring and end-2014 to reach an average duration of 17 years and 3 months. Young and first-time buyers have benefitted the most from this development.

## CRÉDIT LOGEMENT

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In a residential property market buoyed by very low interest rates, Crédit Logement had an excellent year – one of the best in its entire history.

With €75 billion of guaranteed production for 432,351 property transactions, Crédit Logement recorded a slight increase in its production (almost 2%) compared with the previous year.

This performance can be explained by the strong loan refinancing activity, although looking at production net of loan refinancing, the guarantee business still increased by 2.5% compared with 2013.

Net production, corresponding to guarantees arranged over the year, amounted to €43.2 billion, down 12% compared to 2013.

Crédit Logement therefore maintained its position in the residential property loan market, guaranteeing around 30% of all home loans, excluding loan renegotiations.

### **The guarantee market**

The latest research available on the breakdown of the guarantee market in France for 2014 (source: OFL/CSA and Despina model), expressed in amounts of loans distributed, indicates a 58.7% market share for financial guarantees (bank guarantees and insurance company guarantees) compared to a 39.3% market share for mortgages.

It should be emphasised that financial guarantees are now commonly used by all types of borrowers, both low income borrowers (3x the minimum wage or less): 61.7% taking out a financial guarantee compared with 34.4% taking out a mortgage), and more affluent

borrowers (5x the minimum wage or more): 65% taking out a financial guarantee compared with 33.1% taking out a mortgage).

## CUSTOMER RELATIONS

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### **A renewed offer**

Crédit Logement has endeavoured in recent years to renew its product range, with the objective of better supporting its partners in their development projects while anticipating their needs and market trends.

For instance, Crédit Logement's DOPPIO offer constitutes an innovative approach to its guarantee business, in that it acts as a joint guarantor in order to improve the lender guarantee, so that it can obtain better refinancing conditions.

There is an increasing interest in this new product: a new business partner signed up in April 2014, and negotiations are currently underway with other partners with a view to its deployment in the second half of 2015.

### **Market share**

Crédit Logement's market shares remained stable in 2014 despite the difficult economic environment.

Crédit Logement's strengths, namely its expertise, reactivity and capacity to cope with peaks in demand, enable it to retain its position on the market.

### **Customer relations**

Crédit Logement develops close everyday relations with the networks of its partner banks. The Customer Service teams handled approximately 190,000 calls and 60,000 e-mails over the year.

Despite these large volumes, staff availability levels remained satisfactory, including during the extremely busy last quarter of the year.

In 2014, the presence of sales teams in the field was increased to improve operators' awareness of risks and process optimisation techniques. The sales teams also inform and assist the networks in connection with additions and changes to Crédit Logement's offer.

A communication campaign was launched when Crédit Logement changed its status to that of a financial institution (société de financement), in order to inform its business partners and explain the resulting changes compared to its previous status as a credit institution.

For the eighth consecutive year, Crédit Logement hosted a stand at the Paris Real Estate Exhibition at the Porte de Versailles exhibition centre. Once again, this was an opportunity for Crédit Logement staff to meet individuals seeking information on how to finance or guarantee their property projects, as well as other property professionals (banks, property developers, brokers, etc.).

### **Crelog Infos**

The main objective of this e-mag, which was launched in 2012, is to maintain open channels of communication with our business partners, by improving the circulation of information in their networks, providing expert insight on the property market and its economic and regulatory environments, and also providing practical and clear information about Crédit Logement's operations.

In 2014, three issues of Crelog Infos were sent to 25,000 key contacts, who viewed almost 10,000 pages.

### **Acquisition channels**

Guarantee applications

New EDI (electronic data interchange) links and new Crelog.com functionalities (Extranet) were put in place in 2014. More than 99% of all Crédit Logement guarantee transactions are now arranged using these channels.

As an alternative to electronic data interchange tools, Crelog.com offers quick, secure and paperless management of guarantee files. It is much appreciated by our business partners, with more than 400,000 logins and 300,000 documents down- or uploaded during the year.



## Debt collection

Crédit Logement drew on its expertise in the registration and paperless transmission of guarantee applications to put in place an online debt collection service in 2014.

As well as simplifying and speeding up the guarantee call procedure, the secure and user-friendly extranet website can be used to download contractual documents and upload supporting documents, and to indicate the urgency of the application. It also offers a fully transparent case follow-up and traceability function.

This system was partially rolled out at pilot sites in 2014 and will be gradually proposed and extended to all Crédit Logement partners.

### **Collection for third parties**

Over a period of more than 15 years, Crédit Logement has developed a service for the collection of debts not guaranteed by itself. In view of the constant rise in the amount of outstanding debt and the increase in risk, debt collection is – now more than ever – a major financial issue for the property loan sector.

Crédit Logement continued its communication and marketing efforts with regard to its third-party collection services, namely:

- collection of property loans not guaranteed by Crédit Logement and associated debts;
- auction support and marketing for assets sold by court auction.

In 2014, several of our business parties expressed an interest in outsourcing their debt collection process. Customers benefit from Crédit Logement's experience and expertise, and its ability to handle peaks of activity at competitive prices.

## **COMMITMENTS DURING THE YEAR**

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535,592 guarantee agreements were issued during the year, representing 432,351 transactions (a transaction may consist of several loans) for a gross commitment of €75 billion.

These figures reflect the high uptake of the Crédit Logement guarantee by its bank partners, and also the fact that the guarantee is perfectly suited to the expectations and behaviour of borrowers.

Three transactions out of four received confirmation of a guarantee agreement on the day of receipt of the application, and almost all loan applications were analysed no later than the following day.

This is largely due to the existence of efficient computerised links, and, above all, to the dedication of the Production Department staff, who consistently provide a high quality service to customers.

The average amount of guarantee transactions was €173,502, compared with €169,703 in 2013. Excluding loan refinancing, the average amount guaranteed was €187,000, compared with €182,000 in 2013.

More than half of the guarantee transactions were for property projects in the existing housing market. New housing (purchases and construction) represented 15% of the amounts guaranteed (10% and 5% respectively), which is in line with 2013 figures.

The proportion of buy-to-let projects remained stable at 17% of the total amount guaranteed.

Loan refinancing transactions represented 32% of the total amount guaranteed, and 36% of the number of guarantees.

Loans in the competitive sector represented 93% of the amounts guaranteed, and the proportion of bridging loans in this sector remained stable at 5% of the amounts guaranteed.

55% of the loans guaranteed had a duration of 15 years or less, and 85% had a duration of 20 years or less.

Borrowers aged 35 or under represented 38% of the beneficiaries of Crédit Logement guarantees, which is the same figure as in 2013. The percentage of non-executive employees rose slightly to 45%.

Borrowers with income less than or equal to three times the minimum wage represented 29% of all guaranteed transactions.

## DEBT COLLECTION

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

The economic situation deteriorated even further in 2014. The job market continued to contract, although the number of commercial insolvency proceedings fell slightly compared with the previous year (0.8%). The number of companies in difficulty nevertheless remained high, with 62,586 commercial insolvency proceedings in 2014. Personal over-indebtedness rose by 3.8% over 12 months. In addition, debt write-offs now represent more than one third of accepted cases.

### **Collection of guaranteed debts**

As at 31 December 2014, the number of loans under management stood at 18,335, up 23.6% from 2013. Outstanding debts managed by the Debt Collection Department increased by 31.4% in 2014, to stand at €1.7 billion.

11,031 loans entered the Crédit Logement debt collection process, compared with 7,523 exits. The rate of unpaid loans restored to normal management compared to all exits remained stable at 64%.

€104 million was collected, and allocated to the mutual guarantee fund. Financial claims on behalf of lenders amounted to €283.62 million.

### **Collection for third parties**

As at 31 December 2014, the amount of outstanding debt managed stood at €295 million, and the number of debts rose by 5.5% to 6,841. €41 million was collected.



2,221 new debts were assigned to Crédit Logement (+21% compared with 2013), and 2,384 cases were closed, demonstrating the ability of the collection teams to efficiently manage assigned debt.

The "auction support and marketing" business, for its part, analysed 320 auction decisions.

## HR MANAGEMENT

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2014 was a very busy year for Crédit Logement's HR function, due to company growth and the loan production workload.

The annual headcount rose to an average of 288 employees, and the company continued to make use of temporary staff whenever appropriate. Part-time staff accounted for 11% of the total headcount.

Over 3,000 hours of training were provided to 187 staff members during the year. The training budget represented almost 3% of payroll expenditure, compared to the legal requirement of 0.9%.

27 employees were promoted in 2014, and seven benefited from mobility measures.

As required by law, since March 2014 approximately 60 career development interviews have been organised, and more are scheduled over the next two years.

The Annual Performance Review process was redesigned and a management charter was put in place in autumn 2014. A procedure on the appointment of managers was introduced, including individual support for newly appointed managers.

The Works Council and employee representatives were renewed for four years and the Health Safety and Working Conditions Committee (CHSCT) was renewed for two years.

Work on the HR IT System began in 2014, with the aim of improving the pay, staff management and time management software applications and also investing in software applications for training and competency and skills management planning.

Two company-wide agreements were negotiated with the trade union represented within Crédit Logement, one on gender equality and the other on the management of time credit.

## IT SYSTEMS AND ORGANISATION

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To support the company's strategic goals and facilitate the continuous improvement of business processes, projects carried out in 2014 focused essentially on the deployment of:

- new electronic data interchange (EDI) links with partners, based on a standard technical architecture;
- new functionalities in the Crelog.com extranet websites for guarantees and debt collection;
- upgrades for the guarantee analysis software;
- updates for the debt collection management application;
- improved workstations for call centre staff;
- a modernised management of authorisations for the "business line" applications;
- new monitoring and management dashboards, generated by Business Intelligent System.

It is also important to stress that all the technical projects and actions implemented in connection with:

- major infrastructure improvements, such as migration of a new hard disc bay and relocation of a datacentre;
- roll-out of a new security system for all environments;
- outsourcing of management of all EBICS flows with partners;
- outsourcing of management of "printing" consumables;
- improvement of connections and infrastructure used in the IT Recovery Plan;

have contributed to ensuring the quality of the service and the secure operation of information system applications, and have improved cost efficiency.

It is against this backdrop that Crédit Logement updated its plans for the coming years, in line with the permanent productivity, sustainability and security/compliance goals for the company and its information system.

Lastly, work to open up the new "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 for Crédit Logement and its subsidiaries.

## BALANCE SHEET MANAGEMENT

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### Tier One and Tier Two subordinated debt issuance

Ongoing transactions in 2014, stemming from transactions carried out between 2004 and 2007 and the restructuring operation of 2011, are described in this section.

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.

The November 2004 issue of deeply subordinated bonds, with a value of €259 million as at 31 December 2013, was redeemed in full in December 2014.

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%.

The issue of LT2 redeemable subordinated bonds, with €900.1 million outstanding as at 31 December 2013, was redeemed in full in March 2014.

## CASH MANAGEMENT

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In 2014, 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 2014, almost all counterparties had signed the Financial Guarantee Agreement, which secures investments by the contribution of collateral, calculated on the basis of a counterparty's credit rating and the investment duration.

Accordingly, in 2014 most investments of available cash were carried out pursuant to the Financial Guarantee Agreement, or took the form of collateralised deposits or investments with a maximum 32-day early termination option.

As at 31 December 2014, collateralised deposits amounted to €7.6 billion, and collateral received amounted to €2 billion.

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 which, in particular, allow appropriate liquidity levels to be maintained in all circumstances.

Accordingly, as at 31 December 2014, investment (excluding reinvestment of bond issues) of available cash in fixed-rate long-term deposits (with an initial maturity of more than five years) stood at €1.380 billion. Medium-term investments (between one and five years) stood at €875 million. The rest of the available cash, namely €1,291 billion, was invested for less than one year, or was held in deposits redeemable by the investor in less than one year, or in money market funds.

These investments are mainly in the form of term deposits, although in 2014 Crédit Logement invested €200 million in securities classified as 'marketable securities'.

## AUDIT AND INTERNAL CONTROL

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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 three-year audit plan. At the end of 2014 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 department are defined on the basis of the requirements of the decree of 3 November 2014 on internal control, which repealed regulation 97-02 of the Banking and Financial Regulation Committee (CRBF – Comité de la Réglementation Bancaire et Financière).

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 Audit Committee.

### Periodic Control and Audits

The three-year audit plan was drawn up to allow a review of all the company's processes over the period 2013-2015. In 2014, audits focused essentially on management of

outstanding debt, the Sales and Marketing Department, the Debt Collection department, the HR Department, general resources and cross-company risk management.

The internal ratings systems relating to credit risk and liquidity risk also underwent an annual review.

All the recommendations stemming from the various audits are recorded in a database that is monitored each month for top-priority recommendations 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 2014, 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.

## **RISK MANAGEMENT**

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### **Credit risk in the retail banking business: portfolio of guarantees**

Pursuant to a decision of the Prudential Supervisory and Resolution Authority (ACPR) dated 24 April 2007, Crédit Logement was granted the right to use its own internal rating system for calculating its regulatory capital (Pillar 1).

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

For the axis of segmentation of the probability of default at one year (PD), Crédit Logement does not have sufficient updated information on changes in borrowers' behaviour between the moment of granting the guarantee and the moment of ascertaining default by the counterparty. The technique chosen was that of the construction of a conferred score, which has been shown to predict the level of probability of default at one year (PD) for the entire lifetime of the guaranteed transaction.

For the loss given default (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) of 100% 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 the Crédit Logement 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 using guarantee analysis tools and assigned to a risk category. The system of delegation of authority that we have implemented takes into account the internal rating assigned 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.

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

For the 2014 financial year, the Risk Management Department made no changes to the internal rating model.

As at 31 December 2014, this internal rating system was applicable to an Exposure At Default of €276 billion, which breaks down into €262 billion of guarantees arranged and €14 billion of guarantees not yet arranged.

At this same date, the average Probability of Default at one year of the portfolio was 0.30%.

The ability of the Debt Collection Department to return delinquent loans to normal management, or to quickly take the required protective measures for transactions in default, leads to an estimate of the portfolio's average LGD, on output from the model, of 13.97% of the initial Exposure At Default (EAD).

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 17.7%.

Given these parameters, the Risk Weighted Assets (RWA) of the portfolio stood at €26.2 billion, corresponding to a weighting of 9.5%.

As at 31 December 2014, the minimum regulatory capital under Pillar 1 for guarantee portfolio credit risk stood at €2.1 billion, bearing in mind that nearly 24% of this requirement, namely €503 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 more than three times this same requirement.

Excluding the equivalent value in euros of the Exposure At Default of loans guaranteed in Switzerland of €56.3 million, 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. Also, 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. 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 process of calculating internal capital (Pillar 2), Crédit Logement queried the appropriateness of the 15% correlation coefficient used in the formula for calculating 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.

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. 43 risk events were reported in 2014 (compared with 46 in 2013), which were mainly related to the information systems. 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 2014, 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 Business Continuity Plan uses mirroring to cover 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.

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 €34.46 million as at 31 December 2014.

### **Liquidity risk management and the liquidity ratio**

Crédit Logement's liquidity risk is very specific, since the residential loan guarantee business generates liquidity. The liquidity risk could therefore arise only from the 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 2014, 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 (money market funds and ECB-eligible securities).

Crédit Logement makes liquid investments under the restriction that its gap under extreme stress is still positive (liquid sources of funds exceeding applications) over the first three years; it also holds abundant cash available in less than one year. These available cash holdings have been bolstered by investment in term deposit accounts redeemable in advance by the investor.

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 Prudential Supervisory and Resolution Authority (ACPR), and as at 31 December 2014 continued to show a positive gap over the first three years.

### **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.

Moreover, in 2012, with the agreement of the members of the Cash Management Committee and the approval of the Board of Directors, Crédit Logement modified its method of interest rate amortisation of its capital, which is now amortised on a straight-line basis over 10 years.

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. In particular, the regulatory stress test of a 200bp change in the whole yield curve is applied and a limit has been set for the sensitivity of NPV to this stress. As at 31 December 2014, the sensitivity of NPV over 10 years in the event of a 200bp drop in interest rates was 4% of the share capital after taking into account the macro-hedging swaps.

## Market risk, counterparty risk and other risks

At the end of 2014, Crédit Logement did not hold any instruments classified as isolated open positions or in a trading book. Credit is therefore not subjected to market risk.

Crédit Logement does not manage any means of payment for third parties and therefore has no specific counterparty risk, other than its credit risk.

Under the tax benefit scheme for investment in French overseas collectivities, in 2009 Credit 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 2014 has been adjusted to the amount of the cash collateral guaranteeing this redemption, namely €6.5 million.

Other than this investment, the two subsidiaries described hereafter and one other historical equity investment of less than €50,000, Crédit Logement has no equities and therefore no "equities" risk.

## INTERNAL CAPITAL VALUATION PROCESS

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

- the resources and operational capabilities of the Risk Management function were enhanced;
- cross-company risk mapping was updated and enhanced;
- the Board of Directors 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 were 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, was updated.

Based on the methodologies proposed by the CEBS, whose duties have been taken over by the EBA, in the "Guidelines on the Application of the Supervisory Review Process under Pillar 2", 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.

### **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.

### **Investment portfolio credit risk**

In its internal model, 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.

### **Market risk**

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

A counterparty risk exists only on financial instruments (swaps), for which Crédit Logement applies the regulatory approach in its internal model.

## **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-2013, using middle-of-the-range assumptions concerning the return on available cash, Crédit Logement remains profitable over the whole period in question.

## **Evaluation of internal capital**

As at 31 December 2014, the amount of internal capital needed to cover all risks to which the company is exposed (expected and unexpected losses) was €2 billion.

## **INFORMATION ON THE BUSINESS OF SUBSIDIARIES AND CONTROLLED COMPANIES**

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### **SNC FONCIÈRE SÉBASTOPOL**

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This partnership, which operates as a property dealer, auctions assets following court proceedings to recover secured debt; Crédit Logement owns 99.90% of its share capital.

In 2014, SNC Foncière Sébastopol carried out nine new auctions and sold on three assets.

At the end of 2014, the twenty-one properties in stock represented a total net amount of €2,270,852, including a provision for depreciation of €85,000, compared with €1,529,337 as at 31 December 2013.

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 €126,636, essentially corresponding to interest on the partner's current account, a provision for stock depreciation and current management expenses. Pursuant to article 15 of the Articles of Association, at the end of the financial year this loss is booked directly as expenditure by each partner in proportion to their rights.

### **CRÉDIT LOGEMENT ASSURANCE**

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Crédit Logement Assurance is an insurance company in which Crédit Logement holds 60% of the share capital.

Several guarantee agreements were signed in 2014, essentially with affinity partners with a view to reviving business.



Premiums issued in 2014 totalled €180,439, compared with €16,745 in 2013, representing 134 premiums. No claims were received during the year.

A new 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.

The profit and loss account shows a net profit of €3,431, compared with €17,544 a year earlier. This profit level can be explained by the business re-launch, which requires additional capital expenditure.

## ACCOUNTS FOR THE FINANCIAL YEAR

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### BALANCE SHEET

The balance sheet total as at 31 December 2014 was €9.4 billion, compared with €10.3 billion a year earlier, representing a reduction of 8.7%.

### 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 billion as at 31 December 2013.

Guarantee agreements not yet arranged totalled €32 billion at the end of 2014, compared with €24.2 billion at the end of 2013.

The net annual increase in outstandings was therefore €8.8 billion, representing a 3.6% increase, taking into account annual amortisation and early repayments totalling €33.3 billion.

### 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 22.98% as at 31 December 2013, compared with 36.30% as at 31 December 2013.

The Pillar 2 capital requirement, defined by the regulator in April 2014, taking into account the minimum lower limit of 80% applicable for weighting weighted outstandings, stood at €6.1 billion as at 31 December 2014.

### **Change in regulatory capital** (pursuant to regulation 90-02, as amended)

Prudential capital fell from €8.2 billion as at 31 December 2013 to €7 billion as at 31 December 2014, i.e., a decline of €1.1 billion (-13.74%). This decline is due in particular to the application of the grandfather clause to capital not satisfying all the criteria laid down in EU Regulation 575/2013 of 26 June 2013 (the so-called CCR Regulation) applying to credit institutions, referred to in the decree of 23 December 2013 concerning financing companies.

	31/12/2013	31/12/2014	Evolution
Equity capital on the liability side of the balance sheet	1,513,734	1,513,142	-593
Fund for general banking risks	609	609	
Mutual guarantee fund	3,948,474	4,138,596	190,122
Dividends payable	-70,192		70,192
Deductions	-1,065,155	-1,517,611	-452,456
<b>COMON EQUITY CAPITAL TIER 1</b>	<b>4,327,471</b>	<b>4,134,736</b>	<b>-192,735</b>
Subordinated Tier 1 securities	1,059,258	800,000	-259,258
<b>TIER 1 EQUITY CAPITAL</b>	<b>5,386,729</b>	<b>4,934,736</b>	<b>-451,993</b>
Subordinated loans	1,712,624	1,712,624	
Subordinated securities – Tier 2	1,400,150	500,000	-900,150
Mutual guarantee fund held in Tier 2	1,516	146,650	145,134
Deductions	-346,963	-258,479	88,484
<b>ADDITIONAL EQUITY CAPITAL</b>	<b>2,767,327</b>	<b>2,100,795</b>	<b>-666,532</b>
<b>TOTAL REGULATORY CAPITAL (numerator)</b>	<b>8,154,056</b>	<b>7,035,531</b>	<b>-1,118,525</b>
Weighted risks - advanced IRB model	19,783,198	26,192,307	
Weighted risks - standard method	1,911,518	3,614,250	
Other assets not corresponding to loan obligations	344,926	373,438	
Operational risk	425,432	430,725	
<b>TOTAL BASEL II WEIGHTED RISKS (denominator)</b>	<b>22,465,074</b>	<b>30,610,720</b>	<b>8,145,646</b>
<b>Common Equity Tier 1 solvency ratio</b>	<b>19.26%</b>	<b>13.51%</b>	
<b>Tier 1 solvency ratio</b>	<b>23.98%</b>	<b>16.12%</b>	
<b>SOLVENCY RATIO</b>	<b>36.30%</b>	<b>22.98%</b>	
<b>Pillar 2 capital requirements</b>		<b>6,122,400</b>	

## **Common Equity Tier 1**

The total amount of Common Equity Tier 1 was €4.1 billion as at 31 December 2014, compared with €4.3 billion in 2013, representing a decrease of €192 million:

- the mutual guarantee fund held in Common Equity Tier 1 increased by €190 million, to stand at €4.1 billion at the end of 2014, compared with €3.9 billion in 2013;
- a €452 million increase in deductions due to changes in allowance for expected losses, non-performing loans and, above all, the grandfather clause applying to the proportion of the mutual guarantee fund governed by the regulations predating 1 January 2014;
- €70 million increase in equity capital, taking account of the profit for the year, which the general meeting will be asked to carry over.

## **Equity Tier 1**

This is the Common Equity Tier 1 plus additional equity tier 1.

This additional equity decreased by €259 million over the year, corresponding to the value as at 31 December 2013 of the T1 bonds issued in 2004 and redeemed in December 2014.

## **Equity Tier 2**

This also decreased by €667 million, due to:

- the early redemption of the 2007 T2 issue for its value as at 31 December 2013, i.e., €900 million;
- recognition in Tier 2 of the part of the mutual guarantee fund that was declassified due to application of the grandfather clause;
- expected non-provisioned losses fully deducted from Common Equity Tier 1, although 50% had been deducted from T2 in 2013.

## **PROFIT AND LOSS ACCOUNT**

Net banking income stood at €215.7 million, compared with €211.9 million a year earlier, representing an increase of 1.8%.

This includes the following:

- financial income relating to available cash increasing by 3.1% mainly because of an increase in average capital and in interest on progressive term deposits;

- the net balance of financial income generated by conventional cash (reinvestment of shareholders' equity in our partner's books) rose substantially due to the arrangement of hedging swaps to counter the effect of variations in the benchmark index (1 year Euribor) on reinvestments;
- the net balance of financial charges relative to subordinated bonds (with reinvestment of generated cash) impacted the result of the year by €12.8 million, compared with €15.0 million the year before, after exercising the redemption options for two of the Tier One and Tier Two securities transactions;
- income from guarantee contracts included under "other operating revenues, expenses and commissions", fell by 5.2% to €10.5 million, compared with €116.6 million in 2013. This decrease is essentially due to the large number of loan refinancing transactions in 2014, although these did not reach 2013 figures. Loan refinancing resulted in the incorporation in the profit and loss account of residual revenues and, in many cases, the collection of new commissions on new transactions.

Overheads totalled €100.3 million, compared with €88.2 million in 2013, representing an increase of 13.7%.

This increase breaks down as follows:

- personnel expenses, which include employee profit-sharing and incentive schemes, increased by 6.7%, related in particular to the hiring of additional staff to cope with increasing volumes. The remuneration packages allocated to all managers are detailed in Appendix C1;
- the other administrative costs increased by 18.2%, due to the dual effect of higher taxes, including the systemic risk tax, and the cost of additional external services;
- depreciation and amortisation charges and impairment losses fell slightly by 1.0%.

In terms of productivity, the cost-to-income ratio, i.e., the ratio between overheads and net banking income, stood at 46.5% against 41.6% the previous year.

As a result of these developments, gross operating income, before non-recurring revenues and expenses, corporation tax and regulatory provisions, stood at €115.3 million, down by 6.8% from the previous financial year.

The corporation tax expense was €43.6 million, compared with €44.3 million in 2013.

Overall, net profit for the financial year came to €69.6 million, compared with €73.9 million in 2013.

The rate of return on assets and current guarantees was 0.027% in 2014, compared with 0.030% in 2013, and the rate of return on equity was 4.82% in 2014, compared with 5.13% in 2013.

## **OUTLOOK AND SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR**

Interest rates on property loans, already extremely low at the end of 2014, fell even further at the start of 2015, and loan refinancing transactions represented more than 50% of all guarantee applications at the beginning of the year, which is quite exceptional.

As a result, the guarantee production business is extremely busy, exceeding all budget forecasts. The 2015 financial year should therefore see a high level of guarantee commissions, as in the previous two financial years, due to the large number of refinancing transactions.

However, the persistently low interest rates will have a negative effect on the return on cash holdings, as investments that have matured over the past two years have been replaced by new investments at consistently lower rates.

## **PROPOSED APPROPRIATION OF EARNINGS**

The net distributable profit of €79,157,381.60 breaks down as follows:

- |   |                |
|---|----------------|
| • net profit for the financial year             | €69,597,709.08 |
| • plus retained earnings from the previous year | €9,559,672.52  |

The following appropriation is proposed:

- |                     |                |
|---------------------|----------------|
| • legal reserve     | €3,479,885.45  |
| • retained earnings | €75,677,496.15 |

In accordance with the law, the appropriation of earnings and the dividend distribution for the previous three financial years is recapped in the third resolution put to the general meeting.

The resolutions approve the financial statements as presented and the proposed appropriation for the financial year, namely the allocation of the entire net profit for the financial year to the reserve accounts.

Estimated future capital requirements, in particular T1, combined with the estimated production levels over 2015, are such that the full amount of net distributable profit needs to be carried over.

### **Other specific resolutions proposed**

As the Caisse Centrale du Crédit Mutuel's terms of office as a member of the Board of Directors is due to expire, the shareholders will be asked to renew its appointment for a six-year term of office.

If you wish to receive the CSR report,  
please contact Crédit Logement's Communication Department.



## RESOLUTIONS SUBMITTED

### RESOLUTION 1

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The General Meeting, after having heard the reading of the reports from the Board of Directors and statutory auditors on the corporate accounts, and the reading of the Chairman's report established in accordance with article L.225-37 of the French Commercial Code on procedures for internal control and risk management established by the company and the functioning of the Board of Directors, and that of the report from the statutory auditors on this document, and after having taken note of all documents which, according to the legislation in force, must be communicated to shareholders, approves the accounts and the balance sheet for the thirty-ninth financial year ending on 31 December 2014 as they are presented in all their parts.

The general meeting, after examining the C1 note to the financial statements defining the total amount of compensation for the year to all executives, approves the global envelope, according to article L 511-73 of the French Monetary and Financial Code.

The General Meeting expressly acknowledged to the Board of Directors that the aforementioned documents were drawn up in accordance with the provisions set out in Articles L 232-1 and thereafter and R 123-199 of the French Commercial Code, and in accordance with regulation 2014-07 of 26 November 2014 issued by the French Accounting Standards Authority (ANC) and gives the directors discharge with respect to their duties for the financial year.

### RESOLUTION 2

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The General Meeting, after hearing the Special Statutory Auditors' Report on Operations, governed by Articles L 225-38 and L 225-40 of the French Commercial Code, hereby acknowledges this report and ratifies all of the operations indicated therein.

## RESOLUTION 3

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The General Meeting hereby approves the proposed allocation of income submitted.

Net profit for the year eligible for allocation, amounting to EUR 79 157 381,60 is composed of :

- Net profits for the year 69 597 709,08 €
- Plus carrying forward of positive balance from previous year 9 559 672,52 €

We propose the following allocation:

- Legal reserve 3 479 885,45 €
- Retained earnings 75 677 496,15 €

and decide not to pay any dividends.

As a reminder, it is stated that, for the three previous fiscal years, total earnings per share (splitted into A shares and B shares until 2011) came out at :

### Dividend

#### Fiscal year 2011

A share	36,95	€
B share	0,15460460	€

#### Fiscal year 2012

A share	2,90	€
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#### Fiscal year 2013

A share	3,90	€
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## RESOLUTION 4

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The general meeting reappoints Caisse Centrale du Crédit Mutuel as a director for a six-year term of office ending further to the general meeting convened to approve the financial statements for the year ending 31 December 2020.

## RESOLUTION 5

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The General Meeting gives full powers to the bearer of excerpts from or copies of these minutes to perform all legal formalities.

## 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 2014, 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, 13 April 2015

Statutory Auditors

C.T.F.  
Jean-Marie IDELON-RITON

Deloitte & Associés  
Jean-Vincent COUSTEL

**BALANCE SHEET**  
**AT DECEMBER 31, 2014**  
in thousand euros

	2014	2013	Notes		2014	2013	Notes
<b>CASH, CENTRAL BANKS, CCP</b>	<b>3</b>	<b>218</b>		<b>DEBTS TOWARDS CREDIT INSTITUTIONS</b>	<b>52 085</b>	<b>55 509</b>	<b>A7</b>
				Term	52 085	55 509	
<b>DEPOSITS ON CREDIT INSTITUTIONS</b>	<b>7 481 902</b>	<b>8 844 432</b>	A1	<b>CUSTOMER TRANSACTIONS</b>	<b>19 454</b>	<b>19 057</b>	A7
On sight	301 025	405 087					
Term	7 180 877	8 439 345		<b>OTHER LIABILITIES</b>	<b>11 717</b>	<b>11 165</b>	A8
<b>CUSTOMER TRANSACTIONS</b>	<b>889 724</b>	<b>730 903</b>	A3	<b>ACCRUALS</b>	<b>590 566</b>	<b>506 497</b>	A8
Other customer loans	561	479					
Bad debt	889 163	730 424		<b>DEPRECIATIONS FOR RISK AND EXPENSES</b>	<b>361</b>	<b>409</b>	A8
<b>BONDS AND OTHER FIXED-INCOME SECURITIES</b>	<b>484 853</b>	<b>121 844</b>	A4-1	<b>SUBORDINATED DEBT</b>	<b>7 179 377</b>	<b>8 152 585</b>	
<b>SHARES AND OTHER VARIABLE-INCOME SECURITIES</b>	<b>121 944</b>	<b>172 161</b>	A4-1	Mutual guarantee deposits	4 140 212	3 949 990	A9-1
<b>EQUITY INTERESTS AND OTHER LONG-TERM SECURITIES</b>	<b>30</b>	<b>34</b>	A4-1	Subordinated borrowings	1 712 624	1 712 624	A9-2
				Accrual on borrowings	2 270	5 725	A9-2
<b>INTERESTS IN AFFILIATED COMPANIES</b>	<b>3 964</b>	<b>3 413</b>	A4-2	Subordinated securities	1 300 000	2 459 408	A9-2
<b>INTANGIBLE FIXED ASSETS</b>	<b>3 903</b>	<b>4 073</b>	A5	Accruals on subordinated securities	24 271	24 838	A9-2
<b>TANGIBLE FIXED ASSETS</b>	<b>13 395</b>	<b>13 271</b>	A5	<b>FUNDS FOR GENERAL BANKING RISKS</b>	<b>610</b>	<b>610</b>	A9-3
<b>OTHER ASSETS</b>	<b>2 296</b>	<b>18 921</b>	A6	<b>SHAREHOLDERS' EQUITY</b>	<b>1 513 142</b>	<b>1 513 735</b>	
<b>ACCRUALS</b>	<b>355 298</b>	<b>350 297</b>	A6	Capital	1 125 850	1 259 850	A9-4
<b>TOTAL ASSETS</b>	<b>9 367 312</b>	<b>10 259 567</b>		Reserves	117 187	113 491	A9-4
Financing commitment in favor of credit institutions		150 000	A12-1	Regulatory provisions	56 947	56 947	A9-3
Customer guarantee commitments implemented	254 287 714	245 470 350	A12-1	Retained earnings	9 560	9 537	
Customer guarantee commitments not yet implemented	32 034 769	24 158 021	A12-1	Earnings for the year	69 598	73 910	
<b>COMMITMENTS GIVEN</b>	<b>286 322 483</b>	<b>269 778 371</b>		<b>TOTAL LIABILITIES</b>	<b>9 367 312</b>	<b>10 259 567</b>	
				Guarantee commitments received from credit institutions	3 301 184	3 623 689	A11
				<b>COMMITMENTS RECEIVED</b>	<b>3 301 184</b>	<b>3 623 689</b>	



**PROFIT AND LOSS ACCOUNT**  
**AT DECEMBER 31, 2014**  
in thousand euros

	2014	2013	Notes
Interest income	172 751	174 517	B1
Interest expenses	-71 737	-83 636	
Income from variable-income securitie	50	32	B2
Commission (income))	110 521	116 621	B3
Commission (expenses)	- 1 203	-1 087	
Income on marketable securities	2 309	2 243	B4
Other banking operating income	3 291	3 761	B5
Other banking operating expenses	-322	-542	
<b>NET BANKING INCOME</b>	<b>215 660</b>	<b>211 909</b>	
General operating expense	-96 675	-84 527	B6
Allowances for depreciation and amortisation on tangible and intangible fixed assets including equity securities	-3 649	-3 687	B7
<b>OVERHEADS</b>	<b>-100 324</b>	<b>-88 214</b>	
<b>GROSS OPERATING INCOME</b>	<b>115 336</b>	<b>123 695</b>	
Gains on long terms investments and changes in provisions	-18	1	B8
<b>INCOME BEFORE TAX</b>	<b>115 318</b>	<b>123 696</b>	
Non-recurring income/loss			
Corporate income tax	-45 720	-45 892	B9
Movements in the reserve for general banking risk and regulatory provisions		-3 894	B10
<b>NET INCOME FOR THE YEAR</b>	<b>69 598</b>	<b>73 910</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### I - PRESENTATION OF THE ACCOUNTS

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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 2014.

## II - ACCOUNTING PRINCIPLES AND METHODS

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### 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:

- government securities and assimilated;
- bonds and other fixed-income securities;
- shares and other variable-income securities;
- equity interests and other long-term security holdings;
- 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 5 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

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 1<sup>st</sup>, 2005.

The change in method 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.

The fully-depreciated fixed assets were not included. 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
ASSETS UNDER CONSTRUCTION	NA	
<hr/>		
INTANGIBLE FIXED ASSETS		
Lease	N/A	
Software	Straight-line	1, 3, 4 or 5 years
<hr/>		
TANGIBLE FIXED ASSETS		
Land	N/A	
Buildings	Straight-line	150 years from 01/01/1945
Roof/front	Straight-line	30 years
Vehicules	Straight-line	4 years
Office equipment	Straight-line or diminishing balance	5 years
Technical equipment	Straight-line	10 years
Furniture	Straight-line	5 to 10 years
Computer equipment	Diminishing balance	3, 4 or 5 years
Technical equipment	Straight-line	20 years
Fittings and fixtures	Straight-line	10 years

## ACCRUALS AND OTHER ASSETS

### 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

At the end of 2006, a new guarantee product was 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.

## **ON THE LIABILITY SIDE**

### **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 2017, 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 customers, either for the mutual fund guarantee release, overpayments received on equity interests, or sums whose allocation is still being determined.

The sums release under the mutual guarantee, 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**

In addition to reserve on option, 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 2014-07 of 26 november 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 participation 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 participation 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 reimbursement 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 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 General Secretariat 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 General Secretariat 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.

#### **Subordination conditions**

Interest is payable in arrears on a yearly basis on June 30 or December 30 of each year. However, the company may, if its financial position required it in order to be able to pursue its activity, and after having deferred payment of interest due for deeply subordinated securities, postpone payment of this interest, which may be allocated, along with the principal, to cover any losses recorded by the company, after such losses have been covered by the deeply subordinated securities.

### **SUBORDINATED SECURITIES**

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 Réglementation 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 "upper" Tier Two, and lastly Tier One.

**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 criteria laid down in EU Regulation 275/2013, 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 arrears on 16 March of each year, at the fixed rate of 4.604% until 16 March 2011 and quarterly in arrears 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 criteria 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 %.

**Subordination Conditions**

However, the company may, if its situation requires it to allow it to continue its business, after having postponed payment of interest relating to subordinated securities and to equity loans, postpone payment of the said interest, this being able to absorb any loss that the company may sustain.

## **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 1st 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 all or part of the dividend or interim dividends to be paid out in cash or shares."

## **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 undated 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 at the request of the ACPR.
- 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.
- 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 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, and are detailed in the note appendix A13. They represent the volume of transactions and not the risks that are associated with them.

For commitments on interest rate instruments, the amounts are recognised 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 in article 2 of regulation n° 90-15 and in accordance with the provisions of regulations n° 88-02 and 90-15 and of instruction n° 94-04.

### **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 during the financial year, 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 Monetary 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**

### **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 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**

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

Notes B: information on income statement

Notes C: other informations

## NOTES

### 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
<b>CREDIT INSTITUTIONS</b>	<b>424 097</b>	<b>678 086</b>	<b>2 527 430</b>	<b>3 852 289</b>	<b>7 481 902</b>
Sight debt	300 951				300 951
Term debt	95 000	651 000	2 494 000	3 852 289	7 092 289
Related debt	28 146	27 086	33 430		88 662
<b>CUSTOMER DEBT</b>	<b>889 204</b>	<b>105</b>	<b>173</b>	<b>242</b>	<b>889 724</b>
Other customer loans	41	105	173	242	561
Bad debt	889 163				889 163
<b>BONDS AND OTHER FIXED-INCOME SECURITIES</b>	<b>153 454</b>	<b>1 663</b>	<b>290 055</b>	<b>49 682</b>	<b>494 853</b>

#### NOTE A 2 - DEPOSITS BREAKDOWN

	Affiliated companies	Equity interests	Other companies	Individuals	Total
<b>DEPOSITS ON CREDIT INSTITUTIONS</b>		7 395 352	86 550		7 481 902
<b>DEPOSITS ON CUSTOMERS</b>				889 724	889 724
<b>BONDS AND OTHER FIXED-INCOME SECURITIES</b>		494 853			494 853

#### NOTE A 3 - CUSTOMERS LOANS

##### NOTE A 3-1 - CHANGE IN OUTSTANDING CUSTOMER LOANS

	31/12/2013	Releases	Repayments	Debt write-offs	31/12/2014
Cash loans - loans to company staff	479	433	351		561
Bad debt	730 424	283 905	105 397	19 769	889 163
<b>TOTAL</b>	<b>730 903</b>	<b>284 338</b>	<b>105 748</b>	<b>19 769</b>	<b>889 724</b>

No allowance was recorded as at 2014 december 2014

##### 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	561				561
Bad debt			889 163	879 461	889 163
<b>TOTAL</b>	<b>561</b>		<b>889 163</b>	<b>879 461</b>	<b>889 724</b>

#### NOTE A 4 - SECURITIES PORTFOLIO

##### NOTE A 4-1 - BREAKDOWN OF SECURITIES PORTFOLIO (\*)

Issued by public bodies	Acquisition value			Market or net asset value	Redemption value
	Listed	Unlisted	Total		
<b>BONDS AND OTHER FIXED-INCOME SECURITIES</b>					
Bonds	150 000		150 000		
Related debt	3 442		3 442		
<b>SECURITIES RECEIVED</b>	<b>153 442</b>		<b>153 442</b>		
Bonds	139 673		139 673	152 839	140 000
Related Debt	1 674		1 674		
<b>INVESTMENT SECURITIES</b>	<b>141 347</b>		<b>141 347</b>	<b>152 839</b>	<b>140 000</b>
Bonds	200 000		200 000	200 100	200 000
Related Debt	64		64		
<b>INVESTMENT SECURITIES</b>	<b>200 064</b>		<b>200 064</b>	<b>200 100</b>	<b>200 000</b>
<b>SHARES AND EQUITY RELATED SECURITIES</b>					
Money funds	115 402		115 402	134 495	
Other securities		8 907	8 907	6 542	
Allowance for depreciation		-2 365	-2 365		
<b>Marketable securities</b>	<b>115 402</b>	<b>6 542</b>	<b>121 944</b>	<b>141 037</b>	
Investment in non related companies		30	30	30	
Investment in related companies		3 964	3 964	3 964	
<b>INVESTMENT SECURITIES</b>		<b>3 994</b>	<b>3 994</b>		
<b>TOTAL SECURITIES PORTFOLIO</b>	<b>610 255</b>	<b>10 536</b>	<b>620 791</b>	<b>497 970</b>	

(\*) 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 31/12/2013	Gross inventory value	Net inventory value
<b>Other securities</b>						
Sté de Développement de l'Habitat Coopératif - SDHC	1,04	3 163	74	7	30	30
<b>SUBSIDIARIES AND OTHER LONG TERM HOLDINGS</b>						
<b>OTHER SECURITIES</b>						
Crédit Logement Assurance	60,00	3 050	502	18	1 830	1 830
SNC Foncière Sébastopol	99,90	15		-118	15	15
<b>ADVANCES AND ASSOCIATED CURRENT ACCOUNTS</b>						
SNC Foncière Sébastopol					2 119	2 119
<b>INTERESTS IN AFFILIATED COMPANIES</b>					<b>3 964</b>	<b>3 964</b>

\* Figures at 31/12/13 before allocation of earnings for the year

**NOTE A 5 - FIXED ASSETS**

<b>GROSS FIXED ASSETS</b>	Gross value at year-start	Acquisitions	Sales or Internal transfers	Gross value at year-end	Net value at year-end
<b>INTANGIBLE FIXED ASSETS</b>	<b>29 283</b>	<b>2 274</b>	<b>-114</b>	<b>31 443</b>	<b>3 903</b>
Assets under construction	1 706	1 409	-748	2 367	2 367
Software and licenses	27 577	865	634	29 076	1 536
<b>TANGIBLE FIXED ASSETS</b>	<b>35 423</b>	<b>1 351</b>	<b>-223</b>	<b>36 551</b>	<b>13 395</b>
Assets under construction	1 064	913	-993	984	984
Land	2 909			2 909	2 909
Structural components	5 479			5 479	3 628
Roof / Front	2 078			2 078	667
Transport equipment	154			154	19
Office equipment	374	59		433	63
Club Affaires equipment and tools	82			82	11
Office furniture	1 440	30	-41	1 429	373
Club Affaires furniture	123			123	40
Computer equipment	3 371	262	-87	3 546	414
Fixture & fittings an rental premises	11 139	17	403	11 559	1 026
Fixture & fittings an building	3 214	63	213	3 490	1 326
Technical equipment	3 996	7	282	4 285	1 935
<b>TOTAL</b>	<b>64 706</b>	<b>3 625</b>	<b>-337</b>	<b>67 994</b>	<b>17 298</b>

<b>DEPRECIATION OR PROVISIONS</b>	Gross value at year-start	Charges	Write backs	Gross value at year-end
<b>INTANGIBLE FIXED ASSETS</b>	<b>25 210</b>	<b>2 435</b>	<b>-105</b>	<b>27 540</b>
Software and licenses	25 210	2 435	-105	27 540
<b>TANGIBLE FIXED ASSETS</b>	<b>22 152</b>	<b>1 214</b>	<b>-210</b>	<b>23 156</b>
Land				
Structural components	1 802	49		1 851
Roof / Front	1 309	102		1 411
Transport equipment	97	38		135
Office equipment	338	32		370
Club Affaires equipment and tools	67	4		71
Office furniture	1 079	50	-73	1 056
Club Affaires furniture	82	1		83
Computer equipment	2 979	288	-135	3 132
Fixture & fittings an rental premises	10 351	182		10 533
Fixture & fittings an building	1 935	229		2 164
Technical equipment	2 113	239	-2	2 350
<b>TOTAL</b>	<b>47 362</b>	<b>3 649</b>	<b>-315</b>	<b>50 696</b>

**NOTE A 6 - OTHER ASSETS AND ACCRUALS**

	31/12/2013	31/12/2014		31/12/2013	31/12/2014
Deposit guarantee fund (FGDR)	39	20	P and L adjustment on financial instruments	18 000	
Deposits and sureties given	151	208		1	23
			Loss to amortize on financial instruments	383	327
Tax and social security receivables	16 859	352	Pre-paid expenses	523	605
Debtors (staff)	74	70	Deferred expenses	2 012	1 731
Other debtors (customers)	1 589	1 620	Accrued revenue on guarantee	326 975	350 022
Other debtors	209	26	Accruals on interest rate swap	2 398	2 557
			Other accruals	5	10
			Other funds transfer to be charged		23
<b>Other assets</b>	<b>18 921</b>	<b>2 296</b>	<b>Accruals</b>	<b>350 297</b>	<b>355 298</b>

**NOTE A 7 - DEBTS TO CREDIT INSTITUTIONS AND CUSTOMER**

	31/12/2013	31/12/2014
Deposit of cash collateral	55 500	52 074
Related payables	9	11
<b>Credit Institutions</b>	<b>55 509</b>	<b>52 085</b>
Cash collateral received	6 423	6 542
Other amounts due - Confined amounts	12 634	12 912
<b>Due to customer</b>	<b>19 057</b>	<b>19 454</b>

**NOTE A 8 - OTHER LIABILITIES, ACCRUALS AND PROVISIONS**

	31/12/2013	31/12/2014		31/12/2013	31/12/2014
Tax and social security liabilities	2 765	4 053	Cashed in advance income on guarantee	279 165	287 702
Accounts payable – miscellaneous (staff)	2 683	3 058	Accrued income on guarantee	224 879	232 913
Accounts payable – miscellaneous (suppliers)	2 930	2 215	Accruals on interest rate swap	2 127	1 828
Staff liabilities	1 059	1 018	Profit to spread over life time on financial instruments	326	
Other payables	1 728	1 373	Currency adjustment		22
			Forward financial instrument adjustment accounts (cash margin calls)		68 100
			Other accruals		1
<b>OTHER LIABILITIES</b>	<b>11 165</b>	<b>11 717</b>	<b>ACCRUALS</b>	<b>506 497</b>	<b>590 566</b>

**PROVISIONS FOR CONTINGENCIES**

Type	31/12/2013	Allowed	Write-backs	Unused write-backs	31/12/2014
Provisions for litigations	<b>409</b>	<b>39</b>	<b>-27</b>	<b>-60</b>	<b>361</b>
Other liabilities	409	39	-27	-60	361

**ACCOUNTS PAYABLE SCHEDULE**

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

Type	< 30 days	Within 30 and 60 days	> 60 days	Total
<b>Accounts payable as at 31/12/2014</b>	<b>476</b>	<b>1</b>		<b>477</b>
Accounts payable as at 31/12/2013	780	41		821

**NOTE A 9 - SHAREHOLDERS' EQUITY AND ASSIMILATED**
**NOTE A 9 -1 - SUBORDINATE DEBTS AND MUTUAL GUARANTEE FUND**

	Balance at year start	Incoming	Outgoing	Balance at year-end
Gross mutual guarantee fund in euro	4 030 142	441 730	-231 897	4 240 344
Gross mutual guarantee fund in foreign currency	1 516	160		1 676
Use of mutual guarantee fund to cover irrecoverable bad debts	-82 037	-20 114	343	-101 808
<b>Mutual guarantee fund in balance sheet liabilities</b>	<b>3 949 990</b>	<b>421 776</b>	<b>-231 554</b>	<b>4 140 212</b>
Bad debt to recover in balance sheet assets	-730 424	-283 905	125 166	-889 163
<b>Mutual guarantee fund available after doubtful debts</b>	<b>3 219 566</b>	<b>137 871</b>	<b>-106 388</b>	<b>3 251 049</b>
Bad debt to recover balance sheet assets	730 424	283 905	-125 166	889 163
Expected loss on doubtful debts - loss forecast	-287 359	-45 926	125 166	-366 599
Recover forecasts on non performing loans	443 065	237 979		522 564
<b>Mutual guarantee fund less euro expected losses on doubtful debt to recover</b>	<b>3 662 631</b>	<b>375 850</b>	<b>-106 388</b>	<b>3 773 613</b>

**NOTE A 9-2 – SUBORDINATED DEBT**

	Issue date	Due date	31/12/2013		31/12/2014	
			Amounts	Associated debt	Amounts	Associated debt
DEEPLY SUBORDINATED BORROWINGS	30/12/2009 30/12/2010 30/06/2011 30/12/2011 30/06/2012 30/06/2013		194 284 395 579 415 186 286 008 300 830 120 737		194 284 395 579 415 186 286 008	
UNDETERMINED			<b>1 712 624</b>	<b>5 725</b>	<b>1 291 057</b>	<b>2 240</b>
	30/06/2012 30/06/2013	30/12/2026 30/12/2026			300 830 120 737	
DETERMINED					<b>421 567</b>	<b>29</b>
<b>TOTAL SUBORDINATED BORROWINGS</b>			<b>1 712 624</b>	<b>5725</b>	<b>1 712 624</b>	<b>2 269</b>
SUBORDINATED SECURITIES	Issue/Due date	Number of titles				
5-year "no-call" perpetual bonds* Code ISIN FR 0010128736	02/11/2004 indeterminated	259 258	259 258	106		
5-year "no-call" perpetual bonds Code ISIN FR 0010301713	16/03/2006 indeterminated	16 000	800 000	508	800 000	438
5-year "no-call" perpetual bonds Code ISIN FR 0010469858	15/05/2007 15/06/2017	18 003	900 150	391		
5-year "no-call" perpetual bonds Code ISIN FR 0011000231	16/02/2011 16/02/2021	5 000	500 000	23 833	500 000	23 833
<b>TOTAL SUBORDINATED SECURITIES</b>			<b>2 459 408</b>	<b>24 838</b>	<b>1 300 000</b>	<b>24 271</b>
<b>TOTAL SUBORDINATED DEBT</b>			<b>4 172 032</b>	<b>30 563</b>	<b>3 012 624</b>	<b>26 540</b>

**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
<b>TOTAL</b>	<b>57 557</b>			<b>57 557</b>

**NOTE A 9 -4 - CHANGE IN CAPITAL AND RESERVES**

The main shareholders can be broken down into shareholder groups incorporating the parent company and its subsidiaries				
- Crédit Agricole et LCL le Crédit Lyonnais	33,00 %	- Crédit Mutuel et CIC		9,50 %
- BNP Paribas	16,50 %	- SF2 - Groupe La Banque Postale		6,00 %
- Société Générale et Crédit du Nord	16,50 %	- HSBC France		3,00 %
- Groupe BPCE et Crédit Foncier	15,50 %			
The share capital (fully paid-up) comprises:	31/12/2013	Increase/ allocation	Reduction/ allocation	<b>31/12/2014</b>
- 17 997 861 Category A shares,	1 259 850			1 259 850
	<b>1 259 850</b>			<b>1 259 850</b>
Legal reserve	46 253	3 695		49 948
General reserve	67 238			67 238
<b>TOTAL</b>	<b>113 491</b>	<b>3 695</b>		<b>117 186</b>

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

	31/12/2013	31/12/2014		31/12/2013	31/12/2014
Credit institutions	88 371	88 661	Credit institutions	9	10
Interests in affiliated companies	10	12	Subordinated debt	30 563	26 540
Bonds and other fixed-income securities	1 900	5 180	Other liabilities: tax and social		
Other assets : tax pay back	16 859	352	security liabilities	2765	4 053
Other accruals			Other accruals :		
. on guarantee	326 975	350 021	. On financial instrument	2 127	1 828
. on suppliers	5	10			
. On financial instrument	2 398	2 556			
<b>Accrued revenue</b>	<b>436 518</b>	<b>446 792</b>	<b>Expenses due and accrued</b>	<b>35 464</b>	<b>32 431</b>
Other accruals :			Other accruals :		
. Issue expenses to amortize	2 012	1 731	. sureties with INITIO tariff	224 880	232 914
. on suppliers	523	605	. sureties with CLASSIC tariff	279 165	287 702
<b>PRE-PAID EXPENSES</b>	<b>2 535</b>	<b>2 336</b>	<b>Pre-booked income</b>	<b>504 045</b>	<b>520 616</b>

**NOTE A 11 - OFF-BALANCE SHEET COMMITMENTS RECEIVED**

	31/12/2013	Changes	31/12/2014
Counter-guarantees received (from our shareholders or not) relative to the commitment to reconstitute the mutual guarantee fund	3 623 689	-322 505	3 301 184
<b>TOTAL</b>	<b>3 623 689</b>	<b>-322 505</b>	<b>3 301 184</b>
Financial guarantee Framework (art. L211-38 of CMF)			
Eligible abs euro listed titles	154 164	99 561	253 725
Receivable on Credit Logement subordinated borrowings	844 931	-91 276	753 655
Eligible claims from loans, credit or finance to enterprises, legal persons	696 557	72 529	769 086
<b>OTHER INFORMATIONS : OTHER ASSETS RECEIVED AS SECURITIES COLLATERAL</b>	<b>1 695 652</b>	<b>80 814</b>	<b>1 776 466</b>

**NOTE A 12 - OFF-BALANCE SHEET COMMITMENTS GIVEN**
**NOTE A 12 - 1 - CHANGE IN COMMITMENTS GIVEN**

	31/12/2013	Put in place	Depreciation /Amortisation	Final repaiments	31/12/2014
Financing commitments (forward)	150 000			-150000	
<b>Financing commitments in favor of credit institution</b>	<b>150 000</b>			<b>-150000</b>	
Guarantee for individual residential loans - Commitments in place	245 455 216	43 131 206	-16 912 467	-17 405 448	254 268 507
Unpaid due payments estimated on real estate loan	15 085		4 074		19 159
	245 470 301	43 131 206	-16 908 393	-17 405 448	254 287 666
Commitments not yet in place	24 158 021		7 876 748		32 034 769
<b>Guarantee for individual residential loans</b>	<b>269 628 322</b>	<b>43 131 206</b>	<b>-9 031 644</b>	<b>-17 405 448</b>	<b>286 322 435</b>
Financial guarantee	49	48		-49	48
<b>TOTAL</b>	<b>269 628 371</b>	<b>43 131 254</b>	<b>-9 031 644</b>	<b>-17 405 497</b>	<b>286 322 483</b>

**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	O/w, affiliated companies
Guarantee for individual residential loans	390 907	1 409 658	12 580 990	239 886 952	254 268 507	
Commitments not yet in place		32 034 769			32 034 769	
Unpaid due payments estimated on real estate loan	19 159				19 159	
Financial guarantee	48				48	
<b>TOTAL</b>	<b>410 114</b>	<b>32 444 427</b>	<b>12 580 990</b>	<b>239 886 952</b>	<b>286 322 483</b>	



**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		253 149 915	22 549	1 118 592	326 575	254 268 507
Unpaid due payments estimated on real estate loan before gaurantee call		19 159				19 159
Commitments not yet in place		32 034 769				32 034 769
Financial guarantee		48				48
<b>TOTAL</b>		<b>285 203 891</b>	22 549	<b>1 118 592</b>	326 575	<b>286 322 483</b>

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**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	1 230 000	68 100	71 095	70 981
Not covered by framework	150 000		14 742	14 128
<b>TOTAL</b>	<b>1 380 000</b>		<b>85 837</b>	<b>85 109</b>

No transfer from one type to another in 2014

OTC interest rate transactions - by maturity	< 3 month	3 month to à 1 year	1 year à 5 years	> 5 years	TOTAL
. micro hedge			40 000	50 000	90 000
. macro hedge (fix rate receivable)			470 000	820 000	1 290 000
<b>TOTAL</b>			<b>510 000</b>	<b>870 000</b>	<b>1 380 000</b>

**NOTE B - INFORMATION ON PROFIT AND LOSS ACCOUNT (in thousand euros)**
**NOTE B 1 - INTEREST INCOME AND ASSIMILATED - INTEREST EXPENSE AND ASSIMILATED**

	31/12/2013	31/12/2014
Interest on demand deposit accounts	1 247	1 006
Interest on term deposit accounts (counterparty for subordinated borrowings)	21 761	14 201
Interest on term accounts for "cash from capital subscriptions, Category B shares"	5 306	5 284
Interest on term deposit accounts	127 355	122 858
Income on term financial instruments	12 547	19 396
<b>Transactions with credit institutions</b>	<b>168 216</b>	<b>162 745</b>
Loans to Crédit Logement staff	4	4
Interest on bad debt (interest for late payments on secured debt)	1 729	1 933
<b>Transactions with customers</b>	<b>1 733</b>	<b>1 937</b>
Interest on securities received		3 443
Interest income on investment securities		48
Interest income on financial securities	4 568	4 578
<b>Interest on bonds and fixed-income securities</b>	<b>4 568</b>	<b>8 069</b>
<b>TOTAL INTEREST INCOME AND ASSIMILATED</b>	<b>174 517</b>	<b>172 751</b>
Interest or interest compensation	-24	-75
Interest on undated subordinated borrowings	-27 185	-19 696
Interest on deeply subordinated securities and synthetic securitisations	-48 707	-42 263
Interest on cash collateral	-117	-119
Expenses on investment security	-401	-326
Interest on term subordinated borrowings	-7 202	-9 258
<b>TOTAL INTEREST EXPENSES AND ASSIMILATED</b>	<b>-83 636</b>	<b>-71 737</b>

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**NOTE B 2 - INCOME ON VARIABLE-INCOME SECURITIES**

	31/12/2013	31/12/2014
Interest on the current account associated with SNC Foncière Sébastopol	32	50
<b>TOTAL INCOME ON VARIABLE-INCOME SECURITIES</b>	<b>32</b>	<b>50</b>

**NOTE B 3 - COMMISSION (INCOME AND EXPENSES)**

	31/12/2013	31/12/2014
Commission on off-balance sheet commitments given on residential loans	116 621	110 521
<b>TOTAL COMMISSION (INCOME)</b>	<b>116 621</b>	<b>110 521</b>
Banking commission and fees	-881	-1 015
Commission and fees on synthetic securitisations and subordinated securities	-206	-188
<b>TOTAL COMMISSION (EXPENSES)</b>	<b>-1 087</b>	<b>-1 203</b>

**NOTE B 4 - INCOME ON INVESTMENT PORTFOLIO TRANSACTIONS AND ASSIMILATED**

	31/12/2013	31/12/2014
Capital gains on marketable security disposals	2 126	2 190
Income on interest rate option		
Provision allocation and write backs on securities	117	119
<b>TOTAL INVESTMENT PORTFOLIO TRANSACTIONS</b>	<b>2 243</b>	<b>2 309</b>

**NOTE B 5 - OTHER OPERATING BANKING INCOME AND EXPENSES**

	31/12/2013	31/12/2014
Third-party collection income (management and collection fees)	3 568	2 972
Ancillary income (Crédit Logement Assurance/SNC Foncière Sébastopol)	80	149
Other ancillary income	106	166
Other income	7	4
<b>TOTAL OTHER OPERATING INCOME</b>	<b>3 761</b>	<b>3 291</b>
SNC Foncière Sébastopol loss	-118	-123
Other expenses	-424	-199
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>-542</b>	<b>-322</b>

**NOTE B 6 - GENERAL OPERATING EXPENSES**

	31/12/2013	31/12/2014
Salaries and wages	-14 336	-15 246
Social security taxes	-6 984	-7 486
Salary-based taxes	-2 429	-2 474
Pension expenses	-1 967	-2 297
Performance-related bonus	-1 087	-1 218
Employee profit-sharing	-1 059	-1 018
<b>Staff costs</b>	<b>-27 862</b>	<b>-29 739</b>
<b>Tax</b>	<b>-47 074</b>	<b>-52 175</b>
Rentals	-879	-1 243
Transport	-128	-143
Other external services	-8 584	-13 423
Reserves on disputes		48
<b>External services</b>	<b>-9 591</b>	<b>-14 761</b>
<b>Other administrative costs</b>	<b>-56 665</b>	<b>-66 936</b>
<b>TOTAL GENERAL OPERATING EXPENSES</b>	<b>-84 527</b>	<b>-96 675</b>

**NOTE B 7 - DEPRECIATION AND ALORTISATION ON FIXED ASSETS INCLUDING EQUITY SECURITIES**

	31/12/2013	31/12/2014
Software and licenses	-2 511	-2 435
<b>Intangible fixed assets</b>	<b>-2 511</b>	<b>-2 435</b>
Structural components	-49	-49
Roof / Front	-102	-102
Transport equipment	-38	-38
Office equipment	-35	-32
Club Affaires equipment and tools	-6	-4
Office furniture	-48	-50
Club Affaires furniture	-1	-1
Computer equipment	-330	-288
Fixture & fittings an rental premises	-132	-182
Fixture & fittings an building	-217	-229
Technical equipment	-218	-239
<b>Tangible fixed assets</b>	<b>-1 176</b>	<b>-1 214</b>
<b>TOTAL</b>	<b>-3 687</b>	<b>-3 649</b>

**NOTE B 8 - INCOME OR LOSS ON CAPITALISED ASSETS**

	31/12/2013	31/12/2014
Capital gains on fixed asset disposals	1	
Capital losses on fixed asset disposals		-18
<b>TOTAL</b>	<b>1</b>	<b>-18</b>

**NOTE B 9 - CORPORATE INCOME TAX**

	31/12/2013	31/12/2014
On ordinary income	-44 144	-43 413
On unrealised capital gains on the securities portfolio	-182	-201
Contribution on distributed revenues	-1 566	-2 106
<b>TOTAL *</b>	<b>-44 326</b>	<b>-45 720</b>

\* including corporate income tax instalments already paid

60 274

-43 363

**NOTE B 10 - CONTRIBUTIONS/RELEASES FOR GENERAL BANKING RISK FUNDS AND REGULATORY PROVISIONS**

	31/12/2013	31/12/2014
Provisions for risks relating to medium and long-term transactions	-3 894	
<b>TOTAL</b>	<b>-3 894</b>	

**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 *	32		
To all executives **	769	6	262
- fix compensation	580		
- variable compensation	128		
- fringe benefits and pension	61		

\* No benefits and compensation paid to subsidiary during year 2013

\* \* A yearly extraordinary bonus, in accordance with the company's result and if the result justifies it, can be allocated to the Chief Executive Officer within the limits of 25% of his gross annual pay ; and to the Deputy Chief Executive Officer within the limits of 20% of their gross annual pay. The amounts are determined according to the results by the Chairman of the Board on behalf of the remunerations comitee to which he is accountable.

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

	Fees
Statutory audit	164
Ancillary services	7

**NOTE C 3 - AVERAGE STAFF BREAKDOWN BY LEVEL**

	31/12/2013	31/12/2014
Executives*	2	2
Managers	179	191
Supervisors	57	61
Employees	42	34
<b>TOTAL</b>	<b>280</b>	<b>288</b>

\* without managing Director

**NOTE C 4 - OTHER SOCIAL COMMITMENTS OUTSOURCED AND NOT PROVISIONED**

Commitments corresponding to services provided under the different systems are covered by collective funds managed externally.			
<b>Supplementary pension for managers</b>		<b>Voluntary or compulsory retirement benefits</b>	
Value of the collective funds managed externally	3 771	Value of the collective funds managed externally	1 066
Present value of commitments	4 342	Present value of commitments	1 053
Provisioned amount at year end	640		
Collective supplementary pension insurance policy with defined benefits		Collective "end-of-career benefits" insurance policy	
Beneficiaries: all managers, subject to certain conditions		Beneficiaries: all company staff	
<b>Rules and methods</b>			
. 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.
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**NOTE C 6 - PROPOSED ALLOCATION OF INCOME**

Income for the year ended	69 598
Retained earnings for the previous year	9 560
<b>Income to be allocated</b>	<b>79 158</b>
<b>Breakdown of allocation</b>	
- Legal reserve	3 480
- Dividends – A shares	
- Dividends - B shares	
- Retained earnings	75 678
<b>TOTAL</b>	<b>79 158</b>

## FINANCIAL RESULTS

in thousand euros

	2010	2011	2012	2013	2014
<b>Financial position at year-end</b>					
Share capital	1 253 975	1 253 975	1 259 850	1 259 850	<b>1 259 850</b>
Number of shares issued					
. A shares	1 940 363	1 940 363	17 997 861	17 997 861	<b>17 997 861</b>
. B shares *	80 287 490	80 287 490			
<b>Total earnings for effective operations</b>					
Revenues (net of tax)	300 990	320 597	359 697	297 057	<b>288 804</b>
Earnings before tax, depreciation and provisions	137 983	146 157	172 747	127 266	<b>118 800</b>
Corporate income tax	45 221	50 684	59 990	45 892	<b>45 720</b>
Earnings after tax, depreciation and provisions	87 057	88 515	104 278	73 910	<b>69 598</b>
Profit distributed					
. A shares	72 473	71 696	52 194	70 192	<b>0</b>
. B shares *	10 215	12 413			
<b>Earnings per share for operations (in euros)</b>					
Earnings after tax but before depreciation and provisions *					
. A shares	55,00	42,80	6,27	5,05	<b>4,59</b>
. B shares	0,35	0,16			
Earnings after tax, depreciation and provisions *					
. A shares	39,60	39,23	5,79	4,64	<b>4,4</b>
. B shares	0,13	0,15			
Dividend per share *					
. A shares	37,35	36,95	2,90	3,90	<b>0,00</b>
. B shares	0,1272268	0,1546046			
<b>Workforce</b>					
Average headcount**	233	254	270	280	<b>288</b>
Payroll	11 864	13 311	13 473	14 336	<b>15 246</b>
Staff benefits	6 534	7 489	8 708	8 951	<b>9 782</b>

\* B shares converted in ordinary shares following the 9th of may 2012 general meeting

\*\* without managing director





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