Universal registration document 2019

Interim financial report June 2019

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The English language version of this report is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in French take precedence over the translation.

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AUTORITÉ DES MARCHÉS FINANCIERS

AMF

This universal registration document was filed with the AMF on August 29, 2019, in its capacity as the competent authority under Regulation (EU) no. 2017/1129, without prior approval in accordance with Article 9 of that Regulation. The universal registration document may be used for the purpose of a public offering of securities or for the admission of securities for trading on a regulated market if supplemented by a securities note and, where applicable, a summary and any amendments to the universal registration document. The complete set of documents is approved by the AMF in accordance with Regulation (EU) no. 2017/1129.

1. The Arkéa group

1.1 Presentation

The Arkéa group comprises Crédit Mutuel Arkéa, the Crédit Mutuel de Bretagne, Crédit Mutuel du Sud-Ouest and Crédit Mutuel du Massif Central networks, as well as approximately 30 specialized subsidiaries that cover all banking and financial business lines. The group also develops non-banking solutions: remote assistance, remote surveillance, real estate consulting, etc.

As a cooperative group, Arkéa is not listed on the stock exchange. It is owned by its customer shareholders (members who are both shareholders and customers). The group, which combines a strong financial position and responsible growth, puts this performance to work financing the real economy and the development of the regions, and executing the projects of its 4.6 million customers.

As a producer and distributor, Arkéa is able to offer its customers – whether individuals, sole proprietorships, companies or government bodies – a comprehensive line of banking, financial, asset management, insurance and other products and services. The group also sets itself apart through its development of white-label banking services on behalf of distributors, e-commerce players, and other financial institutions and payments providers. This business-to-business strategy allows it to operate well beyond its long-standing regional networks and to significantly increase its market share.

As a player in the digital economy, Arkéa is known and recognized for its technological culture, in particular its online banking and insurance services as well as its payment tools. Building on this expertise, as part of an open partnership approach, the group has forged very close ties with players in the digital ecosystem and is developing various forms of cooperation with them, whether technological, commercial or through capital transactions. In a fast-changing environment, these partnerships with fintechs[1], insurtechs[2] and regtechs[3] allow it to remain at the forefront of technology and consumer trends and to increase its agility.

Arkéa pursues an original development strategy, with the goal of developing a cooperative and collaborative open banking model that increases the prospects of its stakeholders and provides the best response to current and future aspirations and lifestyles.

[1] Contraction of "finance" and "technology": a fintech is a startup that uses information and communication technologies to deliver financial services.
[2] Contraction of "insurance" and "technology": an insurtech is a startup that uses information and communication technologies to deliver insurance services.
3 Contraction of “regulatory” and “technology”: this neologism refers to the technologies that allow financial institutions to cost-effectively manage regulatory constraints in order to improve their agility.

Arkéa is committed to keeping its regional decision-making centers and drawing from local labor pools. This approach based on regional strongholds has now enabled the group to extend its reach throughout France and to serve customers across Europe:

- 328 points of sale in Brittany, Southwestern France and the Massif Central region.
- 20 regional business centers for Arkéa Banque Entreprises et Institutionnels.
- 8 regional branches for Arkéa Investment Services.
- 6 regional branches for Financo.
- A presence in Belgium with Keytrade Bank and ProCapital. Keytrade Bank is also present in Switzerland and Luxembourg.
- Leetchi and Mangopay are present in the United Kingdom, Germany, Spain and Luxembourg.
- At the end of 2018, the group acquired German bank PrivatBank 1891[4].
- Activity throughout Europe through Monext, the subsidiary that specializes in electronic payments and provides services in 25 countries.

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4 The acquisition is subject to authorization by the banking regulator in Germany.

1.2 Highlights of H1 2019

JANUARY

Arkéa On Life, the Arkéa group brand dedicated to connected services (remote assistance, remote surveillance), continued its deployment in Europe with the signature of a distribution partnership with **Libify** aimed at the German market. Arkéa On Life, whose services are also distributed in Belgium, Switzerland and the United Kingdom, aims to achieve 20% of its turnover internationally by 2020.

Arkéa acquired a minority stake in the capital of **Pytheas Capital Advisors**, a young financial investment advisory firm. This fintech is developing a "reverse factoring" solution that corporate customers can use to reduce their payment terms with their suppliers. With this investment, Arkéa confirmed its positioning within the fintech ecosystem while expanding its range of services to businesses and local authorities.

The Arkéa group announced the launch of an all-in-one remote surveillance and comprehensive home insurance offering for members and customers of its federations. This offering, named **Assur&Detect**, was jointly developed by two Group subsidiaries: **Suravenir Assurances** and **Arkéa On Life**. It includes, under a single contract, a home protection system and comprehensive insurance in the event of a claim. The associated mobile application provides access to a wide range of services: remote control of the household alarm system connected in real time to a remote assistance center based in Rennes, online declaration of claims, etc.

As part of a partnership with the **National Road Transport Federation** (FNTR), **Arkéa Banque Entreprises et Institutionnels** mobilized a budget of €50 million in subsidized loans to finance responsible investments by companies that are members of the FNTR, mainly the acquisition of more energy-efficient vehicles.

FEBRUARY

Arkéa **launched a chatbot** (or conversational agent) to carry out remote selling with integrated payment via mobile phone, aimed at e-commerce professionals. An initial experiment was carried out with the Ciné Alpes group, which operates 14 cinemas in France. With this innovation, Arkéa is looking towards a future offering for its e-merchant customers, who operate via a website or mobile application, that will allow them to add a new sales channel with a view to providing the best possible customer experience.

Arkéa is the first French bank to completely eliminate overdraft fees for financially vulnerable customers as part of a specific offering. This decision concerns some 50,000 customers. With this measure, Arkéa group reaffirmed its commitment to the **solidarity values** that helped to forge its identity.

MARCH

Monext confirmed its position as a benchmark **payments** player with over three billion transactions processed in 2018 for €144 billion, representing an increase of around 20% in the number of transactions compared with 2017. Its online payment solution holds market share of nearly 40% in France. Monext supports more than 150 financial institutions and 8,000 retailers with innovative and secure services that cover the entire electronic payment chain.

APRIL

Arkéa rolled out the mobile payment solution **Google Pay** for customers of its mobile bank **Fortuneo** and customers with a Mastercard card who use the personal assistant **Max**. It offers flexible and secure alternative payment methods designed to meet new consumption trends.

The insurtech startup **Wilov** raised €3.2 million through **Arkéa** and Allianz France to enable it to expand its offering with a view to deploying it internationally. Launched in 2017, Wilov has shaken up the auto insurance sector with its first mobile only “Pay When You Drive” offer, with no commitment, and price adjustment every month based on the number of days driving.

MAY

The **Breizh Armor Capital fund**, which has raised €10 million to finance projects related to the Breton fisheries economy (fishing, aquaculture, seafood), proceeded with its first investment in fishing equipment for the Marc’h Dal vessel located in Le Guilvinec. The Arkéa group, Banque Populaire Grand Ouest-Crédit Maritime and the region of Brittany came together to create this private fund managed by **Arkéa Capital**. The renewal of the Breton fishing fleet, the average age of which is nearly 30 years, is a major objective to ensure the sustainability of the sector and to promote sustainable and responsible fishing.

Arkéa Capital acquired a minority stake in the capital of **Moustache Bikes**, which specializes in the design, assembly and distribution of high-end electric bikes. Based in the Vosges region and leader on its market in France, Moustache Bikes also distributes bikes in 18 countries through a network of 530 dealers. With 100 employees and revenue of €52 million, the company has grown more than six-fold in the space of four years.

Arkéa and the Conseil Supérieur du Notariat (CSN) entered into a partnership to promote the dematerialization of document exchange. As part of their day-to-day working relationship, the Arkéa networks and the notarial offices exchange certain contractual and information documents. The goal is to make the majority of these documents, which are currently sent in paper form and often accompanied also by electronic copies sent by e-mail, completely electronic.

The startup **TokTokDoc**, which specializes in telemedicine, secured funding of €2 million. Arkéa oversaw this financing by teaming up with private investors through its societal innovation fund **We Positive Invest**. This capital contribution opens up new prospects for the young company, which intends to expand into the long-term care sector for seniors and the disability segment, as well as expand its telehealth offer by developing France's first virtual outpatient clinic. The transaction was the seventh investment by the We Positive Invest fund, which illustrates Arkéa's aim to bolster its presence in sectors that will be key in the economy of tomorrow, working for the common good and future generations.

Arkéa Banque Entreprises et Institutionnels, a subsidiary of the Arkéa group, pledged a €500 million loan to support city center revitalization initiatives alongside the **"Action core de ville”** program. This five-year national plan, initiated by the Ministry of Territorial Cohesion, aims to improve living conditions for inhabitants of medium-sized towns. More than 220 municipalities were selected as part of this government initiative to bolster their position as growth driver in their region.

JUNE

Using the Google Cloud Platform, **data experts from the Arkéa group** developed new functionalities for users of the personal assistant **Max**. These users will receive real-time suggestions of new services consistent with their consumption habits. These include complementary or additional customized services proposed by partners referred impartially by Max.

PriceHubble and the IZIMMO Group, a subsidiary of the Arkéa group that specializes in the marketing of real estate for investment and home ownership, formed a strategic partnership to create a new market research leader for housing development. PriceHubble, which develops ultra-accurate analytics platforms and real estate estimation algorithms, will contribute its proprietary data and leading edge technology. The IZIMMO Group will provide unique expertise in the field of real estate market research and the calibration of programs with target markets.

Arkéa Banque Entreprises et Institutionnels co-arranged a €70 million financing structure for **Mecatherm**, world leader in industrial bakery equipment. Mecatherm designs, develops, assembles and installs ovens, machines and automated lines for bakery, pastry and confectionery all over the world.

Arkéa Capital provided support to **Groupe Vert**, a professional cleaning specialist, in the acquisition of Netvime, a cleaning company based in Lorient. With this acquisition, Groupe Vert aims to expand its regional presence as a local operator, and pursue its strategy to increase its presence in the departments of Finistère, Côtes-d'Armor and Morbihan.

JCB International, Co., Ltd. (JCBI), the international operations subsidiary of JCB Co., Ltd., and **Arkéa** officially sealed a strategic partnership deal. Merchant customers of Arkéa's networks with a local electronic payment (payment terminal) or e-commerce (payment page) solution will have their offer extended to include cardholders in the JCB network. All Arkéa ATMs will also include the JCB network for cash withdrawals. Given France's high level of tourism, the partner merchants will benefit from additional revenue potential. JCB is, in fact, the main issuer and acquirer in Japan and one of the largest payment networks in the international market. It has over 130 million cardholders worldwide and around 30 million merchants accept JCB cards.

Arkéa Capital Managers, an investment vehicle of the Arkéa group, RAISE Investissement and Dzeta invested alongside the managers in the capital of the Vendée-based group **Children Worldwide Fashion** (CWF). Located in Herbiers in the Vendée region, CWF employs 800 people and is the European leader in licensed, luxury and premium ready-to-wear for children. It operates in 83 countries with more than 2,500 points of sale, and generated net sales of some €160 million in 2018. This transaction was the second equity investment made by Arkéa Capital Managers, the group's most recent investment vehicle. Arkéa Capital Managers has funds of €200 million to help managers strengthen their shareholdings and pursue their development strategy.

JULY

Arkéa signed an agreement to acquire 80% of the capital of **Budget Insight**, a fintech company that specializes in **data aggregation and payment initiation**. This transaction, which is subject to approval by the banking regulator, will enable Arkéa to offer its customers an enhanced experience and to take a step further in its open banking approach. Budget Insight's expertise in data aggregation and enhancement mean it can offer Arkéa customers a simple and fluid experience by integrating financial and extra-financial services into consumption practices.

Arkéa Banque Entreprises et Institutionnels refocused its investment offering around **responsible investment** by creating CSR term deposits and reducing its range of UCITS from 250 to 10 so as to only offer funds that meet ESG (Environmental, Social and Governance) criteria, which are generally the three pillars of extra-financial analysis. This new positioning is fully in line with the Arkéa group's responsible approach, which aims to support regional players in their development while taking into account social and environmental issues.

Arkéa Capital and Unexo reiterated their support for the Tacquard family, which founded the **Galapagos group**, a key player in the premium biscuit market in France. The two private equity companies provide support for the development of the biscuit activity, which has been renamed Galapagos Gourmet, and the change of governance.

2. Interim management report

2.1 Summary analysis

The 2019 interim results show a slight decrease after a record first half of the last year. The fundamentals remained solid against the backdrop of a negative economic environment and persistently low interest rates which weighed in particular on the retail banking activities.

Activity (in relation to December 31, 2018):

- An increase in the customer portfolio of 1.8% to 4.6 million;
- Gross loans outstanding up by 5.2% to €59.5 billion;
- Savings up by 5.7% to €117.5 billion;
- A two-point increase in the net loan-to-deposit ratio to 104%;
- Premiums earned in non-life insurance up by 5.7% to €208 million.

Results (in relation to June 30, 2018):

Net income attributable to equity holders of the parent company came out at €244 million, down by a slight €2 million in relation to the first half of 2018 (-0.9%):

- Net banking and insurance income up by 3.1% to €1.1 billion
- Management fees of €773 million (+5.3%)
- The cost of risk at €34 million (-10.4%).

Solvency:

- The Basel III measures were transposed into EU law in 2013 in the form of CRD4 and CRR1. These regulations began to be implemented on January 1, 2014; transitional provisions will nevertheless continue to apply until 2024.
- Common Equity Tier 1 (CET 1) capital totaled €6 billion and represented 80% of total regulatory capital. It increased by €394 million in the first half of 2019, corresponding primarily to the recognition of undistributed income from the first half of 2019 and the inflow of share capital. Including Tier 2 capital, regulatory capital was €7.5 billion.
    - Share outstandings increased by €68 million to €2.3 billion.
- The group's capital requirements increased in line with growth in its commitments.

Change in regulatory capital

(€ millions)	June-19	December-18
Common equity tier 1 capital	5,988	5,594
Tier 1 Capital	6,022	5,639
Additional equity (Tier 2) net of deductions and surcharges	1,506	688
Total regulatory capital	7,528	6,327

Changes in capital adequacy requirements

(€ millions)	June-19	December-18
Credit risk	**2,535**	**2,367**
Standardized approach	**493**	**494**
Central and public administrations	101	97
Credit institutions	12	13
Corporates	19	49
Retail customers	299	269
Shares, securitizations and other non-credit obligation assets	62	66
Internal ratings-based approach	**2,042**	**1,873**
Credit institutions	80	74
Corporates	876	797
Retail customers	257	251
Aquities	795	726
Securitization	0	0
Other non-credit obligation assets	34	24
Market risk and CVA (standardized approach)	**7**	**8**
Operational risk (almost exclusively advanced measurement approach)	**188**	**186**
Total capital adequacy requirements	**2,730**	**2,562**

Evolution of prudential ratios

	June-19	December-18
CET 1 ratio	17.5%	17.5%
Overall ratio	22.1%	19.8%
Leverage ratio	6.7%	6.7%

In terms of liquidity:

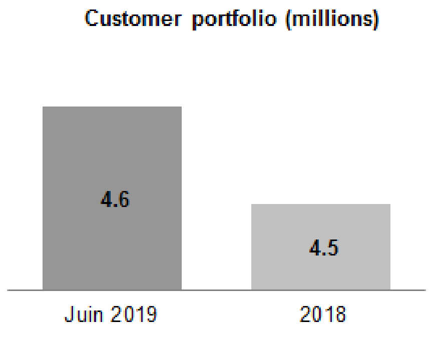
The group is in line with its Basel III targets:

- LCR at 131% at end-June 2019

2.2 Activity

2.2.1. Customers

The customer portfolio increased by 1.8% over the first half of 2019.
On a like-for-like basis, it increased by 2.9%, representing nearly 130,000 additional customers contributed by all subsidiaries: personal assistant Max (+34,000 customers), insurers (+43,000 customers), online banking (+26,000 customers), retail banking (+16,000 customers) and consumer credit subsidiaries (+8,000 customers).

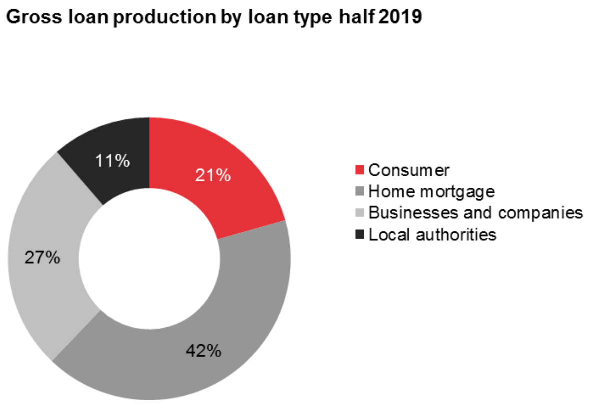


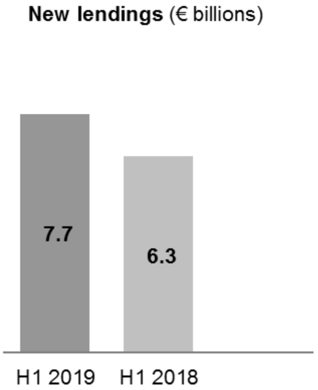
2.2.2. Lending

Gross loans outstanding before provisions increased by 5.2 % to €59.5 billion. Outstanding loans net of provisions totaled €59 billion. On a like-for-like basis[5] , gross loan outstandings increased by 6% to €59.5 billion.

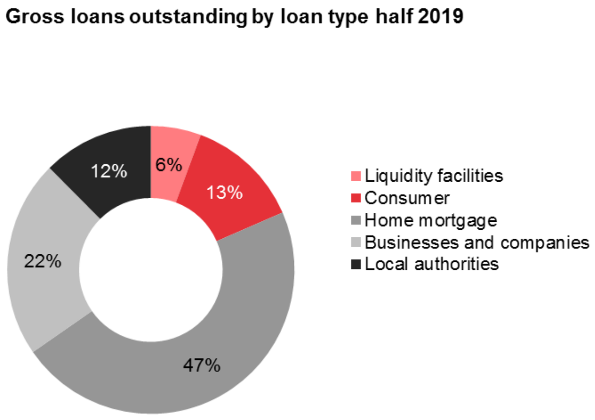
New lending in the first half of 2019 reached €7.7 billion, an increase of 21.7% versus the first half of 2018.

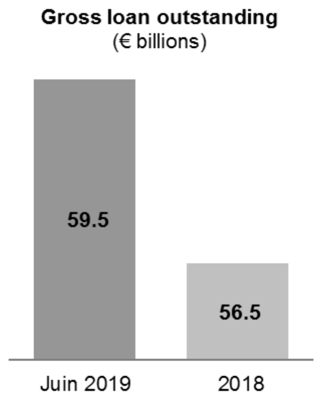
This growth concerned all loan categories: loans to professionals and businesses (+25% to €2 billion); loans to individuals (+11.6% to €4.8 billion) and loans to local authorities (x2 to €0.9 billion).



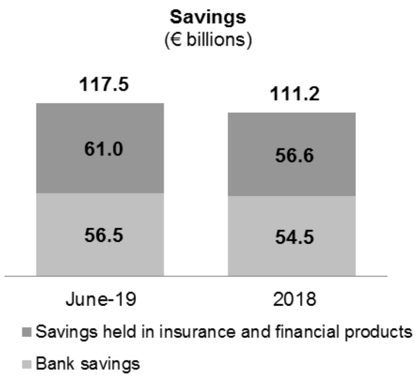


[5] Excluding changes in scope 2019 (Leasecom)





2.2.3. Savings

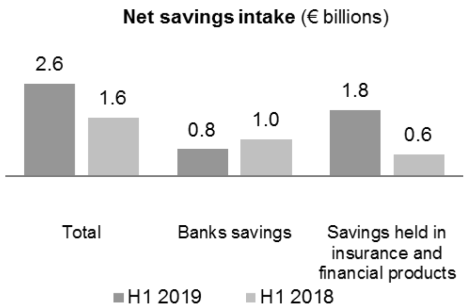


Total savings rose by 5.7% in relation to the end of 2018, reaching €117.5 billion.

The net savings intake increased by 59.5% in relation to the first half of 2018, reaching €2.6 billion.

This item mainly entailed:

- A decrease of €0.3 billion in the net bank savings intake compared to the first half of 2018, which reached €0.8 billion
- An increase of 21.8% in the net savings intake from insurance products to €1.2 billion, Inflows of financial savings amounted to €0.7 billion after net out-flows of €0.3 billion in the first half of 2018.

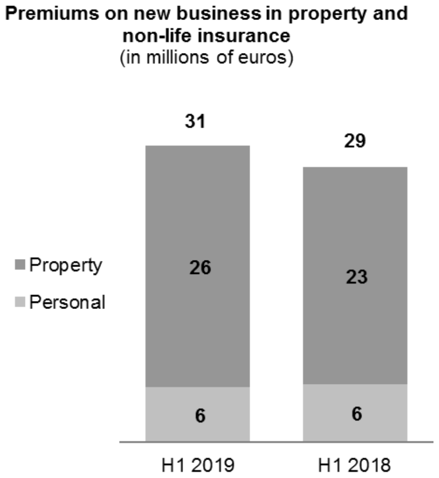


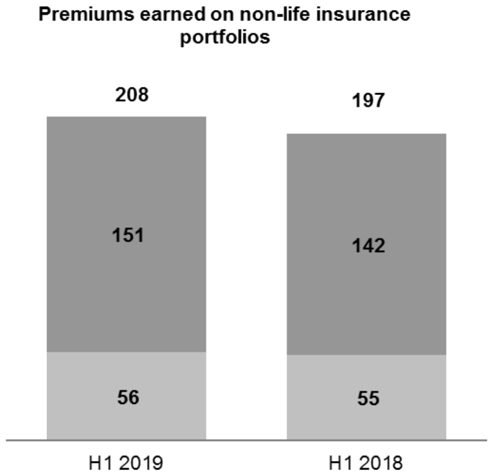
2.2.4. Non-life insurance

Non-life insurance policies are distributed through the group's networks and through external networks that are not part of the Arkéa group.

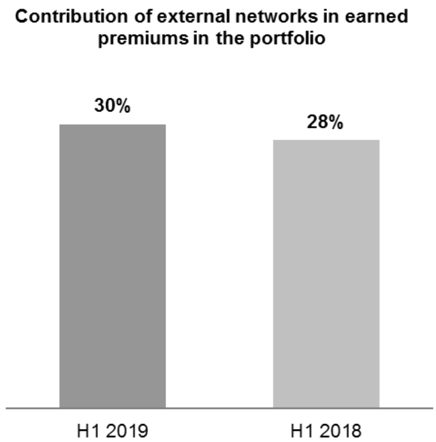
Premiums on new business in the first half of the year rose by 7.5% in relation to the first half of 2018, to €31 million, mainly through property insurance, which rose by 11% (or €3 million).

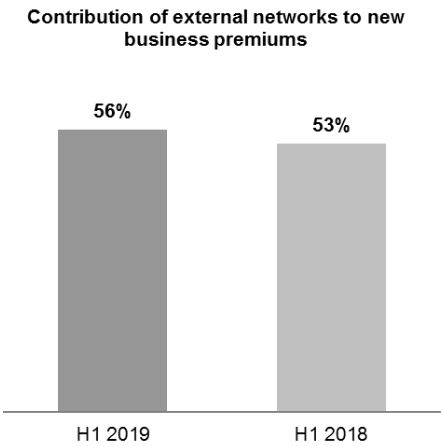
Earned portfolio premiums increased by 5.7% to €208 million during the first half of 2019.





Premiums on new business contributed by external networks accounted for 56% of total premiums on new business, an increase of 3 points in relation to the first half of 2018. At end-June 2019, earned portfolio premiums contributed by the external networks accounted for 30% of total earned premiums from non-life insurance policies.





2.3 Balance sheet

Arkéa group's balance sheet increased by €12.5 billion in the first half of 2019 thanks to growth in both the banking (€2.1 billion increase in deposits outstanding, €3.5 billion increase in loans outstanding) and insurance activities (+ €3.5 billion).

ASSETS (in € billions)

June 2019		Variations	December 2018	
Customer loans	**59.1**	**3.5**	**Customer loans**	**55.6**
of which provisions B1	-0.1		of which provisions B1	-0.1
of which provisions B2	-0.1		of which provisions B2	-0.1
of which provisions B3	-0.8		of which provisions B3	-0.8
Repayments	**7.1**	**0.8**	**Repayments**	**6.3**
Cash flow	**6.1**	**2.9**	**Cash flow**	**3.2**
Financial assets	**14.2**	**-1.2**	**Financial assets**	**15.4**
Fair Value through profit or loss	1.4		Fair Value through profit or loss	1.2
Fair Value OIC	9.7		Fair Value OIC	11.3
Amortized cost	3.1		Amortized cost	2.9
Property, plant and equipment	**1.5**	**0.1**	**Property, plant and equipment**	**1.4**
Other assets (including minority interests in UCITS)	**8.6**	**3.2**	**Other assets (including minority interests in UCITS)**	**5.4**
Insurance assets	**50.8**	**3.5**	**Insurance assets**	**47.2**
Non-current assets held for sale	**0.0**	**-0.4**	**Non-current assets held for sale**	**0.4**
TOTAL	**147.4**	**12.5**		**134.9**

LIABILITIES (in € billions)

	June 2019	Variations		December 2018
Customer deposits	56.7	2.1	Customer deposits	54.6
Market resources	23.3	2.6	Market resources	20.7
Subordinated debt	2.5	0.8	Subordinated debt	1.7
Other liabilities (including minority interests in UCITS)	9.4	3.2	Other liabilities (including minority interests in UCITS)	6.2
Insurance liabilities	48.4	3.3	Insurance liabilities	45.1
Shareholders' equity	7.1	0.4	Shareholders' equity	6.7
Non-current liabilities held for sale	0.0	0.0	Non-current liabilities held for sale	0.0
TOTAL	147.4	12.5		134.9

2.4 Consolidated results

In the first half of 2019, the Arkéa group recorded net income attributable to equity holders of the parent company of €244 million, a slight decrease of 0.9% in relation to the first half of 2018 (€247 million).

(in euro millions)	H1 2019	H1 2018	Change H1 2019 / H1 2018	
			abs.	%
Net banking and insurance income	**1,116**	**1,082**	**33**	**3.1%**
Operating expenses	**-773**	**-734**	**-39**	**5.3%**
Gross operating income	**343**	**349**	**-6**	**-1.6%**
Cost of risk	**-34**	**-38**	**4**	**-10.4%**
Net income before tax	**334**	**338**	**-4**	**-1.2%**
Income tax	**-89**	**-91**	**2**	**-2.0%**
Net income group share	**244**	**247**	**-2**	**-0.9%**
Cost-to-income ratio [6]	**69.2%**	**67.8%**	**1,5 pt**	

2.4.1. Net banking and insurance income (PNBA)

Net banking and insurance income increased by 3.1% in relation to the first half of 2018 to more than €1 billion (+ €33 million).

On a like-for-like basis[7], net banking and insurance income rose by 3.2% (+€34 million).

The analysis of net banking and insurance income is based on the segment breakdown used in the financial statements.

The banking segment

The banking segment includes retail banking for individuals (local savings banks of Crédit Mutuel, Arkéa Direct Bank [which notably includes Fortuneo and Keytrade], Financo and CFCAL, retail banking for companies (Arkéa Banque Entreprises et Institutionnels, Arkéa Crédit Bail, Arkéa Capital Investissement and Arkéa Capital Partenaire) and the business process outsourcing (BPO) subsidiaries (Monext, Nextalk, Arkéa Banking Services, ProCapital Securities Services, Leetchi, Nouvelle Vague, Pumpkin and Izimmo).

Net banking and insurance income from the banking segment decreased by 2.9% in relation to the first half of 2018, reaching €804 million.

On a like-for-like basis[7] , net banking and insurance income fell by 2.8% to €787 million (- €23 million):

- The financial margin decreased by 5% to €389 million (- €20 million), mainly due to lower changes in the value of equity securities at fair value through profit or loss.
- Commission income fell by €8 million to €313 million with the introduction since the beginning of

[6] Management expenses ratio (general operating expenses plus depreciation and amortization of intangible and tangible assets) to net banking income.
[7] Excluding changes in scope 2019 (Leasecom) and 2018 (automotive branch of My Money Bank France) and iso-accounting standards (application of IFRS 16 in the first half of 2019)

2019 of the cap on bank fees for financially vulnerable customers and the elimination of bank overdraft charges for financially vulnerable customers as part of a specific offering.

- Other operating income and expenses increased by €5 million to €86 million, in line with the solid pace of activity in BPO.

The insurance and asset management segment

The insurance and asset management segment includes the life insurance (Suravenir) and non-life-insurance (Suravenir Assurances) companies and the brokerage (Novélia) and asset management (Federal Finance, Schelcher Prince Gestion and Arkéa Capital Gestion) companies.

Net banking and insurance income for the insurance and asset management segment rose by €57 million to €312 million, with an improvement in claims for all products relative to the first half of 2018.

2.4.2. Operating expenses

Operating expenses rose by 5.3% to €773 million (+€39 million). On a like-for-like basis[8], operating expenses rose by €44 million to €764 million:

- Personnel expenses increased by €12 million to €417 million;
- Other expenses increased by €29 million to €288 million;
- Amortization, depreciation and other provision allocations increased by €3 million to €59 million.

2.4.3. Cost of risk

The cost of risk fell by €4 million (- 10.4%) to €34 million. On a like-for-like basis[9], the cost of risk fell by €5 million to €25 million.

- Net additions to/reversals from provisions for loan losses on non-performing loans and loans in litigation rose by €11 million to €20 million.
- Provisions for performing loans decreased by €15 million to €5 million in the first half of the year.

At the end of the first half of 2019, the cost of risk represented 0.06% of customer outstandings stated in the balance sheet, or 0.12% annually.

Portfolio's credit risk quality

The amount related to non-performing loans and loans in litigation (including interest) increased by a slight 0.4% to €1,434 million as of June 30, 2019 compared with €1,428 million excluding Leasecom as of December 31, 2018.

The ratio of non-performing loans and loans in litigation (including interest) to total outstandings dropped to 2.4% in the first half of 2019 versus 2.5% excluding Leasecom as of December 31, 2018.

[8] Excluding changes in the consolidation scope in 2019 (Leasecom) and 2018 (auto division of My Money Bank France) and based on ISO accounting standards (application of IFRS 16 in the first half of 2019).
[9] Excluding changes in scope in 2019 (Leasecom) and 2018 (auto division of My Money Bank France).

Provisioning

During the first half of 2019, Crédit Mutuel Arkéa remained very cautious in its approach to customer credit risk, net of guarantees received. The provisioning rate for non-performing loans and loans in litigation (principal and interest) was 55.9% at end-June 2019, a slight decrease in relation to December 2018 (56.3% excluding Leasecom). The respective rates were 64.1% for companies, 54.0% for sole proprietorships and 48.3% for individuals.

2.5 Ratings

As of 06/30/2019	Short-term ratings
Moody's	P-1
Fitch	F1
	Long-term ratings
Moody's	Aa3
Fitch	A
	Outlook
Moody's	Negative
Fitch	Stable

3 Consolidated financial statements at June 30, 2019

Balance sheet

(in € thousands)

Assets	Notes	06.30.2019	12.31.2018
Cash, due from central banks	1	6,147,781	3,236,588
Financial assets at fair value through profit or loss	2	1,419,925	1,179,263
Derivatives used for hedging purposes	3	1,052,638	692,564
Financial assets at fair value through equity	4	9,741,672	11,323,695
Securities at amortized cost	5	439,960	163,949
Loans and receivables - credit institutions, at amortized cost	1	9,720,804	8,986,833
Loans and receivables - customers, at amortized cost	6	59,052,583	55,574,536
Remeasurement adjustment on interest-rate risk hedged portfolios		773,806	299,115
Placement of insurance activities	7	55,947,066	50,190,292
Current tax assets		194,731	224,673
Deferred tax assets		136,935	149,446
Accruals, prepayments and sundry assets		1,119,418	867,127
Non-current assets held for sale		6,116	444,230
Deferred profit-sharing		-	-
Investments in associates		185,735	201,775
Investment real estate		149,367	154,236
Property, plant and equipment		335,779	257,761
Intangible assets		446,489	435,758
Goodwill	8	538,461	538,461
TOTAL ASSETS		**147,409,266**	**134,920,302**

Liabilities	Notes	06.30.2019	12.31.2018
Due to central banks	9	-	-
Financial liabilities at fair value through profit or loss	10	1,006,818	811,071
Derivatives used for hedging purposes	3	972,066	427,735
Debt securities	12	14,357,474	12,770,678
Due to banks	9	7,962,286	7,117,358
Liabilities to customers	13	56,697,943	54,555,163
Remeasurement adjustment on interest-rate risk hedged portfolios		176,877	63,361
Current tax liabilities		136,713	127,008
Deferred tax liabilities		152,370	133,565
Accruals, deferred income and sundry liabilities		2,413,826	2,063,634
Liabilities associated with non-current assets held for sale		-	19,442
Insurance companies' technical reserves	14	53,527,866	48,033,048
Provisions	15	436,619	423,551
Subordinated debt		2,508,022	1,667,088
Total equity		**7,060,386**	**6,707,600**
Shareholders' equity, group share		7,057,383	6,704,447
Share capital and additional paid-in capital		2,334,763	2,266,390
Consolidated reserves		4,298,896	3,896,397
Gains and losses recognized directly in equity		179,366	104,372
Net income for the year		244,359	437,288
Non-controlling interests		3,003	3,152
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**147,409,266**	**134,920,302**

Income statement

(in € thousands)

Income statement	Notes	06.30.2019	06.30.2018
Interest and similar income [1]	18	904,807	894,818
Interest and similar expense [1]	18	-596,773	-564,804
Commission income	19	300,160	319,343
Commission expense	19	-68,774	-67,203
Net gain (loss) on financial instruments at fair value through profit or loss	20	58,384	59,708
Net gain (loss) on financial instruments at fair value through equity	21	35,636	25,397
Net gain (loss) on derecognition of financial instruments at amortized cost	22	0	1
Net income from insurance activities	23	395,881	334,061
Income from other activities	24	120,110	118,116
Expense from other activities	24	-33,612	-37,014
NET BANKING INCOME		**1,115,819**	**1,082,423**
General operating expenses	25	-708,439	-675,464
Depreciation, amortization and impairment of property, plant and equipment and intangible assets		-64,188	-58,106
GROSS OPERATING INCOME		**343,192**	**348,853**
Cost of credit risk	26	-33,730	-37,663
OPERATING INCOME		**309,462**	**311,190**
Share in net income of equity-accounted associates and joint ventures		434	6,546
Gains (losses) on other assets	27	23,789	474
Changes in goodwill		0	19,626
PRE-TAX INCOME		**333,685**	**337,836**
Income tax	28	-89,470	-91,285
Net income (loss) from discontinued operations		0	0
NET INCOME		**244,215**	**246,551**
O/w non-controlling interests		-143	41
NET INCOME - GROUP SHARE		**244,359**	**246,511**

[1] Interest calculated using the effective interest rate method for instruments valued at fair value through OCI or at amortized cost is presented in note 18.

(in € thousands)

Statement of net income and gains and losses recognized directly in equity	Notes	06.30.2019	06.30.2018
Net income		**244,215**	**246,551**
Revaluation of financial assets at fair value through recyclable equity (net of taxes)		9,033	-7,416
Revaluation of available-for-sale financial assets (net of taxes) [1]		75,929	-8,537
Revaluation of derivatives used to hedge recyclable items (net of taxes)		-132	-142
Share of gains (losses) recognized directly in equity from investments in associates (net of taxes)		259	236
Items to be recycled to profit or loss		**85,089**	**-15,859**
Actuarial gains (losses) on defined benefit plans (net of taxes)		-17,355	-3,964
Revaluation of credit risk specific to financial liabilities recognized at fair value through profit or loss by option (net of taxes)		-5,701	883
Revaluation of equity instruments at fair value through equity (net of taxes) [2]		14,190	33,824
Share of gains (losses) recognized directly in equity from investments in associates (net of taxes) not recycled to profit or loss		-1,241	4,805
Items not to be recycled to profit or loss		**-10,107**	**35,548**
Total gains and losses recognized directly in equity		**74,982**	**19,689**
NET INCOME AND GAINS AND LOSSES RECOGNIZED DIRECTLY IN EQUITY		**319,197**	**266,240**
of which group share		319,352	266,199
of which non-controlling interests		-155	41

[1] The "Available-for-sale financial assets" category relates only to insurance entities.
[2] Of which the impact of the transfer to reserves of non-recyclable items for €90,000.

CHANGES IN SHAREHOLDERS' EQUITY

(in € thousands)

	Share capital and reserves	Consolidated reserves	Total gains and losses recognized directly in equity	Net income attributable to equity holders of the parent	Shareholders' equity, group share	Non-controlling interests in equity	Total equity
Position at January 1, 2018	2,207,864	3,513,186	233,947	428,121	6,383,118	2,882	6,386,000
Capital increase/reduction	37,119				37,119		37,119
Cancellation of treasury stock					-		-
Issuance of preferred stock					-		-
Equity components of hybrid instruments					-		-
Equity components whose payment is share-based					-		-
Allocation of the previous year's income		428,121		-428,121	-		-
Dividend paid in 2018 in respect of 2017		-36,824			-36,824	-3	-36,827
Change in equity interests in subsidiaries with no loss of control		695			695		695
Subtotal of changes involving transactions with shareholders	2,244,983	3,905,178	233,947	-	6,384,108	2,879	6,386,987
Changes in gains and losses recognized directly in equity			19,688		19,688		19,688
Net income for the first half of 2018				246,511	246,511	41	246,552
Subtotal	2,244,983	3,905,178	253,635	246,511	6,650,307	2,920	6,653,227
Impact of acquisitions and disposals on non-controlling interests					-		-
Share of changes in shareholders' equity from investments in associates and joint ventures		160			160		160
Change in accounting methods					-		-
Other changes		-524	-149		-673	33	-640
Position at June 30, 2018	2,244,983	3,904,814	253,486	246,511	6,649,794	2,953	6,652,747
Capital increase/reduction	21,407				21,407		21,407
Cancellation of treasury shares					-		-
Issuance of preferred stock					-		-
Equity components of hybrid instruments					-		-
Equity components whose payment is share-based					-		-
Allocation of the previous year's income					-		-
Dividend paid in 2018 in respect of 2017					-		-
Change in equity interests in subsidiaries with no loss of control		-695			-695		-695
Subtotal of changes involving transactions with shareholders	2,266,390	3,904,119	253,486	246,511	6,670,506	2,953	6,673,459
Changes in gains and losses recognized directly in equity		-5,143	-149,262		-154,405	-3	-154,408
Net income for the second half of 2018				190,777	190,777	203	190,980
Subtotal	2,266,390	3,898,976	104,224	437,288	6,706,878	3,153	6,710,031
Impact of acquisitions and disposals on non-controlling interests		259			259		259
Share of changes in shareholders' equity from investments in associates and joint ventures		-2,204			-2,204		-2,204
Change in accounting methods					-		-
Other changes		-635	149		-486		-486
Position at December 31, 2018	2,266,390	3,896,396	104,373	437,288	6,704,447	3,153	6,707,600
Capital increase/reduction	68,373				68,373		68,373
Cancellation of treasury stock					-		-
Issuance of preferred stock					-		-
Equity components of hybrid instruments					-		-
Equity components whose payment is share-based					-		-
Allocation of income for 2018		437,288		-437,288	-		-
Dividend paid in 2019 in respect of 2018		-39,505			-39,505	-4	-39,509
Change in equity interests in subsidiaries with no loss of control		12			12		12
Subtotal of changes involving transactions with shareholders	2,334,763	4,294,191	104,373	-	6,733,327	3,149	6,736,476
Changes in gains and losses recognized directly in equity		-60	74,994		74,934	-12	74,922
Net income for the first half of 2019				244,359	244,359	-143	244,216
Subtotal	2,334,763	4,294,131	179,367	244,359	7,052,620	2,994	7,055,614
Impact of acquisitions and disposals on non-controlling interests		346			346	-12	334
Share of changes in shareholders' equity from investments in associates and joint ventures		-2,333			-2,333		-2,333
Change in accounting methods					-		-
Other changes		6,750			6,750	21	6,771
Position at June 30, 2019	2,334,763	4,298,894	179,367	244,359	7,057,383	3,003	7,060,386

Net cash flow statement

(in € thousands)

	06.30.2019	06.30.2018
Cash flows from operating activities		
Net income	244,215	246,551
Tax	89,470	91,285
Pre-tax income	**333,685**	**337,836**
Depreciation and amortization of property, plant and equipment and intangible assets	63,797	56,812
Impairment of goodwill and other non-current assets	-22	331
Net additions to depreciations	54,496	31,518
Share of income (loss) from investments in associates	-1,759	-6,546
Net loss (gain) from investing activities	-2,527	-7,260
(Income)/expense from financing activities	0	0
Other changes	2,845,728	1,362,579
Total non-cash items included in net income and other adjustments	**2,959,713**	**1,437,434**
Interbank transactions	-205,556	-1,246,236
Transactions with customers	-877,363	-792,198
Transactions involving other financial assets/liabilities	-3,521,852	-634,739
Transactions involving other non-financial assets/liabilities	2,027,559	1,196,968
Dividends from investments in associates	866	874
Taxes paid	-39,639	-78,343
Net decrease/(increase) in operating assets and liabilities	**-2,615,985**	**-1,553,674**
NET CASH FLOW FROM OPERATING ACTIVITIES	**677,414**	**221,596**
Cash flows from investing activities		
Financial assets and investments	-152,021	-535,780
Investment real estate	929	-1,440
Property, plant and equipment and intangible assets	-65,896	-62,816
Other	0	0
CASH FLOWS FROM INVESTING ACTIVITIES	**-216,988**	**-600,036**
Cash flows from financing activities		
Cash flows from/to shareholders	40,696	34,524
Other cash flows from financing activities	1,825,002	707,000
CASH FLOWS FROM FINANCING ACTIVITIES	**1,865,698**	**741,524**
Net increase/(decrease) in cash and cash equivalents	**2,326,124**	**363,084**
Cash flows from operating activities	677,414	221,596
Cash flows from investing activities	-216,988	-600,036
Cash flows from financing activities	1,865,698	741,524
Cash and cash equivalents, beginning of the year	**3,831,782**	**3,874,179**
Cash, central banks (assets & liabilities)	3,236,588	4,182,765
Deposits (assets and liabilities) and demand loans with credit institutions	595,194	-308,586
Cash and cash equivalents, end of the year	**6,157,905**	**4,237,263**
Cash, central banks (assets & liabilities) *(Notes 1 and 9)*	6,147,781	4,168,222
Deposits and demand loans (assets and liabilities) with credit institutions *(Notes 1, 7d, 9 and 14b)*	10,124	69,041
CHANGE IN NET CASH AND CASH EQUIVALENTS	**2,326,123**	**363,084**

The cash flow statement is presented using the indirect method.

Net cash and cash equivalents includes cash, debit and credit balances with central banks and demand debit and credit sight balances with banks.

Changes in cash flow from operations record the cash flow generated by the group’s activities, including such flows arising from negotiable debt securities.

Changes in cash from financing activities include changes related to shareholders’ equity and subordinated debt.

Notes

Consolidated financial statements at June 30, 2019

Major events

The Arkéa group continued to implement its 2020 strategic plan. It pursued an ambitious policy of engagement within the company, with strong initiatives in favor of its customers and territories.

In an environment of record low interest rates and a more favorable equity market than in the last quarter of 2018, the Arkéa group posted a very good performance at June 30, 2019, with Net income Group Share of €244 million.

The sales momentum within the group's business lines led to an increase in net banking and insurance income to €1,116 million. The group's investments to achieve its growth ambitions resulted in management fees of €773 million. The cost of risk, at €34 million, remained under control.
On the back of solid financial fundamentals, the group continues to post solvency ratios well above the regulatory requirements.

In the first half of 2019, the group participated in the discussion process initiated by Primonial's majority shareholders for the purpose of restructuring the capital of the Primonial group. As such, the group's equity interest in the Primonial group was classified as of June 30, 2019 in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations".

The subsidiaries Leasecom and Leasecom Car were sold to NBB Lease in March 2019.

ACCOUNTING STANDARDS APPLIED

Pursuant to European Regulation 1606/2002 of July 19, 2002 on the application of international standards, the Arkéa group prepared its summary consolidated financial statements for the period ending June 30, 2019 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable as of that date. These financial statements are presented in accordance with recommendation 2017-02 of the French Accounting Standards Authority (ANC). The content of these financial statements has been determined in accordance with the provisions of IAS 34 relating to condensed interim financial reporting.

As of June 30, 2019, the group applies the standards adopted by the European Union and which entered into force on January 1, 2019.

The group chose to forgo early adoption of the new standards and interpretations adopted by the European Union whose application was optional in 2019.

IFRS 16 Leases

The group has applied IFRS 16 since January 1, 2019.

IFRS 16 replaces IAS 17 as well as SIC 15 and SIC 27 interpretations.

IFRS 16 harmonizes the treatment to be applied to leases without distinction between operating leases and financing. Thus, IFRS 16 requires companies to book their leases on the balance sheet, thereby accounting for new assets and liabilities. Exemptions exist in particular for contracts relating to short-term leases and/or low-value assets.

IFRS 16 is applied using the retrospective method, modified by adjusting the opening balance sheet on January 1, 2019, without any obligation to restate the financial years presented for comparison purposes.

The group therefore presents its 2019 financial statements without a comparative statement for 2018 in IFRS 16 format. An explanation of the transition between the two standards on January 1, 2019 is presented below (Notes – First Time Application section).

Details of the IFRS 16 principles applied by the group are presented in the section entitled “Accounting policies and valuation methods”.

IFRIC 23 - Uncertainty over income tax treatments

On June 7, 2017, IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments" was published, which is applicable as from January 1, 2019.

Based on this text, it is presumed that the tax authorities:
- check all amounts reported to it,
- has access to all necessary documentation and knowledge.

The entity must assess the likelihood that the tax authorities will accept/disapprove of the position and draw the consequences for the tax result, tax bases, tax loss carryforwards, unused tax credits and tax rates. In the event of an uncertain tax position (i.e. it is probable that the tax authorities will not accept the position taken), the amounts to be paid are assessed on the basis of the most probable amount or the expected value using the method that reflects the best anticipation of the amount that will be paid or received.

At this stage, the Group considers that the scope of application of IFRIC 23 is limited to income tax and that it does not entail any significant change from current practice. Currently, a risk is recognized as soon as a recovery occurs, which may be a recovery related to the entity itself, a related entity or a market, i.e. a third-party entity.

NOTES – FIRST-TIME APPLICATION

The group has applied IFRS 16 since January 1, 2019.

IFRS 16 harmonizes the treatment to be applied to leases without distinction between operating leases and financing. Thus, IFRS 16 requires companies to book their leases on the balance sheet, thereby accounting for new assets and liabilities. Exemptions exist in particular for contracts relating to short-term leases and/or low-value assets.

For the first-time application of IFRS 16, the group chose to implement the modified retrospective approach proposed by the standard.

As at January 1, 2019, the rental debt on outstanding contracts is calculated by discounting the residual rents to the rates in force on that date, taking into account the estimated residual term of the contracts. The corresponding rights of use are recorded in the balance sheet for an amount equal to that of the rental debt. The first-time application of IFRS 16 therefore had no impact on the group's equity at January 1, 2019.

On that date, leases with a residual term of less than 12 months and those tacitly renewed are therefore considered to be short-term leases (contracts of less than one year) and are not subject to any restatement, in accordance with the exemption option offered by IFRS 16.

In accordance with the requirements of IFRS 16 relating to the modified retrospective approach, comparative data for the 2018 financial year that is presented with respect to the 2019 data is not restated.
Details of the IFRS 16 principles applied by the group are presented in the section entitled "Accounting policies and valuation methods".

The Group had validated the inventory and analysis of lease agreements as of December 31, 2018.
The first-time application of IFRS 16 resulted in the recognition for the group of a rental debt and an asset representing rights of use in the amount of €85 million.

First-time application

Rights of use – Real estate	85,240
Rights of use - Other	0
Rental debts – Real estate	85,240
Rental debts - Other	0

Other standards

Other amendments have little or no material impacts for the group.

- **Amendment to IAS 28**

This covers all financial instruments not subject to the equity method, including long-term financial assets that are part of the net investment in an associate or joint venture (e.g. loans to such entities). This recognition involves two steps: the financial instrument is accounted for in accordance with IFRS 9, including the provisions relating to the impairment of financial assets, after which the provisions of IAS 28 apply, which may result in a reduction in its carrying amount by offsetting the accumulated losses of the entity accounted for using the equity method, when the carrying amount has already been reduced to zero.
When this amendment is first applied, issuers can recognize the impacts in opening equity for 2019 without restating the comparative information.

- **Amendment to IAS 19**

This relates to the consequences of a modification, reduction or liquidation in the regime for calculating the cost of services rendered and the net interest. The cost of services rendered and the net interest for the period following modification, reduction or liquidation must be calculated using the actuarial assumptions used to account for these events.

- **Amendment to IAS 12**

This amendment specifies that the tax effects of dividend distributions on financial instruments classified in equity must be recognized in profit or loss, regardless of their origin, on the date of recognition of the dividend debt. For accounting purposes, dividends are deducted from equity. Fiscally, this is a debt instrument with coupons that are deductible.

Principal standards not yet adopted by the European Union

IFRS 17 Insurance contracts

Date and methods of first-time application

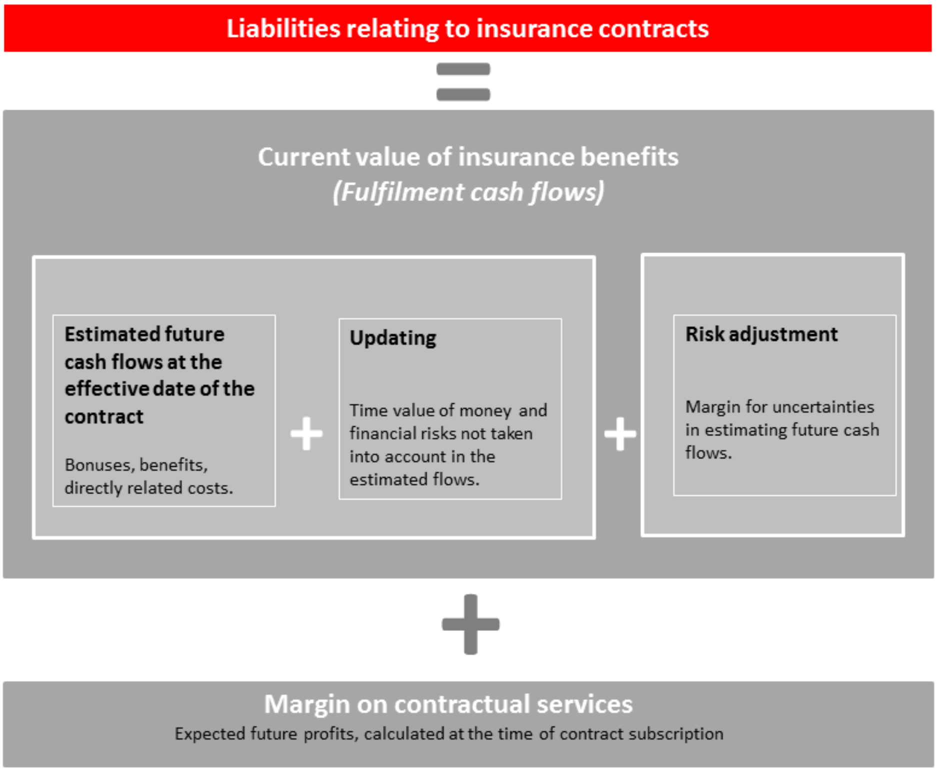
On May 18, 2017, the IFRS Foundation published the new IFRS 17 Insurance Contracts. IFRS 17 replaces IFRS 4 Insurance Contracts published in 2004. Under IFRS 4, companies were allowed to continue using national accounting rules for insurance contracts, which resulted in a large number of different approaches, making it difficult for investors to compare the financial performance of companies.
IFRS 17 offers a solution to the comparison problems created by IFRS 4 by requiring all insurance contracts to be recognized in a standardized manner.

The IASB has examined some of the implementation issues raised by various stakeholders since the publication of IFRS 17 and will determine whether it is necessary to amend IFRS 17. In addition, in November 2018, the IASB members approved a one-year extension of the date of first-time application of IFRS 17, which would be carried forward to annual periods beginning on or after January 1, 2022 if this amendment is confirmed.

Accounting policies under IFRS 17

IFRS 17 defines the new rules for the recognition, measurement and presentation of insurance contracts that fall within its scope (insurance contracts, reinsurance contracts and financial contracts with a discretionary profit-sharing component). The technical provisions currently recognized on the liability side of the balance sheet will be replaced by a valuation of the insurance contracts at current value.

The general model used to evaluate contracts shown as liabilities will be based on the aggregation of three components using a building blocks approach: discounted future cash flows, a risk margin and a margin on contractual services.



Positive margins on contractual services will be recognized progressively in profit or loss over the duration of the insurance service. In the case of loss-making contracts, the loss corresponding to the net cash outflow for the group of contracts must be recognized in profit or loss upon subscription.
This general model will apply by default to all insurance contracts.

However, IFRS 17 also provides for an adjustment of the general model for direct profit-sharing contracts. This adapted model, known as the ‘Variable Fee Approach’, will allow the obligation to return to policyholders a substantial portion of the return on the underlying assets net of policy charges to be reflected in the valuation of the insurance liability (the changes in the value of the underlying assets accruing to policyholders being neutralized in the margin on contractual services).

The standard also makes it possible, subject to conditions, to apply a simplified approach known as the “premium allocation approach” to contracts with a term of 12 months or less or if the application of the simplified approach gives a result close to the general model.

These valuation models for insurance liabilities will have to be applied to portfolios of similar insurance policies, the granularity of which will be determined by combining three areas:
• aggregation of contracts exposed to similar risks and managed together,
• a breakdown of policies by year of underwriting, and
• upon initial recognition, a distinction is made between loss-making contracts, contracts for which there is no significant possibility of subsequently becoming loss-making, and other contracts.

The standard requires a more detailed level of granularity in the calculations since it requires estimates per group of contracts.
These accounting changes could change the profile of the insurance result (in particular that of life insurance) and also introduce more volatility into the result.

IFRS 17 project

Given the significance of the changes introduced by IFRS 17 and despite the uncertainties that remain around the standard, the Crédit Mutuel Arkéa group’s insurance entities have finalized their scoping phase in order to define their roadmap and the cost of implementation. In 2018, they started to set up project structures that enable them to understand all aspects of the standard: modeling, adaptation of systems and organizations, preparation of accounts and changeover strategy, financial communication and change management.
These main projects will continue throughout 2019.

Amendment to IAS 1 and IAS 8

The aim of this amendment is to change the definition of the term “significance” in order to clarify it and harmonize it between the conceptual framework and IFRS. Subject to European adoption, information would be material (i.e., relatively significant) if its omission, inaccuracy, or obscuration would reasonably be expected to influence the decisions of key users of general purpose financial statements based on these financial statements, which contain financial information about a given accounting entity.

The standards adopted by the European Union are available on the European Commission’s website:

https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/amending-and-supplementary-acts/acts-adopted-basis-regulatory-procedure-scrutiny-rps_fr

ACCOUNTING POLICIES AND VALUATION METHODS

Since January 1, 2018, the Group has applied IFRS 9 “Financial Instruments” and the amendment to IFRS 9 "Pre-payment clause providing for negative compensation" adopted by the European Union on November 22, 2016 and March 22, 2018 respectively for its banking activity.

The insurance business continues to apply IAS 39 following the adoption of the temporary exemption from applying IFRS 9 under the amendment to IFRS 4.

To benefit from this postponement, the following conditions must be met:

- financial instruments cannot be transferred between the insurance segment and the conglomerate's other segments (with the exception of financial instruments measured at fair value through profit or loss by both segments involved in the transfer);
- indication of the insurance entities benefiting from the deferred application of IFRS 9;
- the provision of additional information in the notes to the financial statements by presenting insurance-related activities separately from those of the bank.

The group entities that comply with the conditions listed above and benefit from the deferred application of IFRS 9 are Suravenir and Suravenir Assurances.

The accounting policies and valuation rules applied to assets and liabilities arising from the issuance of insurance policies are established in accordance with IFRS 4.

The other assets held and liabilities issued by insurance companies follow the rules common to all of the group’s assets and liabilities.

Accounting policies for the banking business

IFRS 9 distinguishes different accounting classification rules for equity instruments (or equities or other variable-income securities) and debt instruments (or bonds, loans or other fixed-income securities).

To determine the accounting category of debt instruments (debt securities, loans and receivables), an analysis of the following two criteria is necessary:

- the business model that summarizes how the entity manages its financial assets in order to generate cash flows: "Collection of cash flows", "Collection of cash flows and sale" or "Other";
- characteristics of cash flows that will be "SPPI – Solely payments of principal and interest" if they are cash flows from a basic loan and, more specifically, if "the contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding".

- Business models

The management model represents how the instruments are managed to generate cash flows and revenue. It is based on facts that can be observed, and not on any simple management intention. It is not assessed at an entity level, or instrument by instrument, but is based on a higher level of aggregation, which reflects how the groups of financial assets are managed collectively. It is determined at inception and may be altered if there is a change of model.

To determine this, it is necessary to observe all available indications, including:

- how the performance of the business refers to the decision makers,
- the remuneration of managers,
- the frequency, timing and volumes of sales from previous periods,
- reason for sales,
- forecasts of future sales,
- how risk is assessed.

In the context of the collection model, some examples of authorized disposals are explicitly stated in the standard:

- due to an increase in credit risk,
- close to maturity.

These “authorized” disposals are not taken into account when analyzing the significant and frequent nature of sales made in a portfolio. In addition, disposals linked to changes in the regulatory or tax framework will be documented on a case-by-case basis in order to demonstrate the “infrequent” nature of such disposals.

For the other disposals, thresholds were defined based on the maturity of the securities portfolio (the group does not sell its loans).

The Group has mainly developed a model for collecting contractual flows from financial assets, which applies in particular to customer financing activities.

It also manages financial assets based on the collection of contractual cash flows from financial assets and the sale of these assets. Within the group, the contractual cash inflow and sale model applies primarily to cash management and liquidity portfolio management activities.

- Cash flow characteristics

Contractual cash flows, which only represent principal repayments and interest payments on the principal amount outstanding, are compatible with a so-called basic contract.
In a basic contract, interest is primarily the counterpart to the time value of money (including negative interest) and credit risk. Interest may also include liquidity risk, administrative fees for the asset, and a trading margin.

All contractual clauses should be analyzed, including those that could change the contractual schedule or cash flow amount. The contractual option for the borrower or lender to repay the financial instrument early remains compatible with the SPPI (Principal and Interest Payment) nature of the contractual cash flows when the amount repaid essentially represents the principal outstanding and accrued interest as well as, where applicable, a reasonable compensatory payment.

The analysis of contractual cash flows may also require comparison with those of a reference instrument, where the time value component of the money included in the interest is subject to change due to the contractual clauses of the instrument. This is the case, for example, if the interest rate of the financial instrument is periodically revised, but the frequency of revisions is decorrelated from the length of time for which the interest rate is set (monthly revision of a one-year rate for example) or if the interest rate of the financial instrument is periodically revised on the basis of an average interest rate.

If the difference between the undiscounted contractual cash flows of the financial asset and those of the reference instrument is significant or may become significant, this financial asset cannot be considered as basic.

Depending on the case, the analysis is qualitative or quantitative. The materiality or otherwise of the difference is assessed for each financial year and cumulatively over the life of the instrument. The quantitative analysis takes into account a set of reasonably possible scenarios.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are broken down into debt securities (fixed- or variable-income) and loans to credit institutions and customers:

- held for trading ("Resale" business model); or
- related to the application of the option made available under IFRS 9 to designate a financial instrument at fair value through profit or loss if doing so eliminates or significantly reduces an accounting treatment inconsistency; or
- whose cash flows do not correspond to those of a basic loan ("non-SPPI" cash flows); instruments such as UCI (undertakings for collective investment) and open-end investment funds (FCP - fonds commun de placement) are recognized in this manner.

By default, shares will also be recognized at fair value through profit or loss.

Initially, financial assets at fair value through profit or loss are recognized at their fair value excluding acquisition costs and including accrued dividends.
The accrued or earned income from fixed-income securities is recognized in the income statement under the heading “interest and similar income” according to the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows to the net carrying amount of the financial asset or liability.
Dividends from variable-income securities are recognized in the income statement under the heading “Net gain (loss) on financial instruments at fair value through profit or loss”.
Changes in fair value during the period, as at the reporting date, as well as the gains and losses realized on assets of this category, are also recognized under “Net gain (loss) on financial instruments at fair value through profit or loss”.

No impairment is recognized on the assets at fair value through profit or loss as the counterparty risk is included in the market value (fair value).

Derivative financial instruments for transaction and hedging purposes – assets and liabilities

In accordance with the option proposed by IFRS 9 pending the finalization and adoption of the IFRS 9 component relating to macro-hedging, the Crédit Mutuel Arkéa group has decided not to adopt the IFRS 9 hedging component and continues to apply all the IAS 39 provisions on hedging.
However, additional hedging information required by amended IFRS 7 is presented as from January 1, 2018.

Unless they qualify for hedge accounting, derivative financial instruments are by default classified as trading instruments.

The Group mainly trades in simple derivatives (swaps, vanilla options), particularly interest rate derivatives, which are classified in level 2 of the fair value hierarchy.

Derivatives are covered by master netting agreements, which make it possible to net gain and loss positions in the event that a counterparty defaults. The group negotiates ISDA (International Swaps and Derivatives Association)-type master agreements for each derivative transaction.
However, these derivatives are not netted on the balance sheet, in accordance with IAS 32.
Through these collateralization agreements, the group receives or disburses only cash as guarantees.

IFRS 13 provides for the recognition of own credit risk in the measurement of derivative instrument liabilities (debt value adjustment - DVA) and the measurement of counterparty risk on derivative assets in the fair value of derivatives (Credit Value Adjustment - CVA).

The group calculates the CVA and DVA on derivative instruments for each counterparty to which it is exposed.

The CVA is calculated on the basis of the group's expected positive exposure to the counterparty, estimated using the "Monte Carlo" method, multiplied by the counterparty's probability of default (PD) and by the loss given default (LGD) rate. The DVA is calculated on the basis of the group's expected negative exposure to the counterparty, estimated using the "Monte Carlo" method, multiplied by the group's probability of default (PD) and by the loss given default (LGD) rate.

The calculation method is based on market data, notably in relation to CDS (credit default swap) curves for the PD estimate.

The Funding Valuation Adjustment (FVA) represents the cost of financing positions on derivative instruments that do not involve the transfer of collateral. The FVA is calculated by multiplying the group's expected exposure to the counterparty by the estimated market financing cost.

An amount of €24.7 million was recognized on the balance sheet for valuation adjustments as of June 30, 2019.

To classify a financial instrument as a hedging derivative, the group prepares formalized documentation of the hedging transaction at inception: hedging strategy, designation of the hedged instrument (or the portion of the instrument), nature of the hedged risk, designation of the hedging instrument, procedures for measuring the effectiveness of the hedging relationship. According to this documentation, the group assesses the effectiveness of the hedging relationship at inception and at least every six months. A hedging relationship is deemed to be effective if:

- the ratio between the change in value of the hedging derivatives and the change in value of the hedged instruments for the risk hedged lies between 80% and 125%; and
- the changes in value of the hedging derivatives expected over the residual term of said derivatives offset those expected from the hedged instruments for the risk hedged.

The group designates a derivative financial instrument as a hedging instrument in a fair value hedge or in a cash flow hedge based on the nature of the risk hedged.

Risks covered:

Micro-hedging is a partial hedge of the risks an entity incurs on the assets and liabilities that it holds. It specifically applies to one or more assets or liabilities for which the entity covers the risk of an adverse change in a type of risk occurring through derivatives.

Macro-hedging aims to immunize the entire group balance sheet against adverse developments, particularly in relation to interest rates.

For accounting purposes, the group only covers interest rate risk via micro-hedging or, more broadly, via macro-hedging.

The overall management of interest rate risk is explained in the management report, as are the other risks that may be hedged economically so as to achieve a natural matching of the assets/liabilities or the recognition of derivatives as a transaction.

Micro-hedging is carried out in particular in the context of asset swaps, and generally aims to convert a fixed rate instrument into a variable rate instrument synthetically.

Fair value hedging:

The goal of fair value hedging is to reduce the risk of a change in the fair value of a financial transaction. Derivatives are used notably to hedge the interest rate risk on fixed-rate assets and liabilities.

With respect to fair value hedging transactions, the change in fair value of the derivative is recorded on the income statement under the heading “Net gain (loss) on financial instruments at fair value through profit or loss” in symmetry with the revaluation of the risk being hedged. The only impact on the income statement is the potential ineffectiveness of the hedge. This may result from:

- the "counterparty risk" component embedded in the value of the derivatives,
- the difference in the valuation curve between the hedged and hedging items. Swaps are valued with an OIS (Overnight Indexed Swap) curve if they are collateralized or with a BOR curve otherwise. Hedged items are valued with a BOR curve.

The goal of the derivative financial instruments used as macro-hedging transactions is to hedge comprehensively all or part of the structural rate risk resulting primarily from retail banking operations. For the accounting treatment of such transactions, the group applies the provisions contained in IAS 39 as adopted by the European Union (the IAS 39 “carve-out”).

The accounting treatment of derivative financial instruments designated from an accounting standpoint as fair value macro-hedging is the same as the accounting treatment for derivatives used in fair value micro-hedging. The change in the fair value of portfolios hedged against interest rate risk is recorded in a separate line of the balance sheet entitled “Remeasurement adjustment on interest-rate risk hedged portfolios” with an offsetting entry recorded in the income statement. The effectiveness of hedges is checked prospectively by verifying that at inception derivatives reduce the interest rate risk of the hedged portfolio. Hedging relationships must be disqualified when the underlying assets associated with them become insufficient as of the last date on which the effectiveness of the hedge was observed.

Cash flow hedging:

The goal of cash flow hedging is to reduce the risk related to a change in future cash flows from financial instruments. Derivatives are used notably to hedge the interest rate risk on adjustable rate assets and liabilities.

In cash flow hedging transactions, the effective portion of the change in the fair value of the derivative is recorded in a separate line in equity under “Gains and losses recognized directly in equity” while the ineffective portion is recognized in the income statement under the heading “Net gain (loss) on financial instruments at fair value through profit or loss.”

As long as the hedge is effective, the amounts recorded in equity are transferred to the income statement under “interest and similar income (expense)” synchronized with the cash flows of the hedged instrument impacting profit or loss. If the hedging relationship is discontinued or is no longer highly effective, hedge accounting ceases. The accumulated amounts recorded in equity as part of the revaluation of the hedging derivative are transferred to the income statement under “interest and similar income (expense)” at the same time as the hedged transaction itself impacts the income statement, or when it has been determined that such transaction will not take place.

The group does not hedge net investments in foreign exchange operations.

Financial assets at fair value through equity

Financial assets at fair value through equity consist of securities (fixed or variable rate):

- held in order to collect the cash flows inherent in the instrument and to generate gains and losses through sales; and
- whose cash flows correspond to those of a basic loan ("SPPI" cash flows).

These debt instruments at fair value through equity are recognized initially at their fair value i.e. the purchase price, including acquisition costs if material, and accrued dividends. At the end of the reporting period, such securities are measured at their fair value, with any changes in value recognized in equity under “Unrealized gains (losses) recognized directly in equity”.

Such unrealized gains or losses recognized in equity are only recognized in the income statement if the securities are sold or impaired as a result of credit risk.
The accrued or earned income from fixed-income securities is recognized in the income statement under the heading “interest and similar income” according to the effective interest rate method.

This category also includes equity instruments resulting from the application of the irrevocable option made available under IFRS 9 at the time of initial recognition. The irrevocable option is applied on a transaction-by-transaction basis, i.e. each time a security is added to the portfolio.
These assets are not subject to impairment.
Unrealized gains and losses recognized in equity on these instruments are never recognized in profit or loss for equity securities, even in the case of disposal.

Dividends from variable-income securities are recognized in the income statement under the heading “Net gain (loss) on financial instruments at fair value through equity”.

Financial assets at amortized cost

Financial assets at amortized cost meet the following criteria:

- they are held in order to collect the cash flows inherent in the instrument; and
- the related cash flows correspond to those of a basic loan ("SPPI" cash flows).

The majority of loans and receivables owed to Crédit Mutuel Arkéa group by credit institutions and customers that are not intended for sale when approved are recognized under “Loans and receivables at amortized cost”.

Debt securities (fixed or variable rate) that meet the criteria set out above are also recognized at amortized cost.

Initially, they are recognized at market value which is usually the net amount initially paid out including the transaction costs directly attributable to the transaction and fees analyzed as an adjustment to the effective yield of the loan. Financial assets are valued at amortized cost on the closing date. Interest, transaction costs and fees included in the initial value of the loans are amortized over the life of the loan according to the effective interest rate method. In this manner they contribute to the formation of income over the life of the loan.

Concerning loans, the fees received in connection with financing commitments that have a low probability of being drawn or which are used randomly over time and in terms of amount are allocated on a straight-line basis over the term of the commitment.

Restructuring due to financial difficulties of the borrower is defined as a change in the terms and conditions of the original transaction that the group only envisages for economic or legal reasons related to the borrower’s financial difficulties.
In the case of restructurings that do not result in the derecognition of a financial asset, the restructured asset is subject to a value adjustment that reduces its carrying amount to the present value of the new expected future cash flows discounted at the original effective interest rate of the asset. The change in the asset’s value is recognized in the income statement under “Cost of risk”.

The restructuring of a loan as a result of the debtor’s financial difficulties results in the loan agreement’s novation. Based on the definition of this concept by the European Banking Authority (EBA), the group identified the loans in forbearance recorded by it.

Changes in financial assets that are not made due to financial difficulties of the borrower (i.e. commercial renegotiations) are generally analyzed as the prepayment of the old loan, which is derecognized, followed by the introduction of a new loan at market terms.

Customer finance leases

Lease transactions are considered finance leases when all of the risks and rewards incidental to the ownership of the leased property are transferred to the lessee. Otherwise leasing transactions are classified as operating leases. Finance leases are recognized on the balance sheet at the amount corresponding to the value of the minimum payments due from the lessee discounted at the implied interest rate of the contract plus any unsecured residual value. The interest portion of the lease payments is recorded on the income statement under the heading “Interest and similar income”.

Impairment of financial assets and commitments given

In accordance with IFRS 9, a provision for expected losses is recognized when the financial asset is recognized in the balance sheet.

The financial assets concerned include:

- debt instruments (securities, loans and receivables) recognized at amortized cost or at fair value through equity,
- rental receivables,
- other receivables, such as trade receivables, receivables subject to IFRS 15 “Revenue from Contracts with Customers”, etc.

The group has chosen to use simplifying measures (Art. IFRS 9 B5.5.35) as provided for by the standard for entities that do not have source data enabling the measurement of the credit loss.

Financing or guarantee commitments given that are not measured at fair value through profit or loss also form part of the scope subject to impairment.
Equity instruments and debt instruments recognized at fair value through profit or loss are not covered by provisions for impairment related to credit risk.

Impairment losses are also recognized on receivables with guarantees, when there is an expected credit risk.

The impairment is recognized under “Cost of risk” and may be reversed through profit or loss when the calculated provision for expected loss decreases.

Under the IFRS 9 provisioning model, financial assets subject to an impairment provision are grouped into 3 groups, known as buckets, according to the level of credit risk:

▪ Bucket 1: IFRS 9 introduces the concept of "expected loss". As a result, since the credit/counterparty risk cannot be zero regardless of the asset in question, a provision for individual credit risk is calculated (based on expected losses in one year) and recognized when the financial asset is entered in the balance sheet.

▪ Bucket 2: if, during the life of the instrument, the credit risk increases significantly, the loan is reclassified in bucket 2 and a provision for expected loss at maturity is recognized.

▪ Bucket 3: in the event of a proven credit risk (e.g. counterparty default situation), the loan is classified in bucket 3. A provision for expected loss at maturity is recognized.
A proven loss exists where:

- there are one or more delinquent payments for three months;
- the position of a counterparty presents characteristics such that even in the absence of delinquent payments, we can conclude that there is a known risk;
- the counterparty is involved in litigation, including proceedings for overindebtedness, court-ordered reorganization/receivership, court-ordered settlement, court-ordered liquidation, personal bankruptcy and liquidation of property, including a summons to appear before an international court.

The classification of the outstandings of any given counterparty as impaired leads by contagion to an identical classification of all those counterparty’s assets and liabilities, regardless whether guarantees or collateral exist. This contagion extends to all of the other members of the same household (except minors) as well as all counterparties belonging to the same risk group.

- Significant increase in credit risk

The group uses models developed for prudential purposes and has therefore chosen a similar breakdown of its outstandings to assess a significant increase in credit risk:

- LDPs (low default portfolios, for which the rating model is based on an expert assessment): large accounts, banks, local authorities, sovereigns, specialized financing,
- HDPs (high default portfolios, for which a statistical rating model can be established based on historical data): general corporate, retail.

A significant increase in credit risk, which involves a transfer of outstandings from bucket 1 to bucket 2, is assessed by:
- taking into account all reasonable and justifiable information, and
- comparing the risk of default on the financial instrument as of the reporting date with the risk of default as of the initial recognition date.

For the group, this involves measuring the risk at the level of the borrower. The group's counterparties are rated by the rating system. This is based on:
- statistical algorithms or "mass ratings" obtained using one or more models, based on a selection of variables that are representative and predictive of risk (HDP), or
- manual rating grids developed by experts (LDP).

Changes in risk since initial recognition are assessed on a contract-by-contract basis. Unlike bucket 3, the transfer of a customer contract to bucket 2 does not entail the transfer of all their outstanding loans or those of its related parties (no contagion).

The expected credit loss approach under IFRS 9 is symmetrical, i.e. if lifetime expected credit losses were recognized in a previous period, and if, for the financial instrument and the current period, there is no longer a significant increase in the credit risk since its initial recognition, the provision is again calculated on the basis of an expected credit loss over 12 months.
It should be noted that the group applies the symmetry principle provided for by the standard. As such, the criteria for transfers in and out of bucket 2 are identical.

The group demonstrated that a significant correlation exists between default risks at 12-months and on completion, allowing it to use 12-month credit risk as a reasonable approximation of the change in risk since initial recognition as permitted by the standard.

➢ Quantitative criteria

For LDPs, the boundary is based on an assignment matrix that links the internal ratings at origination with the closing date.

For HDPs, a continuous and increasing boundary curve relates the default rate at origination and the default rate at closing. The Group does not use the operational simplification proposed by the standard under which outstandings with a low risk at the closing date can remain in bucket 1.

➢ Qualitative criteria

These quantitative data are combined with qualitative criteria such as the concept of restructured loans.
Methods based exclusively on qualitative criteria are used for those entities or small portfolios that are classified prudentially under the standardized approach and do not have rating systems.

Buckets 1 and 2 – calculation of expected credit losses

In terms of calculation, the provisioning model takes into account:
- the probability of the debtor's default,
- the loss in the event of the debtor's default,
- Crédit Mutuel Arkéa group's exposure (i.e. the loan outstandings related to this counterparty recognized on the balance sheet and under commitments given).

The provisions must also take into account past, present and forward-looking information.

Expected credit losses are assessed by multiplying the outstanding amount by its probability of default (PD) and by the loss given default (LGD) rate. Off-balance sheet items are converted into a balance sheet equivalent on the basis of the probability of draw down. The 1-year probability of default is used for bucket 1 and that at completion for bucket 2.
These parameters are derived from models developed for prudential requirements adapted for IFRS 9 requirements. They are used both for buckets and for calculating expected losses.

➢ Probabilities of default

These are calculated for:
- high default rate portfolios, based on models approved using the internal ratings-based approach (IRBA);
- portfolios with a low default rate, based on a scale of probability of external default.

➢ Losses in default

These are calculated for:
- portfolios with a high default rate, based on recovery flows observed over a long history, discounted at the interest rates of the contracts,
- portfolios with a low default rate, based on regulatory levels.

➢ Conversion factors

These are used to convert off-balance sheet outstandings into balance sheet equivalents and are mainly based on prudential models.

➢ Forward thinking

The general forward-thinking approach affects both:
- the assignment of outstandings by bucket: the application of forward-looking parameters will have an impact on the analysis of significant impairment and therefore on allocation by bucket, and
- the calculation of the expected credit loss (ECL), with parameters taking into account the prospective dimension.

For the purpose of calculating expected credit losses, the standard requires the consideration of reasonable and supportable information, including forward-looking information. Developing the forward-looking dimension requires anticipating changes in the economy and linking these expectations to the risk parameters. This forward-looking dimension is determined at group level and applies to all parameters.

For portfolios with high default rates, the forward-looking dimension included in the probability of default includes three scenarios (optimistic, neutral, pessimistic), which are weighted according to the group's vision for the evolution of the economic cycle over five years. The group relies essentially on macroeconomic data available from recognized national or international statistics agencies. The forward-looking approach is adjusted to integrate elements that would not have been captured by the scenarios because they:
- are recent in the sense that they occurred a few weeks before the closing date of the financial statements;
- cannot be incorporated into a scenario: for example, regulatory developments that will definitively and significantly affect risk parameters and whose impact measurement is possible through the use of certain assumptions.

The forward-looking dimension on different maturities of one year derives from that determined on the one-year maturity.

The forward-looking dimension is also included in the LGD, via the integration of information observed on a history close to the current conditions.

For portfolios with low default rates, the incorporation of forward-looking information is applied to the models for large accounts and banks, and not to those for local authorities, sovereigns and specialized financing institutions. The approach is similar to that applied to high default-rate portfolios.

- Bucket 3: recognition

Impairment reflects the difference between amortized cost and the present value of discounted estimated future cash flows. Discounting is carried out at the initial effective interest rate of the loan for fixed-rate loans and at the last effective interest rate set according to the contractual terms and conditions for variable-rate loans. In practice, future flows are discounted only if the impact of discounting is material compared to their estimated amounts. The provisions are therefore discounted. In the income statement, changes in impairment are recorded under "cost of risk" except for reversals related to the effects of the reversal of discounting, which are recorded under "Interest and similar income."

- Financial assets impaired from the initial recognition date

These are contracts with proven credit losses at the initial recognition date (origination or acquisition). These financial assets must be specifically recognized in accordance with IFRS 9.

At the reporting date, these contracts are identified under the heading “impaired asset from the outset” and are provisioned using the same method as for bucket 2 exposures, i.e. an expected loss over the residual life of the contract.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value are divided into those held for trading and those assigned to this category under the option afforded by IFRS 9. This allows financial instruments to be designated at fair value through profit or loss on initial recognition in the following cases:

- hybrid instruments containing one or more embedded derivatives,
- groups of assets or liabilities measured and managed at fair value,
- substantial elimination or reduction of an accounting treatment inconsistency.

The Crédit Mutuel Arkéa group therefore uses this option to recognize at fair value through profit or loss the issues of liabilities originated and structured on behalf of customers whose risks and any hedging are managed together.

Initially, financial liabilities at fair value through profit or loss are recognized at their fair value excluding acquisition costs and including accrued dividends. At the balance sheet date, they are measured at fair value and changes in fair value are recorded:

- the portion corresponding to own credit risk that cannot be recycled under the heading “Gains and losses recognized directly in equity”;
- and the remainder in the income statement for the period, under “Net gain (loss) on financial instruments at fair value through profit or loss”.

<u>Embedded derivatives</u>

An embedded derivative is a component of a hybrid instrument that, when separated from its host contract, satisfies the definition of a derivative. It is designed to affect certain cash flows, much like a standalone derivative.

This derivative is split off from the host contract and accounted for separately as a derivative instrument at fair value through profit or loss when the following conditions are met:

- the hybrid instrument that hosts the embedded derivative is not measured at fair value through profit or loss;
- the economic characteristics of the derivative and its related risks are not considered to be closely linked to those of the host contract;
- the separate measurement of the embedded derivative to be separated is sufficiently reliable to provide an accurate assessment.

Realized and unrealized gains and losses are recognized on the income statement under “Net gain (loss) on financial instruments at fair value through profit or loss”.

Amounts owed to credit institutions and customers

At inception, amounts owed to credit institutions and customers are recognized at their fair value. This is normally the net amount received initially less transaction costs that can be directly attributed to the transaction when they are significant. On the closing date, such amounts are valued at their amortized cost according to the effective interest rate method.

By their nature, regulated savings products earn interest at the market rate. Housing savings plans and housing savings accounts are subject to a provision when necessary.

Accrued interest or interest due on amounts due to credit institutions and customers are recorded on the income statement under “Interest and similar expense.”

Debt securities

Debt securities issued are broken down by type of security (certificates of deposit, interbank market securities and negotiable debt instruments, bond issues and similar, subordinated senior debt).

They are initially recognized at fair value i.e. at their issue price less any transaction costs that can be directly attributed to the transaction when they are significant. On the closing date, such amounts are valued at their amortized cost according to the effective interest rate method. Accrued interest or interest due on debt securities is recorded in the income statement under “Interest and similar expense.”

Subordinated debt

Subordinated debt includes fixed or indefinite term debt that may or may not be represented by a certificate and that differs from receivables or bonds because in the event of the liquidation of the debtor, repayment will only occur after all secured creditors have been paid. This debt is valued according to the amortized cost method. Accrued interest or interest owed on subordinated debt is recorded on the income statement under “Interest and similar expense.”

Renegotiated debts

The renegotiation of a debt with the same borrower may be analyzed according to circumstances such as a modification or termination of debt.

Where financial debt can be amended with the same borrower by adjusting its term, rate or contractual terms, the standard requires that the modification be substantial (10% threshold). This examination is carried out on the basis of a quantitative test, which may be supplemented by a more qualitative test of the operation.
The quantitative test compares the value of future cash flows under the new discounted conditions to the effective interest rate of the original debt with the present value of the remaining cash flows due on the original liability.
The qualitative test is used to complete the quantitative test when the result is less than 10%. In particular, it makes it possible to take into account a significant change in the risk profile of the debt (e.g. change in the currency of the debt, nature of the interest rate or very significant extension of the maturity of the debt) that would not be properly taken into account via the quantitative test, and to analyze, if necessary, the operation as a termination.

A renegotiated debt that does not give rise to derecognition must be maintained at the original effective interest rate and the impact of the renegotiation (gain or expense) recognized immediately in profit or loss.

Accounting policies for the insurance business

The scope of the insurance business benefits, until 2022, from the deferred application of IFRS 9, provided for by the amendment to IFRS 4, as adopted by the European Union.
The financial assets and liabilities of insurance companies are accounted for in accordance with IAS 39, as described hereafter. They are presented under “Investment in insurance activities” and “Insurance contract liabilities” in the balance sheet.
Income and expenses in the insurance business are presented in the income statement under “Net income from the insurance business”, in which:

- income and expenses recognized in respect of insurance contracts issued are presented under the heading “Other income and expenses from insurance activities”;
- income and expenses relating to the insurance entities’ proprietary activities are recognized under the appropriate line items.

Where material, the disclosures required under IFRS 7 are produced separately for insurance entities.

In accordance with the adoption regulation of November 3, 2017, the group has put in place the necessary measures to ensure there is no transfer of a financial instrument which entails derecognition, between the insurance business and the Group's other activity segments, other than those recognized at fair value through profit or loss in both segments.

The accounting policies applied to assets and liabilities arising from the issuance of insurance policies are established in accordance with IFRS 4. This standard also applies to reinsurance contracts subscribed and financial contracts that include a discretionary profit-sharing provision.

Excluding the aforementioned, the other assets held and liabilities issued by insurance companies follow the rules common to all of the group’s assets and liabilities.

The same assumptions were used in both fiscal years to value assets under insurance contracts and insurance liabilities.

Financial assets at fair value through profit or loss

Financial assets at fair value are divided into those held for trading and those assigned to this category under the option afforded by IAS 39. This allows financial instruments to be designated at fair value through profit or loss on initial recognition in the following cases:

- hybrid instruments containing one or more embedded derivatives;
- groups of assets measured and managed at fair value;
- substantial elimination or reduction of an accounting treatment inconsistency.

This option is used to record the following financial instruments at fair value through profit or loss:

- investments serving as cover for unit-linked life insurance contracts in order to eliminate the inconsistency in the accounting treatment with the related insurance liabilities;
- shares of mutual funds whose management company is part of the group;
- certain structured or restructured products (CDOs, convertible bonds).

Financial assets representative of unit-linked insurance contracts include bonds issued by group entities that have not been eliminated through consolidation, in order to maintain the matching of technical provisions on unit-linked contracts with the fair value of the identified assets, which are themselves recognized at fair value. Fixed-income securities that were not eliminated totaled €96 million at June 30, 2019. Their elimination would have increased post-tax net income by €4 million at June 30, 2019.

Financial assets representing the technical provisions on unit-linked contracts are presented under “Financial assets at fair value through profit or loss” of the insurance activities.

Derivative financial instruments follow the same treatment as specified in the banking section.

Initially, financial assets at fair value through profit or loss are recognized at their fair value excluding acquisition costs and including accrued dividends.

The accrued or earned income from fixed-income securities is recognized in the income statement under the heading “interest and similar income” of the insurance activities. Dividends from variable-income securities are recognized in the income statement under the heading “Net gain (loss) on financial instruments available-for-sale” of the insurance activities.

Also recognized under “Net gain (loss) on financial instruments at fair value through profit or loss” (insurance activities) are changes in fair value for the period, at the reporting date, as well as realized gains and losses on securities in this category.

No impairment is recognized on the assets at fair value through profit or loss as the counterparty risk is included in the market value.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that, when separated from its host contract, satisfies the definition of a derivative. It is designed to affect certain cash flows, much like a standalone derivative.

It is split off from the host contract and accounted for separately as a derivative instrument at fair value through profit or loss when the following conditions are met:

- the hybrid instrument that hosts the embedded derivative is not measured at fair value through profit or loss;
- the economic characteristics of the derivative and its related risks are not considered to be closely linked to those of the host contract;
- the separate measurement of the embedded derivative to be separated is sufficiently reliable to provide an accurate assessment.

Realized and unrealized gains and losses are recognized on the income statement under “Net gain (loss) on financial instruments at fair value through profit or loss” of the insurance activities.

➢ **Derivative financial hedging instruments – assets and liabilities**

Derivative financial hedging instruments are treated as described in the accounting policies applicable to banking activities.

Available-for-sale financial assets

IAS 39 defines available-for-sale financial assets (AFS) as a residual category containing both fixed- and variable-income securities that are neither financial assets at fair value through profit or loss, financial assets held to maturity nor loans.

Available-for-sale securities are recognized initially at their fair value i.e. the purchase price, including acquisition costs – if they are material – and accrued dividends. At the end of the reporting period, such securities are measured at their fair value, with any changes in value recognized in equity under “Unrealized gains (losses) recognized directly in equity”.

Such unrealized gains or losses recognized in equity are only recognized in the income statement if the securities are sold or if there is permanent impairment.

The accrued or earned income from fixed-income securities is recognized in the income statement under the heading “interest and similar income” (of the insurance activities) according to the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows to the net carrying amount of the financial asset or liability. Dividends from variable-income securities are recognized in the income statement under the heading “Net gain (loss) on financial instruments available-for-sale.”

Impairment of securities

Impairment is recorded when objective indicators of impairment for the securities exist. Such indicators are evidenced by a long-term, material decline in the value of shares or by the appearance of a material decline in credit risk due to default risk on debt securities.

In the case of equity securities, the group employs a quantitative criterion to identify material and long-term declines: impairment is recognized when a security has lost at least 50% of its value compared with its initial cost or over a period of more than 24 consecutive months. Analysis is performed line by line. Securities that do not meet the aforementioned criteria are nevertheless assessed for impairment if management believes that the amount invested cannot reasonably be expected to be collected in the near future. The loss is recognized in the income statement under “Net gain (loss) on financial instruments available-for-sale”. Any subsequent decline in value results in an increase in impairment charged against income. An increase in value does not lead to the provision being reversed through profit.

In the case of debt securities, impairment is recorded in “cost of risk” (of the insurance activities) and may be reversed through profit when the market value of the security has increased due to some objective event that has taken place since the most recent impairment.

Held-to-maturity financial assets

Held-to-maturity financial assets are primarily fixed-income or determinable income securities with a fixed maturity that the insurance entity intends and is able to hold to maturity.
Initially, they are recognized at their acquisition price including acquisition costs – when material – and accrued dividends. At the end of the reporting period, they are valued according to the amortized cost method at the effective interest rate and may be the subject of impairment when necessary.

Loans and receivables due from credit institutions and loans and receivables related to insurance activities

“Loans and receivables” are financial assets with fixed or determinable payments that are not quoted on an active market. All loans and receivables due from credit institutions and those related to insurance activities that are not intended for sale at origination are recognized under “loans and receivables” (of the insurance activities).

The treatment of these financial assets (excluding impairment) is identical to the treatment used for loans and receivables due from credit institutions and customers at amortized cost, pursuant to the application of IFRS 9.

Impairment of loans and receivables

Individually impaired receivables

Recorded in the cost of risk, impairment losses are recognized on all types of receivables, even those with guarantees, once there is an established credit risk corresponding to one of the following situations:

- there are one or more delinquent payments for three months;
- the position of a counterparty presents characteristics such that even in the absence of delinquent payments, we can conclude that there is a known risk;
- the counterparty is involved in litigation, including proceedings for overindebtedness, court-ordered reorganization/receivership, court-ordered settlement, court-ordered liquidation, personal bankruptcy and liquidation of property, including a summons to appear before an international court.

Impairment reflects the difference between amortized cost and the present value of discounted estimated future cash flows. Discounting is carried out at the initial effective interest rate of the loan for fixed-rate loans and at the last effective interest rate set according to the contractual terms and conditions for variable-rate loans. In the income statement, changes in impairment are recognized under “Net additions to/reversals from provisions for loan losses” (of the insurance activities).

Financial liabilities

The rules governing the accounting treatment of financial liabilities at fair value through profit or loss, liabilities to credit institutions and customers, debt securities and subordinated debt are identical under IAS 39 and IFRS 9 (excluding recognition of renegotiated debt).

Insurance liabilities, representing commitments to policyholders and beneficiaries, are reported on the line “Insurance companies’ technical reserves”. They are valued, recognized and consolidated in accordance with French GAAP.

➢ Technical provisions on life insurance contracts consist primarily of mathematical provisions representing the difference between the present value of the commitments undertaken respectively by the insurer and the policyholders. The risks covered include primarily death, disability and the inability to work (for borrower’s insurance).

➢
Life insurance provisions are estimated conservatively on the basis of contractually-defined technical rates.

➢ Technical provisions on unit-linked contracts are valued at the reporting date, based on the value of the assets used to support these contracts.

➢
Technical provisions on non-life insurance contracts include unearned premiums (portion of premiums issued pertaining to later years), provisions for increasing risks (difference between the present value of the commitments undertaken respectively by the insurer and the policyholder) and claims payable.

➢ Technical provisions are calculated gross of reinsurance, and the reinsurers' share is stated in assets.

Insurance contracts and financial contracts with a discretionary profit-sharing provision are subject to “shadow accounting.” The provision for deferred profit-sharing represents the share of unrealized capital gains and losses on assets attributable to the policyholders. This provision is presented on either the liability or the asset side of the balance sheet. On the asset side, it appears as a separate item.

At the reporting date, an adequacy test is performed on the liabilities associated with these contracts (net of other items involving related assets or liabilities, such as deferred acquisition costs and the portfolio securities acquired). A verification is performed to ensure that the liability recorded is adequate to cover the future cash flows projected at that date. Any shortfall in the technical provisions is shown through a loss for the period (and potentially reversed at a subsequent date).

Common accounting principles for banking and insurance activities

Shareholders' equity

Difference between liabilities and equity

A debt instrument or financial liability is defined as a contractual obligation to deliver cash or another financial asset or to exchange financial instruments under potentially unfavorable conditions.
An equity instrument is defined as a contract containing a residual interest in an enterprise after subtracting all its debts (net assets).

Shares

Pursuant to these definitions, the shares issued by the Crédit Mutuel savings banks are considered shareholders' equity within the meaning of IAS 32 and IFRIC 2 and are treated as such in the group's consolidated financial statements.

Measurement of the fair value of financial instruments

The fair value is defined in IFRS 13 as: *the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction between market participants at the measurement date"*. Initially, fair value is usually the transaction price.

Financial assets and liabilities measured at fair value are assessed and recognized at fair value as of their first-time consolidation as well as at subsequent measurement dates. These assets and liabilities include:
- assets and liabilities at fair value through profit or loss;
- assets at fair value through equity;
- available-for-sale financial assets;
- derivative instruments.

Other financial assets and liabilities are initially recognized at fair value. They are subsequently recognized at their amortized cost and are subjected to valuations whose methods are disclosed in the notes to the financial statements. These other financial assets and liabilities include:
- loans and receivables due from credit institutions and customers at amortized cost under IAS 39 and IFRS 9 (including loans and receivables related to insurance activities);
- debt securities at amortized cost;
- held-to-maturity financial assets;
- liabilities to credit institutions and customers;
- debt securities;
- subordinated debt.

Assets and liabilities are also classified in three hierarchal levels corresponding to the level of judgment used in valuation techniques to determine fair value.

Level 1: Assets and liabilities whose fair value is calculated using prices quoted (unadjusted) to which the entity has access on the measurement date on active markets for identical assets or liabilities.

An active market is one which, for the asset or liability being measured, has transactions occurring with sufficient frequency and volume so as to provide price information on a continuous basis.

This category includes notably equities, bonds and shares of mutual funds listed on an active market.

Level 2: Assets and liabilities whose fair value is calculated using adjusted prices or data other than quoted prices that are observable either directly or indirectly.

In the absence of any such quotation, fair value is determined using "observable" market data. These valuation models are based on techniques widely used by market operators, such as the discounting of future cash flows or the Black & Scholes model.

This category includes notably the following financial instruments:
- equities and bonds listed on a market that is considered inactive or that are unlisted;
- over-the-counter derivative instruments such as swaps and options;
- venture capital funds, innovation funds and real estate funds;

- structured products.

The fair value of loans and receivables, liabilities to credit institutions, debt securities (including subordinated debt) are also included in this level.

Loans and receivables and liabilities to credit institutions are measured using two methods:
- the fair value of fixed-rate items, such as fixed-rate loans and deposits, is measured by discounting the expected future cash flows;
- the fair value of variable-rate items, such as adjustable-rate loans with a maturity of more than one year, is measured using the Black & Scholes model.

The fair value of traditional fixed-rate loans, borrowings, debt securities and subordinated debt is obtained by discounting future cash flows and using dedicated yield curve spreads.

The fair value of variable-rate loans, borrowings, debt securities and subordinated debt is obtained by discounting future cash flows with the calculation of a forward rate and the use of dedicated yield curve spreads.
The group's counterparty default risk is factored into the yield curve used to value debt securities and subordinated debt.

For current receivables and liabilities (less than one year), the fair value is considered equivalent to their nominal value.

Level 3: Assets and liabilities whose fair value is calculated using information on assets or liabilities not based on observable market data.

Valuation methods using unobservable market data are used only in the following cases:
- loans and receivables, and liabilities to customers,
- equity securities not listed on an active market,
- certain specialized financings,
- securities held by private equity companies.

Thus, for example, equity investments not listed on an official market are measured internally:
- in most cases, these holdings are measured on the basis of their revalued net assets or their carrying amount, on an entity-by-entity basis.

Similarly, the valuation methods used by private equity companies generally include:
- the transaction price for recent acquisitions,
- the historical multiples method for mature companies,
- adjusted net asset value for portfolio companies (holding companies) and investment firms (funds).

Given the diversity of the instruments valued and the reasons for their inclusion in this category, any calculation of the sensitivity of the fair value to changes in parameters would not provide relevant information.

The valuation provided by the models is adjusted to reflect liquidity risk. Using the valuations produced on the basis of a median market price, prices are adjusted to reflect the net position of each financial instrument at the bid or ask price (on selling or buying positions, respectively).

The day-one profit, i.e. the difference between the transaction price and the valuation of the instrument using valuation techniques, is considered to be nil. The transaction prices carried out by the group for its own account correspond to fair value. For transactions carried out on behalf of customers, the portion of the margin not yet recognized is recorded in profit or loss when the parameters are observable.

Use of judgments and estimates in the preparation of financial statements

The preparation of the group's financial statements requires making assumptions and estimates whose future realization involves certain risks and uncertainties.

Accounting estimates requiring the use of assumptions are used primarily for measuring the following:

- fair value of financial instruments not quoted on an active market and measured at fair value,
- impairment of financial assets and guarantee and financing commitments subject to impairment,

- impairment tests of intangible assets,
- deferred tax assets,
- provisions.

The conditions for using any judgments or estimates are specified in the accounting policies described below.

Property, plant and equipment, intangible assets and investment real estate

- **Non-current assets owned by the group**

Pursuant to IAS 16, IAS 38 and IAS 40, property, plant and equipment and investment real estate are recognized as an asset if:
- it is likely that the future economic benefits from this asset will accrue to the company, and
- the cost of said asset can be measured reliably.

Pursuant to IAS 40, the group's real estate is classified as "investment real estate" (scope of banking or insurance activity) when it is held primarily to generate rental income or capital appreciation. Real estate held primarily to be occupied by the group for administrative or sales purposes is classified as "property, plant and equipment."

Property, plant and equipment and investment real estate are recorded on the balance sheet at cost plus expenses that can be directly attributable to the purchase of the property (e.g. transfer duties, fees, commissions, legal fees). After the initial recognition, property, plant and equipment and investment real estate are valued at cost minus accumulated depreciation and any impairment losses.

The fair value of investment real estate, disclosed in the notes, is determined on the basis of an appraisal.

The method used to account for internally developed software is as follows:
- all software-related expenditure that do not satisfy the conditions for capitalization (notably preliminary research and functional analysis expenses) are recognized as expenses in accordance with IAS 38;
- all software expenditure incurred after the start of the production process (detailed analysis, development, validation, documentation) are capitalized if they meet the criteria of a self-created asset established by IAS 38.

In cases where the software is used in connection with a commercial contract, the amortization period may exceed five years; it is defined on the basis of the contract term.

If one or more components of property, plant and equipment or investment real estate have a different use or earn economic rewards at a different pace than that of the property, plant and equipment or investment real estate as a whole, said components are depreciated according to their own useful life. The group applied this accounting method for its operating and investment properties. The following components and depreciation periods have been adopted by the group:

Component	Depreciation periods
Land	Not depreciable
Building shell	Corporate buildings and investment properties: 50 years Branches: 25 years
Roof and siding	25 years
Technical work packages	20 years
Fixtures	3 to 10 years

The other tangible and intangible assets are depreciated and amortized according to their individual useful lives:

	Depreciation periods
Movable goods	10 years
Electronic equipment	3 to 5 years
Created or acquired software	2 to 5 years
Portfolio of acquired customer contracts	6 to 13 years

Depreciation and amortization are calculated using the straight-line method. For property, plant and equipment and intangible assets, depreciation or amortization is recorded on the income statement under "Depreciation, amortization and impairment of property, plant and equipment and intangible assets". For investment real estate, it is recorded under "Expense from other activities."

Indefinite-life assets are not depreciated but are tested for impairment at least once a year.

Capital gains or losses on the disposal of operating property, plant and equipment are recorded in the income statement under “Gains or losses on other assets”. Capital gains or losses on the disposal of investment real estate are recorded under “Income or expense from other activities.”

With respect to goodwill, if the recoverable amount of the related cash-generating unit (CGU) is less than its carrying amount, an irreversible provision for goodwill impairment loss is recognized. Impairment is equal to the difference between the carrying amount and the recoverable amount. The recoverable amount is calculated by applying the most appropriate valuation method at the level of the CGU.

In view of the favorable changes in market parameters and the absence of factors that would fundamentally call into question the CGUs’ forecasts for 2019 and the medium term, no impairment test was carried out as part of the approval of the financial statements for the period ended June 30, 2019.

- **Fixed assets leased by the Group**

For all leases, the lessee must recognize in its balance sheet an asset representing the right to use the leased asset and a liability representing the obligation to pay the lease payments; in the income statement, the depreciation expense is shown separately from the interest expense on the liability. This treatment, currently applied to finance leases in lessee financial statements, is thus extended to include operating leases.

- Scope

IFRS 16 applies to all lease contracts except:

- contracts for the prospecting or exploitation of non-renewable natural resources, or for biological assets,
- service concession agreements,
- intellectual property licenses,
- the rights held by the lessee under license agreements on cinematographic films, video recordings, plays, manuscripts, patents and copyrights.

- Exemption measures

Lessees may choose not to apply the new lease treatment to contracts with a term of less than one year (including renewal options) or to contracts for goods with a low unit value. This latter simplification is aimed in particular at small equipment such as computers, telephones and small office furniture. The IASB mentioned an indicative threshold of USD 5,000 in the basis for conclusions of the standard (threshold to be assessed with regard to the new unit value of the leased asset).
The Group has decided to apply this exemption threshold of USD 5,000 and has also considered the possibility of excluding certain contracts the effect of which would be immaterial to its financial statements. The majority of vehicle lease agreements are entered into with the group’s consolidated entities. Vehicle leases entered into with external lessors are marginal and have been excluded due to their low materiality.

Real estate leases were reclassified under IFRS 16. The scope of the IT, automotive and other leases is not material.

- Accounting treatment of leases by lessees

On the date the leased property is made available, the lessee recognizes a rental debt under liabilities. The initial amount of the liability is equal to the present value of the lease payments payable over the lease term.
This rental debt is then measured at amortized cost using the effective interest rate method: each lease payment is thus recognized partly as interest expense in the income statement and partly as a gradual reduction of the rental debt under liabilities in the balance sheet.
The amount of the rental debt may be subsequently adjusted in the event of a change to the lease agreement, a re-estimate of the lease term, and to take account of contractual changes in rents relating to the application of indices or rates.

- Lease term

The lease term to be used to calculate the rentals to be discounted corresponds to the non-cancellable lease term adjusted to take into account:
- options to extend the contract that the lessee is reasonably certain to exercise,
- early termination options that the lessee is reasonably certain not to exercise.

The assessment of whether any extension options and early termination options are reasonably certain must take into account all facts and circumstances that may create an economic incentive to exercise those options or not, notably:
- the conditions for exercising these options (including an assessment of the level of rents in the event of an extension or of the amount of any penalties in the event of early termination),
- major improvements made to the leased premises (specific fittings, such as a safe-deposit room for example),
- the costs associated with the termination of the contract (negotiating costs, moving costs, cost of searching for a new asset suited to the lessee, etc.),
- the importance of the leased property to the lessee in view of its specific nature, its location or the availability of replacement assets (in particular for agencies located in strategic sites from a commercial point of view, for example in view of their accessibility, the expected influx or the prestige of the location),
- a history of similar contract renewals as well as the strategy concerning the future use of the assets (depending on the prospects for the redeployment or redevelopment of a commercial network of agencies, for example).

If the lessee and the lessor each have the right to terminate the lease without the other party's prior agreement and without a non-negligible penalty, the lease is no longer enforceable and therefore no longer generates any rental debt.
In France, the majority of commercial real estate lease agreements are 9-year commercial leases with the option of early termination at 3 and 6 years (so-called "3/6/9" leases). At the end of 9 years, if a new contract is not signed, the initial lease will be automatically renewed.
The period during which these "3/6/9" commercial leases are enforceable is generally 9 years with an initial non-terminable period of 3 years.

- Rent discount rate

The implied rates on contracts are generally not known or readily determinable, particularly for real estate leases. The group therefore decided to use its refinancing rate to discount rents and thus calculate the amount of rental debt.

- Rent amount

The payments to be taken into account for the valuation of the rental debt include fixed and variable rents based on an index (e.g. consumer price index or construction cost index) or a reference interest rate (Euribor, etc.), as well as, if applicable, the sums that the lessee expects to pay to the lessor under residual value guarantees, purchase options or early termination penalties.
However, variable rents that are indexed based on the use of the leased property are excluded from the assessment of rental debt (indexation to actual revenues or the mileage covered, for example). This variable portion of rental payments is recognized in profit or loss over time in accordance with changes in the contractual indexation.
In France, rents are recorded on the basis of their amount excluding value added tax. Furthermore, in the case of real estate leases, real estate taxes rebilled by lessors and the local residence tax are excluded from rental debts insofar as their amounts, as determined by the competent public authorities, may vary.

- Recognizing a right of use by lessees

On the date the leased property is made available, the lessee must recognize as an asset a right to use the leased property in an amount equal to the initial value of the rental debt plus, if applicable, initial direct costs, advance payments and rehabilitation costs.
This asset is then amortized on a straight-line basis over the lease term used to value the rental debt.
The asset value may be subsequently adjusted in the event of a change in the lease agreement, a re-estimate of the lease term, and to take into account contractual variations in rents linked to the application of indices or rates.
The rights of use are shown in the lessee's balance sheet in the fixed asset lines where assets of the same kind held in full ownership are recorded. Where the lease agreements provide for the initial payment of a lease right to the former tenant of the premises, the amount of such right is treated as a separate component of the right of use and is presented in the same heading as the latter.
In the income statement, depreciation charges on rights of use are presented together with depreciation charges on fully-owned fixed assets.

- Income tax

A deferred tax is recognized based on the net amount of taxable and deductible temporary differences.

Non-current assets held for sale

A non-current asset (or group of assets) satisfies the criteria for assets held for sale if it is available for sale and if the sale is highly likely to occur within 12 months.

The related assets and liabilities are shown separately in the balance sheet, under “Non-current assets held for sale” and “Liabilities associated with non-current assets held for sale”. Items in this category are recorded at the lower of their carrying amount and fair value less costs to sell, and are no longer amortized.

When non-current assets held for sale or associated liabilities become impaired, an impairment loss is recognized in the income statement.

Discontinued operations include operations which are held for sale or have been shut down, and subsidiaries acquired exclusively with a view to resale. They are shown separately in the income statement, under “Net profit (loss) after tax from discontinued operations”.

Provisions

Provisions are established for the group's commitments when it is likely that an outflow of funds will be needed for their settlement and when their amount or due date is uncertain but may be estimated reliably. In particular, such provisions cover employee-related commitments, risks related to home savings plans, and disputes.

Provisions for pension obligations

Pension plans include defined contribution plans and defined benefit plans. Defined contribution plans do not give rise to an obligation for the group and consequently do not require a provision. The amount of employer's contributions payable during the period is recognized as an expense and recognized under "Personnel expenses." Defined benefit plans are those for which the group has agreed to provide an amount or service benefit. This commitment constitutes a medium- or long-term risk. Obligations related to plans that are not defined contribution plans are fully provisioned under "Provisions." End-of-service benefits, supplementary retirement plans, time savings accounts and length-of-service benefits are recorded under this item.

The group's pension obligation is calculated using the projected unit credit method based on demographic and financial assumptions. Specifically, the June 2019 calculations used a discount rate of 0.99%, which was determined by reference to the iBoxx corporate AA 10+ euro zone index for corporate bonds. The calculations also include an employee turnover rate of between 0.19% and 6.54% and a salary adjustment rate of between 2.52% and 3.83%[4]. Commitments are calculated using the TH00-02 and TF00-02 life expectancy tables for the obligation accrual phase and the TGH05 and TGF05 life expectancy tables for the pay-out phase.

Actuarial gains and losses represent the differences arising from changes in assumptions or differences between earlier assumptions and actual results.

For the category of other long-term benefits, differences are recognized immediately through profit or loss.

As for post-employment benefits, actuarial differences are recognized under "Gains and losses recognized directly in equity".

Provisions for home savings accounts and plans

The purpose of the home savings provision is to cover the risks related to:

- the commitment to extend home loans to account holders and subscribers of home savings plans at a regulated interest rate that may be lower than the prevailing market rate;
- the obligation to pay interest for an indeterminate period of time on the savings in home savings plans at a rate set when the contract is signed (this rate can be higher than future market rates).

This provision is computed by generation of home savings plans (plans at the same rate at opening are considered a generation) and for all the home savings accounts (which are a single generation). The commitments between different generations are not offset. The commitments are computed based on a model that factors in:

- historical data on subscriber behavior,
- the yield curve and a stochastic modeling of changes thereto.

Provision allocations and reversals are recognized in the income statement under "Interest and similar income" and "Interest and similar expense" (banking scope).

[4] Arkade and Arkéa-SCD UES rate, representing 97% of the obligation.

CONSOLIDATION PRINCIPLES AND METHODS

CONSOLIDATION SCOPE AND METHOD

Consolidating entity

The consolidating entity of the Crédit Mutuel Arkéa group is Crédit Mutuel Arkéa as defined in the collective license issued by the French Prudential Supervisory and Resolution Authority. This credit institution consists of:

- the Crédit Mutuel de Bretagne, Crédit Mutuel du Sud-Ouest and Crédit Mutuel Massif Central federations,
- the Crédit Mutuel savings banks that are members of said federations,
- Crédit Mutuel Arkéa.

The consolidation scope includes entities over which the group exercises exclusive or joint control or significant influence and whose financial statements are significant relative to the group's consolidated financial statements, notably with respect to the balance sheet total and the contribution to net income.

Investments held by private equity companies and over which joint control or significant influence is exercised are excluded from the consolidation scope. These investments are recognized at fair value through profit or loss.

Controlled entities

Control exists when the group (i) has power over an entity, (ii) is exposed or has rights to variable returns from its involvement with the entity, and (iii) has the ability to exercise its power over the entity in such a way as to affect the returns it obtains.

The integration of a subsidiary into the group's consolidated financial statements occurs on the date when the group obtains control and ceases on the day the group loses control of this entity.

Companies under exclusive control are fully consolidated. Full consolidation consists in substituting the value of the shares with the assets and liabilities of each subsidiary. The share of non-controlling interests in shareholders' equity and net income is recorded separately in the consolidated balance sheet and consolidated income statement, respectively.

Investments in associates and joint ventures

An associate is a company in which the group exercises significant influence. Such influence is characterized by the ability to participate in the entity's financial and operating decisions without necessarily controlling or jointly controlling these policies.
Significant influence is presumed if the group holds, directly or indirectly, 20% or more of the voting rights in an entity. If more than 20 % of the voting rights are held, the absence of significant influence may be shown through the absence of representation in the governance bodies or the lack of participation in the process for setting policies.

A joint venture is a partnership in which the parties who exercise joint control over the entity have rights to the entity's net assets.

Joint control involves the contractually agreed-upon sharing of control exercised over an entity, which exists only in the event that decisions regarding the relevant activities require unanimous consent of the parties sharing control.

The results, assets and liabilities of associates or joint ventures are recognized in the group's consolidated financial statements using the equity method.

Under the equity method, an investment in an associate or joint venture is initially recognized at its acquisition cost and subsequently adjusted to reflect the group's share of the income and other comprehensive income of the associate or joint venture.

An investment is recognized under the equity method starting on the date the entity becomes an associate or joint venture. When an investment in an associate or joint venture is made, any difference between the cost of the investment and the group's share of the fair value of the entity's identifiable assets and liabilities is recognized as goodwill. If the net fair value of the entity's identifiable assets and liabilities exceeds the cost of the investment, the difference is shown through profit.

Investment in joint ventures

A joint venture is a partnership in which the parties exercising control over the entity have direct rights over the assets and obligations with respect to the liabilities involving this entity.

Main changes in the scope of consolidation

The subsidiaries Leasecom and Leasecom Car were sold to NBB Lease in March 2019.

CONSOLIDATION RULES

Closing date

The closing date for all consolidated companies is December 31.

Inter-company transactions

Reciprocal receivables, payables and commitments and significant reciprocal expenses and income are completely eliminated among fully consolidated companies.

Accounting for acquisitions and goodwill

The group applies IFRS 3 (revised) for business combinations. The acquisition cost is the sum of the fair values, at the business combination date, of the assets contributed, liabilities incurred or assumed and equity instruments issued.
IFRS 3 (revised) allows the recognition of total or partial goodwill, as selected for each business combination. In the first case, non-controlling interests are measured at fair value (the so-called total goodwill method); in the second, they are based on their proportional share of the values assigned to the assets and liabilities of the acquired entity (partial goodwill).

If goodwill is positive, it is recorded on the balance sheet under “Goodwill”; if negative, it is shown immediately through profit or loss under “Changes in goodwill”.

Goodwill is subject to an impairment test at least once a year and whenever evidence of impairment exists.
Each goodwill item is allocated to a cash generating unit or group of cash generating units that would benefit from the acquisition. Any goodwill impairment is determined based on the recoverable amount of the cash generating unit to which it was allocated. Cash generating units are defined based on the group’s organizational and management methods and take into account the independent nature of these units.

When the group increases its ownership interest in a company that is already controlled, the difference between the purchase price of the shares and the additional share of the consolidated shareholders’ equity that these securities represent on the acquisition date is recognized in shareholders’ equity.
If the group reduces its ownership interest without giving up control, the impact of the change in ownership interest is also recognized in shareholders’ equity.

Leases, leases with a buy-out clause and financial leases

Lease transactions, leases with a buy-out clause and financial leases are restated in such a way as to take financial accounting into consideration.

Translation of foreign currency denominated financial statements

The balance sheets of entities whose financial statements are denominated in a foreign currency are translated using the official foreign exchange rate as of the closing date. The exchange difference recognized in relation to share capital, reserves and profit carried forward is recorded in other comprehensive income, under “Translation reserves”. Income statement items are translated using the average exchange rate during the fiscal year. Translation differences are recorded directly in the “Translation reserves” account.

Taxes

IFRIC interpretation 21 “Levies” sets out the conditions for recognizing a tax-related liability. An entity must recognize this liability only when the obligating event as stipulated by legislation occurs. If the obligation to pay the tax results from an activity that is carried out progressively, this tax must be recognized progressively over the same period. Lastly, if the obligation to pay the tax is triggered by the attainment of a certain threshold, the liability related to this tax will be recorded only when the threshold is attained.

Deferred taxes

Deferred taxes are recognized on the temporary differences between the carrying amount of an asset or liability and its tax base. They are calculated using the liability method at the corporate tax rate known at the closing date for the period and applicable when the temporary difference is used.

Deferred tax assets are recognized only if there is a probability that the tax entity in question will recover these assets within a given time period, particularly by deducting these differences and carry-over losses from future taxable income.

Deferred taxes are recognized as income or expense, except for those related to unrealized or deferred gains or losses, for which the deferred tax is booked directly to other comprehensive income. Deferred taxes are also recorded in respect of tax losses from prior years when there is convincing evidence of the likelihood that such taxes will be collected.

Deferred taxes are not discounted.

The regional economic contribution (CET) and the companies' value added contribution (CVAE) are treated as operating expenses and do not entail the recognition of deferred taxes in the consolidated financial statements.

NOTES TO THE BALANCE SHEET In thousands of euros

Note 1. Cash, due from central banks
Loans and receivables - credit institutions

	06.30.2019	12.31.2018
Cash, due from central banks		
Central banks	6,009,145	3,104,473
Cash	138,636	132,115
Accrued interest	0	0
TOTAL	**6,147,781**	**3,236,588**
Loans and receivables - credit institutions		
Current accounts	6,797,544	6,017,669
Loans	937,031	1,420,561
Guarantee deposits paid	618,314	400,726
Repurchase agreements	1,341,387	1,099,520
Individually impaired receivables (B3)	0	0
Accrued interest	28,372	50,504
Impairment of performing loans (B1/B2)	-1,844	-2,147
Other impairment (B3)	0	0
TOTAL	**9,720,804**	**8,986,833**
of which deposits and demand loans with credit institutions	577,559	1,065,914

Note 2. Financial assets at fair value through profit or loss

	06.30.2019	12.31.2018
Assets held for trading purposes	587,460	404,958
Assets classified at fair value option	8,361	16,926
Other assets classified at fair value	824,104	757,379
TOTAL	**1,419,925**	**1,179,263**

Note 2a. Financial assets held for trading purposes

	06.30.2019	12.31.2018
Securities	0	0
- Treasury bills, notes and government bonds	0	0
- Bonds and other fixed-income securities	0	0
. Listed	0	0
. Unlisted	0	0
Of which UCI	0	0
- Stocks and other variable-income securities	0	0
. Listed	0	0
. Unlisted	0	0
Derivatives held for trading purposes	587,460	404,958
Loans and receivables	0	0
of which repurchase agreements	0	0
TOTAL	**587,460**	**404,958**

Trading derivatives are held for the purpose of hedging customer transactions.

Note 2b. Assets classified using the fair value option

	06.30.2019	12.31.2018
Securities	0	0
- Treasury bills, notes and government bonds	0	0
- Bonds and other fixed-income securities	0	0
. Listed	0	0
. Unlisted	0	0
Accrued interest	0	0
Of which UCI	0	0
- Stocks and other variable-income securities	0	0
. Listed	0	0
. Unlisted	0	0
Loans and receivables	8,361	16,926
Of which guarantee deposits paid	0	0
of which repurchase agreements	0	0
TOTAL	8,361	16,926

The maximum non-recoverable amount of loans classified using the fair value option was €8,354 thousand. This amount was not hedged through the use of credit derivatives.

Note 2c. Other financial assets at fair value through profit or loss

	06.30.2019	12.31.2018
Securities	773,212	693,626
- Treasury bills, notes and government bonds	0	0
- Bonds and other fixed-income securities	342,339	306,423
. Listed	0	0
. Unlisted	333,406	298,374
Accrued interest	8,933	8,049
Of which UCI	157,961	165,020
- Stocks and other variable-income securities	430,873	387,203
. Listed	1,769	1,978
. Unlisted	429,104	385,225
Loans and receivables	50,892	63,753
Of which repurchase agreements	0	0
Guarantee deposits paid	0	0
TOTAL	824,104	757,379

Note 3. Information relating to hedging
Derivatives used for hedging purposes

	06.30.2019				12.31.2018			
	Fair value hedging		Cash flow hedging		Fair value hedging		Cash flow hedging	
	Book value	Nominal value	Book value	Nominal value	Book value	Nominal value	Book value	Nominal value
Interest-rate risk								
Hedging derivatives								
Hedging derivatives - assets	1,051,892	16,851,073	746	30,000	691,478	16,724,251	1,086	30,000
Hedging derivatives - liabilities	967,770	25,152,585	4,296	33,500	422,949	23,192,544	4,786	37,500
Change in the fair value of the hedging instrument used to recognize the ineffectiveness of the hedges over the period	247,326		-38		-17,529		-517	
Currency risk								
Hedging derivatives								
Hedging derivatives - assets								
Hedging derivatives - liabilities								
Change in the fair value of the hedging instrument used to recognize the ineffectiveness of the hedges over the period								

Note 4. Financial assets at fair value through equity

	06.30.2019	12.31.2018
Treasury bills, notes and government bonds	3,618,425	4,931,080
Bonds and other fixed-income securities	5,675,648	5,953,599
- Listed	4,501,639	4,963,447
- Unlisted	1,151,278	955,927
Accrued interest	22,731	34,225
Subtotal gross value of debt instruments	9,294,073	10,884,679
Impairment of performing loans (B1/B2)	-5,857	-6,758
Other impairment (B3)	0	0
Subtotal net value of debt instruments	9,288,216	10,877,921
Loans and receivables	0	0
- Loans and receivables due from credit institutions	0	0
- Loans and receivables due from customers	0	0
Accrued interest	0	0
Subtotal gross value of loans	0	0
Impairment of performing loans (B1/B2)	0	0
Other impairment (B3)	0	0
Subtotal net value of loans	0	0
Stocks and other variable-income securities	86,547	89,185
- Listed	72,091	74,727
- Unlisted	14,456	14,458
Accrued interest	0	0
Long-term investment securities	366,909	356,589
- Long-term investments	315,637	301,103
- Other long-term investments	51,069	55,282
- Shares in associates	203	204
- Translation adjustments	0	0
- Loaned securities	0	0
Accrued interest	0	0
Subtotal equity instruments	453,456	445,774
TOTAL	**9,741,672**	**11,323,695**
Of which unrealized capital gains/losses recognized in equity	102,648	88,503
Of which securities sold under repurchase agreements	0	0
Of which listed long-term investments	106,128	101,728

Equity instruments at fair value through equity mainly include investments in associates and the group's other long-term investments.
The accumulated loss at the time of disposal was €90 thousand.

Note 5. Securities at amortized cost

	06.30.2019	12.31.2018
Treasury bills, notes and government bonds	284,588	0
Bonds and other fixed-income securities	160,749	168,970
- Listed	48,700	48,700
- Unlisted	105,066	104,380
Accrued interest	6,983	15,890
GROSS TOTAL	445,337	168,970
Of which impaired assets (B3)	5,958	5,542
Impairment of performing loans (B1/B2)	-858	-818
Other impairment (B3)	-4,519	-4,203
NET TOTAL	439,960	163,949

Note 6. Loans and receivables due from customers

	06.30.2019	12.31.2018
Performing receivables (B1/B2)	56,932,424	53,491,691
. Commercial receivables	134,487	141,490
. Other loans to customers	56,670,776	53,233,100
- Housing loans	31,281,191	29,363,811
- Other loans and various receivables, including repurchase agreements	25,281,086	23,820,462
- Guarantee deposits paid	108,499	48,827
. Accrued interest	127,161	117,101
Individually impaired receivables (B3)	1,362,375	1,360,860
Gross receivables	58,294,799	54,852,551
Impairment on performing loans (B1/B2)	-239,275	-231,256
Other impairment (B3)	-782,554	-783,459
Subtotal I	57,272,970	53,837,836
Finance leases (net investment)	1,746,077	1,706,380
. Movable goods	984,252	954,883
. Real estate	761,825	751,497
Individually impaired receivables (B3)	71,796	67,387
Gross receivables	1,817,873	1,773,767
Impairment on performing loans (B1/B2)	-19,698	-17,066
Other impairment (B3)	-18,562	-20,001
Subtotal II	1,779,613	1,736,700
TOTAL	59,052,583	55,574,536
Of which equity loans with no voting rights	11,998	12,165
Of which subordinated loans	0	0

Note 7. Investment in insurance activities and reinsurers' shares in technical provisions

	06.30.2019	12.31.2018
Financial assets at fair value through profit or loss	27,877,792	22,882,853
Available-for-sale financial assets	26,696,127	25,981,518
Loans and receivables - credit institutions	4,409	22,542
Loans and receivables linked to insurance activities	593,661	499,427
Held-to-maturity financial assets	3,614	3,534
Investment real estate	333,381	340,535
Reinsurers' share in technical provisions and other insurance assets	438,082	459,883
TOTAL	55,947,066	50,190,292

Note 7a. Financial assets at fair value through profit or loss

	06.30.2019	12.31.2018
Financial assets held for trading purposes	25	1
Derivatives held for trading purposes	25	1
Subtotal I	25	1
Assets classified at fair value through profit or loss	27,877,767	22,882,852
Securities	27,877,767	22,882,852
- Bonds and other fixed-income securities	6,843,260	6,026,576
. Listed	6,219,144	5,464,274
. Unlisted	552,625	505,023
. Accrued interest	71,491	57,279
- Stocks and other variable-income securities	21,034,507	16,856,276
. Listed	12,563,804	9,124,949
. Unlisted	8,419,842	7,709,267
. Accrued interest	50,861	22,060
Subtotal II	27,877,767	22,882,852
TOTAL	27,877,792	22,882,853

Note 7b. Available-for-sale financial assets

	06.30.2019	12.31.2018
Treasury bills, notes and government bonds	9,107,095	9,272,247
Bonds and other fixed-income securities	16,240,263	15,496,279
- Listed	12,976,094	12,480,228
- Unlisted	3,111,247	2,844,693
Accrued interest	152,922	171,358
Subtotal gross value of debt instruments	25,347,358	24,768,526
Impairment	-351	-267
Subtotal net value of debt instruments	25,347,007	24,768,259
Shares and other variable-income securities	814,355	725,878
- Listed	334,928	292,968
- Unlisted	472,477	427,167
Accrued interest	6,950	5,743
Long-term investment securities	537,281	489,612
- Long-term investments	269,345	268,212
- Other long-term investments	267,936	221,400
- Shares in associates	0	0
Subtotal gross value of equity instruments	1,351,636	1,215,490
Impairment	-2,516	-2,231
Subtotal net value of equity instruments	1,349,120	1,213,259
TOTAL	26,696,127	25,981,518
Of which unrealized capital gains/losses recognized in equity	266,531	164,117
Of which listed long-term investments	56,777	54,422

Note 7c. **Securities at amortized cost**

	06.30.2019	12.31.2018
Treasury bills, notes and government bonds	3,614	3,534
Bonds and other fixed-income securities	0	0
- Listed	0	0
- Unlisted		
Accrued interest	0	0
GROSS TOTAL	3,614	3,534
of which impaired assets		
Impairment		
NET TOTAL	3,614	3,534

Note 7d. **Loans and receivables - credit institutions**

	06.30.2019	12.31.2018
Loans and receivables - credit institutions		
Other regular accounts	4,409	22,291
Loans	0	250
Guarantee deposits paid	0	0
Repurchase agreements	0	0
Accrued interest	0	1
TOTAL	4,409	22,542
of which deposits and demand loans with credit institutions	4,409	22,541

Note 7e. **Loans and receivables linked to insurance activities**

	06.30.2019	12.31.2018
Performing receivables	593,661	499,427
Loans to customers	589,466	495,782
- housing loans	0	0
- other loans and various receivables, including repurchase	589,466	495,782
Accrued interest	4,195	3,645
Insurance and reinsurance receivables	0	0
Individually impaired receivables	4	54
Gross receivables	593,665	499,481
Impairment	-4	-54
TOTAL	593,661	499,427

Note 7f. **Investment real estate**

	12.31.2018	Increase	Decrease	Other	06.30.2019
Historical cost	528,471	695	0	0	529,166
Amortization and impairment	-187,936	-7,849	0	0	-195,785
NET AMOUNT	340,535	-7,154	0	0	333,381

The fair value of investment real estate recognized at cost was €715 million at June 30, 2019 compared, representing no change in relation to December 31, 2018.

Note 7g. Share of reinsurers in technical provisions and other insurance assets

	06.30.2019	12.31.2018
Technical provisions - Reinsurers' share	89,238	87,473
Other insurance assets	348,844	372,410
TOTAL	438,082	459,883

Note 8. Goodwill

	12.31.2018	Increase	Decrease	Other	06.30.2019
Gross goodwill	538,461	0	0	0	538,461
Impairment	0	0	0	0	0
Net goodwill	538,461	0	0	0	538,461

Allocation by Division

Division	Entity	06.30.2019	12.31.2018
Retail customers	Arkéa Direct Bank	259,757	259,757
B2B and Specialized Services	CFCAL Banque	38,216	38,216
B2B and Specialized Services	Monext	100,250	100,250
B2B and Specialized Services	Procapital	63,000	63,000
B2B and Specialized Services - Fintech	Leetchi SA Mangopay	25,682	25,682
B2B and Specialized Services - Fintech	Pumpkin	10,974	10,974
Products	Izimmo	17,964	17,964
Products	Schelcher Prince Gestion	11,649	11,649
Products	Suravenir Assurances	10,969	10,969
Net goodwill		538,461	538,461

Note 9. Due to central banks - Due to banks

	06.30.2019	12.31.2018
Central banks	0	0
Liabilities to credit institutions	7,962,286	7,117,358
Current accounts	483,078	403,600
Loans	1,372,580	1,432,850
Guarantee deposits received	308,262	268,466
Other liabilities	89,019	39,829
Repurchase agreements	5,738,263	4,994,676
Accrued interest	-28,916	-22,063
TOTAL	7,962,286	7,117,358
of which deposits and demand loans with credit institutions	571,844	493,261

Note 10. Financial liabilities at fair value through profit or loss

	06.30.2019	12.31.2018
Financial liabilities held for trading purposes	**597,460**	**450,009**
. Short selling of securities	0	0
- Treasury bills, notes and government bonds	0	0
- Bonds and other fixed-income securities	0	0
- Stocks and other variable-income securities	0	0
.Debt securities sold under repurchase agreements	0	0
.Derivatives	597,460	450,009
.Other financial liabilities held for trading purposes	0	0
Financial liabilities at fair value through profit or loss	**409,358**	**361,062**
Liabilities to credit institutions	1,553	1,895
Liabilities to customers	11,336	6,243
Debt securities	396,469	352,924
Subordinated debt	0	0
TOTAL	**1,006,818**	**811,071**

The settlement value of financial liabilities at fair value through profit or loss was €999,657 thousand at June 30, 2019 versus €844,536 thousand at December 31, 2018.

Note 11. Financial assets and liabilities subject to netting, an enforceable master netting agreement or a similar agreement

06.30.2019

	Gross amount of financial assets / liabilities recognized	Gross amount of financial assets / liabilities recognized and netted on the balance sheet	Net amount of financial assets / liabilities shown on the balance sheet	Related amounts not netted on the balance sheet			Net amount
				Impact of master netting agreements	Financial instruments received/given as guarantees	Cash collateral received/paid	
Assets							
Derivatives	1,640,123	0	1,640,123	-893,149	0	-289,644	457,330
Securities reverse repurchase agreements, securities	1,486,555	0	1,486,555	0	-1,389,082	0	97,473
Other financial instruments	0	0	0	0	0	0	0
Total assets	**3,126,678**	**0**	**3,126,678**	**-893,149**	**-1,389,082**	**-289,644**	**554,803**
Liabilities							
Derivatives	1,690,561	0	1,690,561	-893,149	0	-642,966	154,446
Securities repurchase agreements, securities	7,130,207	0	7,130,207	0	-7,170,978	41,961	1,190
Other financial instruments	0		0	0	0	0	0
Total liabilities	**8,820,768**	**0**	**8,820,768**	**-893,149**	**-7,170,978**	**-601,005**	**155,636**

12.31.2018

	Gross amount of financial assets / liabilities recognized	Gross amount of financial assets / liabilities recognized and netted on the balance sheet	Net amount of financial assets / liabilities shown on the balance sheet	Related amounts not netted on the balance sheet			Net amount
				Impact of master netting agreements	Financial instruments received/given as guarantees	Cash collateral received/paid	
Assets							
Derivatives	1,097,523	0	1,097,523	-472,293	0	-257,564	367,666
Securities reverse repurchase agreements, securities	1,183,315	0	1,183,315	0	-1,090,216	0	93,099
Other financial instruments	0	0	0	0	0	0	0
Total assets	**2,280,838**	**0**	**2,280,838**	**-472,293**	**-1,090,216**	**-257,564**	**460,765**
Liabilities							
Derivatives	980,882	0	980,882	-472,293	0	-402,833	105,756
Securities repurchase agreements, securities	6,305,368	0	6,305,368	0	-6,297,896	-4,720	2,752
Other financial instruments	0	0	0	0	0	0	0
Total liabilities	**7,286,250**	**0**	**7,286,250**	**-472,293**	**-6,297,896**	**-407,553**	**108,508**

Note 12. Debt securities

	06.30.2019	12.31.2018
Certificates of deposit	7,154	7,318
Interbank market securities and negotiable debt securities	2,480,339	2,617,491
Bond issues	10,703,729	9,514,284
Non-preferred senior debt	1,062,379	500,641
Accrued liabilities	103,873	130,944
TOTAL	**14,357,474**	**12,770,678**

Note 13. Liabilities to customers

	06.30.2019	12.31.2018
Savings accounts governed by special regulations	27,433,477	26,009,281
Demand accounts	21,913,424	20,572,450
Term accounts	5,520,053	5,436,831
Accrued interest on savings accounts	128,779	214,302
Subtotal	**27,562,256**	**26,223,583**
Current accounts	21,611,562	20,145,779
Term accounts and term loans	7,471,135	8,130,328
Repurchase agreements	0	0
Accrued interest	51,501	53,967
Guarantee deposits received	1,489	1,506
Subtotal	**29,135,687**	**28,331,580**
TOTAL	**56,697,943**	**54,555,163**

Note 14. Liabilities - insurance activity

	06.30.2019	12.31.2018
Financial liabilities at fair value through profit or loss	121,035	103,138
Liabilities to credit institutions	1,430,572	1,340,999
Debt securities	0	0
Insurance companies' technical reserves	46,706,407	43,480,679
Other insurance liabilities	5,269,413	3,107,678
Subordinated debt	439	554
TOTAL	**53,527,866**	**48,033,048**

Note 14a. Financial liabilities at fair value through profit or loss

	06.30.2019	12.31.2018
Financial liabilities held for trading purposes	**121,035**	**103,138**
Derivatives	121,035	103,138
Other financial liabilities held for trading purposes	0	0
Financial liabilities at fair value through profit or loss	**0**	**0**
Liabilities to credit institutions	0	0
Debt securities	0	0
Subordinated debt	0	0
TOTAL	**121,035**	**103,138**

Note 14b. Liabilities to credit institutions

	06.30.2019	12.31.2018
Liabilities to credit institutions		
Current accounts	0	0
Loans	0	0
Guarantee deposits received from credit institutions	0	0
Other liabilities	0	0
Repurchase agreements	1,430,572	1,340,999
Accrued liabilities	0	0
TOTAL	1,430,572	1,340,999
Of which deposits and demand loans with credit institutions	0	0

Note 14c. Insurance companies' technical reserves

	06.30.2019	12.31.2018
Life insurance, excluding unit-linked contracts	33,794,913	32,012,177
of which profit-sharing	3,015,157	2,129,752
Non-life insurance	454,677	470,912
Unit-linked contracts	12,267,218	10,841,617
Other	189,599	155,973
TOTAL	46,706,407	43,480,679
Active deferred profit-sharing	0	0
Reinsurers' share	-89,238	-87,473
Net technical provisions	46,617,169	43,393,206

Note 14d. Other insurance liabilities

	06.30.2019	12.31.2018
Security deposits and guarantees received	25,551	27,195
Insurance and reinsurance liabilities	45,550	54,408
Other	5,198,312	3,026,075
TOTAL	5,269,413	3,107,678

Note 15. Provisions

	12.31.2018	Allocations	Write-backs (used)	Write-backs (unused)	Other	06.30.2019
Provisions for pension obligations	314,075	31,006	-5,068	0	0	340,013
Provisions for home savings accounts and plans	18,470	868	0	0	0	19,338
Provisions for expected losses on credit risk of off-balance sheet commitments within the banking scope	43,714	10,830	0	-12,206	-6	42,332
Provisions for execution of guarantee commitments	0	0	0	0	0	0
Provisions for taxes	9,347	0	-1,670	0	-7,340	337
Provisions for lawsuits	7,741	4,359	-1,309	-573	-128	10,090
Provisions for contingencies	3,542	482	-512	-100	-266	3,146
Other	26,662	1,251	-4,262	-2,901	613	21,363
TOTAL	423,551	48,796	-12,821	-15,780	-7,127	436,619

Note 15a. Provisions for expected losses on credit risk of off-balance sheet commitments within the banking scope

	12.31.2018	Allocations	Write-backs	Other	06.30.2019
Commitments given					
12-month expected losses	11,992	6,565	-6,690	-403	11,464
Lifetime expected losses for non-impaired assets	2,928	1,479	-2,094	397	2,710
Lifetime expected losses for impaired assets (instruments impaired or not at acquisition/creation)	28,794	2,786	-3,422	0	28,158
TOTAL	43,714	10,830	-12,206	-6	42,332

Note 16a. Fair value ranking – banking activity

06.30.2019

Financial assets	Level 1	Level 2	Level 3	Total
FVOCI	**7,613,999**	**1,854,421**	**273,252**	**9,741,672**
- Treasury bills and similar securities - FVOCI (1)	3,065,250	551,272	0	3,616,522
- Bonds and other fixed-income securities - FVOCI (2) (3)	4,370,530	1,300,729	435	5,671,694
- Stocks and other variable-income securities - FVOCI	72,091	2,420	12,036	86,547
- Equity investments and other long-term investments - FVOCI	106,128	0	260,578	366,706
- Shares in associates - FVOCI	0	0	203	203
- Loans and receivables due from credit institutions - FVOCI	0	0	0	0
- Loans and receivables due from customers - FVOCI	0	0	0	0
Trading/FVO/Other FVTPL	**12,162**	**778,201**	**629,562**	**1,419,925**
- Treasury bills and similar securities - Trading	0	0	0	0
- Treasury bills and similar securities - Fair value option	0	0	0	0
- Treasury bills and similar securities - Other FVTPL	0	0	0	0
- Bonds and other fixed-income securities - Held for trading	0	0	0	0
- Bonds and other fixed-income securities - Fair value option	0	0	0	0
- Bonds and other fixed-income securities - Other FVTPL	10,393	131,488	200,458	342,339
- Stocks and other variable-income securities - Held for trading	0	0	0	0
- Stocks and other variable-income securities - Other FVTPL	1,769	0	429,104	430,873
- Loans and receivables due from credit institutions - Fair value option	0	1,553	0	1,553
- Loans and receivables due from credit institutions - Other FVTPL	0	50,284	0	50,284
- Loans and receivables due from customers - Fair value option	0	6,808	0	6,808
- Loans and receivables due from customers - Other FVTPL	0	608	0	608
- Derivatives and other financial assets - Held for trading	0	587,460	0	587,460
Derivatives used for hedging purposes	**0**	**1,052,638**	**0**	**1,052,638**
Total	**7,626,161**	**3,685,260**	**902,814**	**12,214,235**
Financial liabilities				
Trading/FVO	**0**	**1,006,818**	**0**	**1,006,818**
- Amounts due to credit institutions - Fair value option	0	1,553	0	1,553
- Amounts due to customers - Fair value option	0	11,336	0	11,336
- Debt securities - Fair value option	0	396,469	0	396,469
- Derivatives and other financial liabilities - Held for trading	0	597,460	0	597,460
Derivatives used for hedging purposes	**0**	**972,066**	**0**	**972,066**
Total	**0**	**1,978,884**	**0**	**1,978,884**

(1) Transfers from level 2 to level 1 were made in the amount of €41 million. They consisted mainly of bonds whose characteristics correspond to level 1 criteria.
(2) Transfers from level 2 to level 1 were made in the amount of €230 million. They consisted mainly of bonds whose characteristics correspond to level 1 criteria.
(3) Transfers from level 1 to level 2 were made in the amount of €4 million. They consisted mainly of bonds whose characteristics correspond to level 2 criteria.

12.31.2018

Financial assets	Level 1	Level 2	Level 3	Total
FVOCI	**8,652,074**	**2,404,722**	**266,899**	**11,323,695**
- Treasury bills and similar securities - FVOCI (1)	4,201,642	726,173	0	4,927,815
- Bonds and other fixed-income securities - FVOCI (2) (3)	4,273,977	1,676,129	0	5,950,106
- Stocks and other variable-income securities - FVOCI (4)	74,727	2,420	12,038	89,185
- Equity investments and other long-term investments - FVOCI	101,728	0	254,657	356,385
- Shares in associates - FVOCI	0	0	204	204
- Loans and receivables due from credit institutions - FVOCI	0	0	0	0
- Loans and receivables due from customers - FVOCI	0	0	0	0
Trading/FVO/Other FVTPL	**11,922**	**623,997**	**543,344**	**1,179,263**
- Treasury bills and similar securities - Trading	0	0	0	0
- Treasury bills and similar securities - Fair value option	0	0	0	0
- Treasury bills and similar securities - Other FVTPL	0	0	0	0
- Bonds and other fixed-income securities - Held for trading	0	0	0	0
- Bonds and other fixed-income securities - Fair value option	0	0	0	0
- Bonds and other fixed-income securities - Other FVTPL (5)	9,944	138,360	158,119	306,423
- Stocks and other variable-income securities - Held for trading	0	0	0	0
- Stocks and other variable-income securities - Other FVTPL	1,978	0	385,225	387,203
- Loans and receivables due from credit institutions - Fair value option	0	1,895	0	1,895
- Loans and receivables due from credit institutions - Other FVTPL	0	63,160	0	63,160
- Loans and receivables due from customers - Fair value option	0	15,031	0	15,031
- Loans and receivables due from customers - Other FVTPL	0	593	0	593
- Derivatives and other financial assets - Held for trading	0	404,958	0	404,958
Derivatives used for hedging purposes	**0**	**692,564**	**0**	**692,564**
Total	**8,663,996**	**3,721,283**	**810,243**	**13,195,522**
Financial liabilities				
Trading/FVO	**0**	**811,071**	**0**	**811,071**
- Amounts due to credit institutions - Fair value option	0	1,895	0	1,895
- Amounts due to customers - Fair value option	0	6,243	0	6,243
- Debt securities - Fair value option	0	352,924	0	352,924
- Derivatives and other financial liabilities - Held for trading	0	450,009	0	450,009
Derivatives used for hedging purposes	**0**	**427,735**	**0**	**427,735**
Total	**0**	**1,238,806**	**0**	**1,238,806**

(1) Transfers from level 1 to level 2 were made in the amount of €142 million. They consisted mainly of bonds whose characteristics correspond to level 2 criteria.

(2) Transfers from level 1 to level 2 were made in the amount of €167 million. They consisted mainly of bonds whose characteristics correspond to level 2 criteria.

(3) Transfers from level 2 to level 1 were made in the amount of €4 million. They consisted mainly of bonds whose characteristics correspond to level 1 criteria.

(4) Transfers from level 3 to level 2 were made in the amount of €2 million. They consisted mainly of equities whose characteristics correspond to level 2 criteria.

(5) Transfers from level 3 to level 2 were made in the amount of €89 million. They concerned mainly innovation funds, venture capital funds and real estate investment vehicles. These are measured using recognized valuation methods (PER multiples, etc.) by counterparties (management companies) that are specialized in these methods. In this context, this type of asset has been classified in level 2.

Note 16b. Fair value ranking – insurance activity

06.30.2019				
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale assets	**21,949,600**	**2,490,975**	**2,255,552**	**26,696,127**
- Treasury bills and similar securities - AFS	9,107,095	0	0	9,107,095
- Bonds and other fixed-income securities - AFS (1)	12,514,005	2,025,933	1,699,974	16,239,912
- Stocks and other variable-income securities - AFS	271,723	465,042	75,074	811,839
- Equity investments and other long-term investments - AFS	56,777	0	480,504	537,281
- Shares in associates - AFS	0	0	0	0
Trading/FVO	**12,724,671**	**9,266,115**	**5,887,006**	**27,877,792**
- Treasury bills and similar securities - Fair value option	0	0	0	0
- Bonds and other fixed-income securities - Held for trading	0	0	0	0
- Bonds and other fixed-income securities - Fair value option	160,867	6,124,320	558,073	6,843,260
- Stocks and other variable-income securities - Fair value option	12,563,804	3,141,770	5,328,933	21,034,507
- Loans and receivables due from credit institutions - Fair value option	0	0	0	0
- Derivatives and other financial assets - Held for trading	0	25	0	25
Derivatives used for hedging purposes	**0**	**0**	**0**	**0**
Total	**34,674,271**	**11,757,090**	**8,142,558**	**54,573,919**
Financial liabilities				
Trading/FVO	**0**	**121,035**	**0**	**121,035**
- Amounts due to credit institutions - Fair value option	0	0	0	0
- Debt securities - Fair value option	0	0	0	0
- Derivatives and other financial liabilities - Held for trading	0	121,035	0	121,035
Derivatives used for hedging purposes	**0**	**0**	**0**	**0**
Total	**0**	**121,035**	**0**	**121,035**

(1) Transfers from level 2 to level 1 were made in the amount of €237 million. They consisted mainly of bonds whose characteristics correspond to level 1 criteria.

12.31.2018				
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale assets	**21,368,477**	**2,579,812**	**2,033,229**	**25,981,518**
- Treasury bills and similar securities - AFS	9,272,247	0	0	9,272,247
- Bonds and other fixed-income securities -AFS (1) (2)	11,813,936	2,160,922	1,521,154	15,496,012
- Stocks and other variable-income securities - AFS (3)	227,872	418,890	76,885	723,647
- Equity investments and other long-term investments - AFS	54,422	0	435,190	489,612
- Shares in associates - AFS	0	0	0	0
Trading/FVO	**9,703,406**	**8,307,266**	**4,872,181**	**22,882,853**
- Treasury bills and similar securities - Fair value option	0	0	0	0
- Bonds and other fixed-income securities - Held for trading	0	0	0	0
- Bonds and other fixed-income securities - Fair value option	104,878	5,411,545	510,153	6,026,576
- Stocks and other variable-income securities - Fair value option (4) (5)	9,598,528	2,895,720	4,362,028	16,856,276
- Loans and receivables due from credit institutions - Fair value option	0	0	0	0
- Derivatives and other financial assets - Held for trading	0	1	0	1
Derivatives used for hedging purposes	**0**	**0**	**0**	**0**
Total	**31,071,883**	**10,887,078**	**6,905,410**	**48,864,371**
Financial liabilities				
Trading/FVO	**0**	**103,138**	**0**	**103,138**
- Amounts due to credit institutions - Fair value option	0	0	0	0
- Debt securities - Fair value option	0	0	0	0
- Derivatives and other financial liabilities - Held for trading	0	103,138	0	103,138
Derivatives used for hedging purposes	**0**	**0**	**0**	**0**
Total	**0**	**103,138**	**0**	**103,138**

(1) Transfers from level 2 to level 1 were made in the amount of €149 million. They consisted mainly of bonds whose characteristics correspond to level 1 criteria.
(2) Transfers from level 1 to level 2 were made in the amount of €213 million. They consisted mainly of bonds whose characteristics correspond to level 2 criteria.
(3) Transfers from level 3 to level 2 were made in the amount of €412 million. They consisted mainly of equities whose characteristics correspond to level 2 criteria.
(4) Transfers from level 2 to level 1 were made in the amount of €18 million. They consisted mainly of equities whose characteristics correspond to level 1 criteria.

(5) Transfers from level 3 to level 2 were made in the amount of €2,865 million. They concerned mainly innovation funds, venture capital funds and real estate investment vehicles. These are measured using recognized valuation methods (PER multiples, etc.) by counterparties (management companies) that are specialized in these methods. In this context, this type of asset has been classified in level 2.

Note 17a. Fair value ranking of financial assets and liabilities recognized at amortized cost - banking activity

06.30.2019	Market value	Carrying amount	Unrealized capital gains and losses	Level 1	Level 2	Level 3
Assets	71,432,080	69,213,347	2,218,733	188,443	9,853,636	61,390,001
Financial assets at amortized cost						
Loans and receivables due from credit institutions	9,722,234	9,720,804	1,430	0	9,722,234	0
Loans and receivables due from customers	61,236,509	59,052,583	2,183,926	0	0	61,236,509
Securities	473,337	439,960	33,377	188,443	131,402	153,492
Liabilities	82,591,775	81,525,725	1,066,050	0	25,888,822	56,702,953
Liabilities to credit institutions	7,988,473	7,962,286	26,187	0	7,988,473	0
Liabilities to customers	56,702,953	56,697,943	5,010	0	0	56,702,953
Debt securities	15,218,422	14,357,474	860,948	0	15,218,422	0
Subordinated debt	2,681,927	2,508,022	173,905	0	2,681,927	0

31.12.2018.	Market value	Carrying amount	Unrealized capital gains and losses	Level 1	Level 2	Level 3
Assets	65,607,962	64,725,318	882,644	0	9,019,929	56,588,033
Financial assets at amortized cost						
Loans and receivables due from credit institutions	9,019,929	8,986,833	33,096	0	9,019,929	0
Loans and receivables due from customers	56,427,084	55,574,536	852,548	0	0	56,427,084
Securities	160,949	163,949	-3,000	0	0	160,949
Liabilities	76,866,614	76,110,287	756,327	0	22,312,031	54,554,583
Liabilities to credit institutions	7,181,152	7,117,358	63,794	0	7,181,152	0
Liabilities to customers	54,554,583	54,555,163	-580	0	0	54,554,583
Debt securities	13,490,397	12,770,678	719,719	0	13,490,397	0
Subordinated debt	1,640,482	1,667,088	-26,606	0	1,640,482	0

Note 17b. Fair value ranking of financial assets and liabilities recognized at amortized cost - insurance activity

06.30.2019	Market value	Carrying amount	Unrealized capital gains and losses	Level 1	Level 2	Level 3
Assets	601,684	601,684	0	3,614	4,409	593,661
Loans and receivables due from credit institutions	4,409	4,409	0	0	4,409	0
Other loans and receivables linked to insurance activities	593,661	593,661	0	0	0	593,661
Held-to-maturity financial assets	3,614	3,614	0	3,614	0	0
Liabilities	1,431,011	1,431,011	0	0	1,431,011	0
Liabilities to credit institutions	1,430,572	1,430,572	0	0	1,430,572	0
Debt securities	0	0	0	0	0	0
Subordinated debt	439	439	0	0	439	0

31.12.2018.	Market value	Carrying amount	Unrealized capital gains and losses	Level 1	Level 2	Level 3
Assets	525,503	525,503	0	3,534	22,542	499,427
Loans and receivables due from credit institutions	22,542	22,542	0	0	22,542	0
Other loans and receivables linked to insurance activities	499,427	499,427	0	0	0	499,427
Held-to-maturity financial assets	3,534	3,534	0	3,534	0	0
Liabilities	1,499,350	1,499,350	0	0	1,341,553	157,797
Liabilities to credit institutions	1,340,999	1,340,999	0	0	1,340,999	0
Liabilities to customers	157,797	157,797	0	0	0	157,797
Debt securities	0	0	0	0	0	0
Subordinated debt	554	554	0	0	554	0

NOTES TO THE INCOME STATEMENT In thousands of euros

Note 18. Interest and similar income/expense

	06.30.2019		06.30.2018	
	Income	Expense	Income	Expense
Credit institutions and central banks	60,484	-94,087	58,485	-78,848
Customers	674,672	-257,409	694,637	-281,852
- of which leasing	80,088	-55,358	66,776	-45,186
- of which rental obligation		-354		0
Securities at amortized cost	1,332	0	1,087	0
Financial assets at fair value through profit or loss	4,400	-491	6,940	-2,598
Derivatives used for hedging purposes	159,917	-142,277	130,825	-104,564
Financial assets at fair value through equity	4,002	0	2,844	0
Debt securities	0	-102,509	0	-96,942
TOTAL	904,807	-596,773	894,818	-564,804

Note 19. Fee and commission income/expense

	06.30.2019		06.30.2018	
	Income	Expense	Income	Expense
Credit institutions	6,018	-8,026	5,176	-5,326
Customers	47,680	-132	42,970	-178
Derivatives	5,230	-463	4,510	-577
Foreign exchange	2,259	0	2,705	-38
Financing and guarantee commitments	349	-1,246	61	-519
Securities and services	238,624	-58,907	263,921	-60,565
TOTAL	300,160	-68,774	319,343	-67,203

Note 20. Net gain (loss) on financial instruments at fair value through profit or loss

	06.30.2019	06.30.2018
Instruments held for trading	44,798	3,628
Fair value option instruments	-38,654	158
Change in fair value attributable to credit risk presented in net income for the liabilities	0	0
Other instruments at fair value through profit or loss	52,372	55,588
Including UCI	7,964	18,191
Hedging ineffectiveness	1,325	-376
Cash flow hedges	0	-1
Fair value hedges	1,325	-375
. change in fair value of hedged items	-246,001	15,248
. change in fair value of hedges	247,326	-15,623
Foreign exchange gains (losses)	-1,457	710
TOTAL OF CHANGES IN FAIR VALUE	58,384	59,708

Note 21. Net gain (loss) on financial instruments at fair value through equity

	06.30.2019		
	Dividends	Realized gains/losses	Total
Treasury bills, notes and government bonds		23,738	23,738
Bonds and other fixed-income securities		2,222	2,222
Loans - Credit institutions		0	0
Customer loans		0	0
Stocks and other variable-income securities	4,797		4,797
Equity securities held for long-term investment	4,879		4,879
TOTAL	9,676	25,960	35,636

	06.30.2018		
	Dividends	Realized gains/losses	Total
Treasury bills, notes and government bonds		11,105	11,105
Bonds and other fixed-income securities		533	533
Loans - Credit institutions		0	0
Customer loans		0	0
Stocks and other variable-income securities	5,336		5,336
Equity securities held for long-term investment	8,423		8,423
TOTAL	13,759	11,638	25,397

Note 22. Net gain (loss) on financial instruments at amortized cost

Financial assets	Profit or loss recognized on the derecognition of assets as at June 30, 2019	Profit or loss recognized on the derecognition of assets as at June 30, 2018
Treasury bills, notes and government bonds	0	0
Bonds and other fixed-income securities	0	1
Loans - Credit institutions	0	0
Customer loans	0	0
Financial liabilities		
Liabilities to credit institutions	0	0
Liabilities to customers	0	0
Debt securities	0	0
Subordinated debt	0	0
TOTAL	0	1

Note 23. Net income from insurance activities

	06.30.2019	06.30.2018
Interest and similar income/expense	21,957	21,976
Fee and commission income/expense	-40,295	-36,117
Net gain (loss) on financial instruments at fair value through profit or loss	1,890	-973
Net gain (loss) on available-for-sale financial instruments	18,317	4,167
Net gain (loss) on financial assets/liabilities at amortized cost	0	0
Other income/expense from insurance activities	394,012	345,008
TOTAL	**395,881**	**334,061**

Note 23a. Interest and similar income/expense

	06.30.2019		06.30.2018	
	Income	Expense	Income	Expense
Credit institutions and central banks	2,180	-1,504	2,451	-1,319
Customers	0	0	0	0
Held-to-maturity financial assets	80	0	143	0
Financial assets/liabilities at fair value through profit or loss	0	0	0	0
Available-for-sale financial assets	21,201	0	20,701	0
Debt securities	0	0	0	0
Subordinated debt	0	0	0	0
TOTAL	**23,461**	**-1,504**	**23,295**	**-1,319**

Note 23b. Fee and commission income/expense

	06.30.2019		06.30.2018	
	Income	Expense	Income	Expense
Credit institutions	0	-16	0	-15
Customers	0	0	0	0
Derivatives	0	0	0	0
Foreign exchange	0	0	0	0
Financing and guarantee commitments	0	0	0	0
Securities and services	32,668	-72,947	31,402	-67,504
TOTAL	**32,668**	**-72,963**	**31,402**	**-67,519**

Note 23c. Net gain (loss) on financial instruments at fair value through profit or loss

	06.30.2019	06.30.2018
Instruments held for trading	-554	-96
Fair value option instruments	2,534	-730
Other instruments at fair value through profit or loss	0	0
Foreign exchange gains (losses)	-90	-147
TOTAL OF CHANGES IN FAIR VALUE	**1,890**	**-973**

Note 23d. Net gain (loss) on available-for-sale financial instruments

	06.30.2019			06.30.2018		
	Dividends	Realized gains/losses	Total	Dividends	Realized gains/losses	Total
Treasury bills, notes, government bonds, bonds and other fixed-income securities	0	324	**324**	0	529	**529**
Stocks and other variable-income securities	17,301	0	**17,301**	3,638	0	**3,638**
Equity securities held for long-term investment	692	0	**692**	0	0	**0**
Other	0	0	**0**	0	0	**0**
TOTAL	**17,993**	**324**	**18,317**	**3,638**	**529**	**4,167**

Note 23e. Other income/expense from insurance activities

	06.30.2019		06.30.2018	
	Income	Expense	Income	Expense
Insurance business	9,092,956	-8,692,644	3,567,347	-3,224,688
Investment real estate	0	-7,849	5,258	-7,829
Other income	6,531	-4,982	6,108	-1,188
TOTAL	9,099,487	-8,705,475	3,578,713	-3,233,705

Note 23f. Gross margin on insurance activities

	06.30.2019	06.30.2018
Premiums earned	2,809,020	2,596,069
Cost of claims and benefits	-103,925	-92,560
Change in provisions	9,569	-8,391
Other technical and non-technical income and expenses	-3,181,231	-2,735,974
Net investment income	866,879	583,515
TOTAL	400,312	342,659

Note 24. Income/expense from other activities

	06.30.2019		06.30.2018	
	Income	Expense	Income	Expense
Insurance business				
Investment real estate	933	-3,006	1,282	-3,228
Other income	119,177	-30,606	116,834	-33,786
TOTAL	120,110	-33,612	118,116	-37,014

Note 25. Operating expense

	06.30.2019	06.30.2018
Personnel expenses	-422 920	-411 643
Other expense	-285 519	-263 821
TOTAL	-708 439	-675 464

Note 25a. Personnel expenses

	06.30.2019	06.30.2018
Salaries and wages	-229,502	-230,634
Payroll taxes	-107,949	-98,698
Mandatory and optional employee profit-sharing	-39,940	-42,539
Taxes, levies and similar payments on compensation	-33,698	-34,878
Other	-11,831	-4,894
TOTAL	-422,920	-411,643

Note 25b. Other expenses

	06.30.2019	06.30.2018
Taxes other than on income	-63,525	-61,795
Leases	-29,537	-30,648
- short-term leases of assets or low / substantial amounts	-26,703	-30,108
- other leases	-2,834	-540
Other external services	-192,431	-171,106
Other miscellaneous expenses	-26	-272
TOTAL	-285,519	-263,821

Note 26. Cost of risk

Note 26a. Cost of risk - banking activity

06.30.2019	Allocations	Reversals	Provisioned bad debt	Unprovisioned bad debt	Collection of receivables written off	TOTAL
12-month expected losses	-62,836	56,189				-6,647
- Loans and receivables due from credit institutions	-443	748				305
- Loans and receivables due from customers	-52,316	44,441				-7,875
- of which finance leases	*-2,323*	*921*				*-1,402*
- Financial assets at amortized cost - Fixed income securities	-125	49				-76
- Financial assets at FVOCI - Fixed income securities	-3,387	4,260				873
- Financial assets at FVOCI - Loans	0	0				0
- Off-balance sheet	-6,565	6,691				126
- Other assets	0	0				0
Lifetime expected loss	-61,840	59,669				-2,171
- Loans and receivables due from credit institutions	0	0				0
- Loans and receivables due from customers	-60,334	57,484				-2,850
- of which finance leases	*-2,004*	*688*				*-1,316*
- Financial assets at amortized cost - Fixed income securities	0	36				36
- Financial assets at FVOCI - Fixed income securities	-27	55				28
- Financial assets at FVOCI - Loans	0	0				0
- Off-balance sheet	-1,479	2,094				615
- Other assets	0	0				0
Impaired assets	-122,032	124,292	-25,484	-3,000	1,262	-24,962
- Loans and receivables due from credit institutions	0	0	0	0	0	0
- Loans and receivables due from customers	-117,299	119,913	-25,377	-3,000	1,249	-24,514
- of which finance leases	*-5,606*	*4,281*	*-635*	*-460*	*0*	*-2,420*
- Financial assets at amortized cost - Fixed income securities	-300	0	0	0	0	-300
- Financial assets at FVOCI - Fixed income securities	0	0	0	0	0	0
- Financial assets at FVOCI - Loans	0	0	0	0	0	0
- Off-balance sheet	-2,786	3,424	0	0	0	638
- Other assets	-1,647	955	-107	0	13	-786
Total	-246,708	240,150	-25,484	-3,000	1,262	-33,780

06.30.2018	Allocations	Reversals	Provisioned bad debt	Unprovisioned bad debt	Collection of receivables discharged	TOTAL
12-month expected losses	-59,597	48,476				-11,121
- Loans and receivables due from credit institutions	-252	273				21
- Loans and receivables due from customers	-47,353	38,292				-9,061
- of which finance leases	*-801*	*1,662*				861
- Financial assets at amortized cost - Fixed income securities	-1	29				28
- Financial assets at FVOCI - Fixed income securities	-4,022	1,987				-2,035
- Financial assets at FVOCI - Loans	0	0				0
- Off-balance sheet	-7,969	7,895				-74
- Other assets	0	0				0
Lifetime expected loss	-76,839	64,593				-12,246
- Loans and receivables due from credit institutions	0	7				7
- Loans and receivables due from customers	-73,698	62,220				-11,478
- of which finance leases	*-1,988*	*803*				-1,185
- Financial assets at amortized cost - Fixed income securities	-192	29				-163
- Financial assets at FVOCI - Fixed income securities	-55	38				-17
- Financial assets at FVOCI - Loans	0	0				0
- Off-balance sheet	-2,894	2,299				-595
- Other assets	0	0				0
Impaired assets	-103,923	117,646	-27,751	-3,486	4,272	-13,242
- Loans and receivables due from credit institutions	0	0	0	-12	0	-12
- Loans and receivables due from customers	-101,423	117,646	-27,751	-3,474	4,272	-10,730
- of which finance leases	*-7,687*	*5,655*	*-716*	*-1,277*	*0*	-4,025
- Financial assets at amortized cost - Fixed income securities	-2,500	0	0	0	0	-2,500
- Financial assets at FVOCI - Fixed income securities	0	0	0	0	0	0
- Financial assets at FVOCI - Loans	0	0	0	0	0	0
- Off-balance sheet	0	0	0	0	0	0
Other	-6,737	5,690	-4	0	0	-1,051
- Other assets	-6,737	5,690	-4	0	0	-1,051
Total	-247,096	236,405	-27,755	-3,486	4,272	-37,660

Note 26b. Cost of risk - insurance activity

06.30.2019	Allocations	Reversals	Provisioned bad debt	Unprovisioned bad debt	Collection of receivables written off	TOTAL
- Credit institutions	0	0	0	0	0	0
- Insurance business	0	0	0	0	0	0
- Available-for-sale assets	0	0	0	0	0	0
- Held-to-maturity assets	0	0	0	0	0	0
- Other	0	50	0	0	0	50
Total	0	50	0	0	0	50

06.30.2018	Allocations	Reversals	Provisioned bad debt	Unprovisioned bad debt	Collection of receivables written off	TOTAL
- Credit institutions	0	0	0	0	0	0
- Insurance business	0	0	0	0	0	0
- Available-for-sale assets	0	0	0	0	0	0
- Held-to-maturity assets	0	0	0	0	0	0
- Other	-9	6	0	0	0	-3
Total	-9	6	0	0	0	-3

Note 26c. Banking activities - Information regarding changes in outstanding loans subject to provisions for expected losses for credit risk

	12.31.2018	Acquisition /production	Sale/repayment	Transfers between buckets	Other	06.30.2019
Financial assets at amortized costs - loans and receivables due from credit institutions	8,988,980	1,238,204	-504,536	0	0	9,722,648
- 12-month expected losses	8,988,980	1,238,204	-504,536	0	0	9,722,648
- Lifetime expected losses - non-impaired assets	0	0	0	0	0	0
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	0	0	0	0	0	0
Lifetime expected losses - assets impaired as from acquisition/creation	0	0	0	0	0	0
Financial assets at amortized costs - loans and receivables due from customers	56,626,318	7,479,077	-3,992,723	0	0	60,112,672
- 12-month expected losses	52,773,663	7,391,515	-3,602,686	-396,043	0	56,166,449
- Lifetime expected losses - non-impaired assets	2,424,408	83,336	-290,180	294,488	0	2,512,052
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	1,213,898	0	-81,444	100,862	0	1,233,316
Lifetime expected losses - assets impaired as from acquisition/creation	214,349	4,226	-18,413	693	0	200,855
Financial assets at amortized cost - Securities	168,970	290,766	-14,399	0	0	445,337
- 12-month expected losses	143,113	290,322	-14,399	-300	0	418,736
- Lifetime expected losses - non-impaired assets	20,315	328	0	0	0	20,643
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	5,542	116	0	300	0	5,958
Lifetime expected losses - assets impaired as from acquisition/creation	0	0	0	0	0	0
- Financial assets at FVOCI - Fixed income securities	10,884,679	69	-1,590,675	0	0	9,294,073
- 12-month expected losses	10,852,953	69	-1,578,971	-1,202	0	9,272,849
- Lifetime expected losses - non-impaired assets	31,726	0	-11,704	1,202	0	21,224
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	0	0	0	0	0	0
Lifetime expected losses - assets impaired as from acquisition/creation	0	0	0	0	0	0
- Financial assets at FVOCI - Loans	0	0	0	0	0	0
- 12-month expected losses	0	0	0	0	0	0
- Lifetime expected losses - non-impaired assets	0	0	0	0	0	0
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	0	0	0	0	0	0
Lifetime expected losses - assets impaired as from acquisition/creation	0	0	0	0	0	0
Total	76,668,947	9,008,116	-6,102,333	0	0	79,574,730

Note 26d. Banking activities - Information regarding changes in provisions for expected losses for credit risk

	12.31.2018	Allocations	Reversals	Transfers	Change of method	Other	06.30.2019
Financial assets at amortized cost - loans and receivables due from credit institutions	-2,147	-444	747	0	0	0	-1,844
- 12-month expected losses	-2,147	-444	747	0	0	0	-1,844
- Lifetime expected losses - non-impaired assets	0	0	0	0	0	0	0
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	0	0	0	0	0	0	0
Lifetime expected losses - assets impaired as from acquisition/creation	0	0	0	0	0	0	0
Financial assets at amortized costs - loans and receivables due from customers	-1,051,782	-249,285	240,978	0	0	0	-1,060,089
- 12-month expected losses	-113,225	-52,297	65,754	-21,314	0	0	-121,082
- Lifetime expected losses - non-impaired assets	-135,097	-60,278	44,365	13,119	0	0	-137,891
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	-665,736	-136,418	117,134	8,195	0	0	-676,825
Lifetime expected losses - assets impaired as from acquisition/creation	-137,724	-292	13,725	0	0	0	-124,291
Financial assets at amortized cost - Securities	-5,021	-441	85	0	0	0	-5,377
- 12-month expected losses	-342	-125	49	0	0	0	-418
- Lifetime expected losses - non-impaired assets	-476	0	36	0	0	0	-440
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	-4,203	-316	0	0	0	0	-4,519
Lifetime expected losses - assets impaired as from acquisition/creation	0	0	0	0	0	0	0
- Financial assets at FVOCI - Fixed income securities	-6,758	-3,420	4,321	0	0	0	-5,857
- 12-month expected losses	-6,689	-3,389	4,262	0	0	0	-5,816
- Lifetime expected losses - non-impaired assets	-69	-31	59	0	0	0	-41
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	0	0	0	0	0	0	0
Lifetime expected losses - assets impaired as from acquisition/creation	0	0	0	0	0	0	0
- Financial assets at FVOCI - Loans	0	0	0	0	0	0	0
- 12-month expected losses	0	0	0	0	0	0	0
- Lifetime expected losses - non-impaired assets	0	0	0	0	0	0	0
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	0	0	0	0	0	0	0
Lifetime expected losses - assets impaired as from acquisition/creation	0	0	0	0	0	0	0
Commitments given	-43,714	-10,826	12,208	0	0	0	-42,332
- 12-month expected losses	-11,992	-6,163	6,691	0	0	0	-11,464
- Lifetime expected losses - non-impaired assets	-2,928	-1,876	2,094	0	0	0	-2,710
- Lifetime expected losses for assets impaired at the closing date but not impaired when acquired/created	-28,794	-2,787	3,423	0	0	0	-28,158
Other assets	0	0	0	0	0	0	0
- 12-month expected losses	0	0	0	0	0	0	
- Lifetime expected losses - non-impaired assets	0	0	0	0	0	0	
- of which expected losses measured according to the simplified method	0	0	0	0	0	0	
Lifetime expected losses for impaired assets (whether impaired or not at acquisition/creation)	0	0	0	0	0	0	
- of which expected losses measured according to the simplified method	0	0	0	0	0	0	
Total	-1,109,422	-264,416	258,339	0	0	0	-1,115,499

Note 27. Gains (losses) on other assets

	06.30.2019	06.30.2018
Property, plant and equipment and intangible assets	1,613	720
Capital losses on disposals	-902	-324
Capital gains on disposals	2,515	1,044
Expenses related to business combinations	-1,274	-246
Gains and losses on disposals of consolidated securities	23,450	0
TOTAL	23,789	474

Note 28. Income tax

	06.30.2019	06.30.2018
BREAKDOWN OF TAX EXPENSE		
Current tax expense	-78,295	-88,294
Net deferred tax expense or revenue	-11,175	-2,991
NET INCOME TAX EXPENSE	-89,470	-91,285
Income before taxes, badwill and income contribution from associates	331,926	311,664
EFFECTIVE TAX RATE	26.95%	29.29%

Analysis of effective tax rate:

	06.30.2019	06.30.2018
Statutory tax rate	32.02%	34.43%
Permanent differences	-0.46%	0.10%
Income taxed at a reduced rate or exempt	-5.91%	-5.78%
Change of tax rate	1.20%	0.83%
Impact of fiscal losses	-0.38%	0.66%
Tax credits	-0.03%	-0.03%
Special	0.40%	-0.91%
Other	0.10%	-0.01%
EFFECTIVE TAX RATE	26.95%	29.29%

The 2018 finance act provides for a gradual reduction in the corporate tax rate from 33.33% to 25% over the period 2017-2022 depending on companies' revenues.

Taxes must be measured based on the rates in effect at closing.

In case of a change in rates, deferred taxes must be adjusted based on the symmetry principle through profit or loss, unless they relate to items recognized outside profit or loss (in other comprehensive income (OCI) or directly in equity).

The impact of this rate change was included in the Arkéa group's deferred tax calculation.

As Article 4 of the law on the creation of the GAFA tax was not definitively adopted by June 30, 2019, we used the tax rate of 32.02% initially planned for 2019 under the 2018 Finance Act.

OTHER NOTES In thousands of euros

Note 29a. Commitments given and received - banking activity

	06.30.2019	12.31.2018
Commitments given	**13,241,412**	**14,077,950**
Financing commitments	9,096,814	9,669,199
To credit and similar institutions	7,500	13,750
To customers	9,089,314	9,655,449
Guarantee commitments	3,882,987	3,761,510
To credit and similar institutions	1,005	1,012
To customers	3,881,982	3,760,498
Securities commitments	261,611	647,241
Repurchase agreements	0	0
Other commitments given	261,611	647,241
Commitments received	**44,934,656**	**45,330,560**
Financing commitments	8,850,620	11,272,071
From credit and similar institutions	8,833,897	11,264,184
From customers	16,723	7,887
Guarantee commitments	35,611,749	33,580,476
From credit and similar institutions	200,071	209,899
From customers	35,411,678	33,370,577
Securities commitments	472,287	478,013
Reverse repurchase agreements	0	0
Other commitments received	472,287	478,013

Financing commitments given include the €7,500 thousand cash advance made to Caisse de Refinancement de l'Habitat to fund its operations.

	06.30.2019	12.31.2018
Receivables pledged as collateral	**12,155,324**	**14,568,979**
Banque de France	10,386,419	12,601,162
European Investment Bank	505,873	547,314
Caisse de Refinancement de l'Habitat	208,553	369,929
Caisse des Dépôts et Consignations	1,052,479	1,048,574
Other	2,000	2,000
Loaned securities	**0**	**0**
Deposits on market transactions	**674,614**	**400,856**
Securities sold under repurchase agreements	**5,738,263**	**4,994,676**

For its refinancing activity, the group repurchases debt and/or equity securities. This results in the transfer of ownership of securities which the recipient may in turn lend. The coupons or dividends benefit the borrower. These transactions are subject to margin calls.

Note 29b. Commitments given and received – insurance activity

	06.30.2019	12.31.2018
Commitments given	0	0
Commitments received	879,138	959,106

Note 30. Segment information

	Banking		Insurance and asset management		Group	
	06.30.2019	06.30.2018	06.30.2019	06.30.2018	06.30.2019	06.30.2018
Internal income (1)	135,283	132,324	-135,283	-132,324	0	0
External income (2)	668,546	695,532	447,273	386,891	1,115,819	1,082,423
Net banking income	803,829	827,856	311,990	254,567	1,115,819	1,082,423
General operating expenses and depreciation and amortization	-677,849	-649,240	-94,778	-84,330	-772,627	-733,570
Gross operating income	125,980	178,616	217,212	170,237	343,192	348,853
Cost of risk	-34,356	-38,719	626	1,056	-33,730	-37,663
Operating income	91,624	139,897	217,838	171,293	309,462	311,190
Share of income from associates	620	2,394	-185	4,152	434	6,546
Other	23,789	20,100	0	-	23,789	20,100
Recurring income before tax	116,033	162,391	217,653	175,445	333,685	337,836
Income tax	-21,182	-36,079	-68,288	-55,206	-89,470	-91,285
Net income	94,851	126,312	149,365	120,239	244,215	246,551
O/w non-controlling interests	-141	39	-2	2	-143	41
Net income, group share	94,992	126,273	149,367	120,237	244,359	246,511
	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018
Segment Assets and Liabilities	90,046,551	83,429,111	57,362,715	51,491,191	147,409,266	134,920,302

(1) Segment income from transactions with other segments.

(2) Segment income from sales to external customers.

Segment reporting is based on two business lines:

- Banking mainly includes the branch networks of CMB, CMSO and CMMC, and the subsidiaries specializing in the corporate market and real estate financing,
- Insurance and asset management include the subsidiaries specializing in fund management (UCITS) and the insurance companies.

Segment reporting by geographic region is not relevant for the group as nearly all of its business is carried out in France.

Note 31. Scope of consolidation

Last name	Country	Sector / Activity	% control		% equity interest	
			06.30.2019	12.31.2018	06.30.2019	12.31.2018
Crédit Mutuel Arkéa + Crédit Mutuel de Bretagne, Crédit Mutuel du Sud-Ouest and Crédit Mutuel du Massif Central federations and savings banks	France	Banking / Mutual banking	Consolidating entity			
Fully consolidated companies						
ARKEA BANKING SERVICES	France	Banking / Banking services	100,0	100.0	100,0	100.0
ARKEA BANQUE ENTREPRISES ET INSTITUTIONNELS	France	Banking / Corporate banking	100,0	100.0	100,0	100.0
ARKEA BOURSE RETAIL	France	Banking / Holding	100,0	100,0	100,0	100,0
ARKEA CAPITAL (GESTION)	France	Insurance and asset management / Asset management	100,0	100.0	100,0	100.0
ARKEA CAPITAL INVESTISSEMENT	France	Banking / Private equity	100,0	100.0	100,0	100.0
ARKEA CAPITAL MANAGERS HOLDING SLP	France	Banking / Private equity	100,0	100,0	100,0	100,0
ARKEA CAPITAL PARTENAIRE	France	Banking / Private equity	100,0	100.0	100,0	100.0
ARKEA CREDIT BAIL	France	Banking / Finance leasing	100,0	100.0	100,0	100.0
ARKEA DIRECT BANK (formerly Fortuneo SA)	France	Banking / Financial and stock market intermediation	100,0	100.0	100,0	100,0
ARKEA FONCIERE	France	Banking / Real estate	100,0	100.0	100,0	100.0
ARKEA HOME LOANS SFH	France	Banking / Refinancing entity	100,0	100.0	100,0	100.0
ARKEA PUBLIC SECTOR SCF	France	Banking / Refinancing entity	100,0	100.0	100,0	100.0
ARKEA SCD	France	Banking / Services	99,9	100,0	99,9	100,0
CAISSE DE BRETAGNE DE CREDIT MUTUEL AGRICOLE	France	Banking / Mutual banking	93,3	93,2	93,3	93,2
CREDIT FONCIER ET COMMUNAL D'ALSACE ET DE LORRAINE BANQUE	France	Banking / Specialized networks banking	100,0	100,0	100,0	100,0
CREDIT FONCIER ET COMMUNAL D'ALSACE ET DE LORRAINE (branch) (2)	Belgium	Banking / Specialized network banking	100,0	/	100,0	/
FCT COLLECTIVITES	France	Banking / Securitization fund	57,8	57,8	57,8	57,8
FEDERAL EQUIPEMENTS	France	Banking / Services	100,0	100.0	100,0	100.0
FEDERAL FINANCE	France	Insurance and asset management / Private banking and asset management	100,0	100.0	100,0	100.0
FEDERAL FINANCE GESTION	France	Insurance and asset management / Asset management	100,0	100.0	100,0	100.0
FEDERAL SERVICE	France	Banking / Services	97,8	97,8	97,8	97,8
FINANCO	France	Banking / Specialized network banking	100,0	100.0	100,0	100.0
GICM	France	Banking / Services	100,0	100.0	97,8	97,8
IZIMMO	France	Banking / Real estate	100,0	100.0	100,0	100.0
IZIMMO HOLDING	France	Banking / Holding	100,0	100.0	100,0	100.0
KEYTRADE BANK (branch)	Belgium	Banking / Financial and stock market intermediation	100,0	100.0	100,0	100,0
KEYTRADE BANK Luxembourg SA	Luxembourg	Banking / Financial and stock market intermediation	100,0	100.0	100,0	100,0
LEASECOM (3)	France	Banking / Finance leasing	/	100.0	/	100.0
LEASECOM CAR (3)	France	Banking / Finance leasing	/	100.0	/	100.0
LEETCHI SA	France	Banking / Services	100,0	100.0	100,0	100.0
MANGOPAY SA (formerly Leetchi Corp)	Luxembourg / France	Banking / Services	100,0	100.0	100,0	100.0
MONEXT	France	Banking / Services	100,0	100.0	100,0	100.0
NEXTALK	France	Banking / Services	100,0	100.0	100,0	100.0
NOUVELLE VAGUE	France	Banking / Services	100,0	100.0	100,0	100.0
NOVELIA	France	Insurance and asset management / Insurance brokerage	100,0	100.0	100,0	100.0
PROCAPITAL	France / Belgium	Banking / Financial and stock market intermediation	100,0	100,0	100,0	100,0
PUMPKIN	France	Banking / Services	100,0	100,0	100,0	100,0
SCHELCHER PRINCE GESTION	France	Insurance and asset management / Asset management	100,0	100.0	100,0	100.0
SOCIETE CIVILE IMMOBILIERE INTERFEDERALE	France	Banking / Real estate	100,0	100.0	100,0	100.0
SMSPG	France	Insurance and asset management / Holding	100,0	100.0	100,0	100.0
SMSPG 2	France	Insurance and asset management / Holding	100,0	100,0	100,0	100,0
STRATEO (branch)	Switzerland	Banking / Financial and stock market intermediation	100,0	100.0	100,0	100,0
SURAVENIR	France	Insurance and asset management / Life insurance	100,0	100.0	100,0	100.0
SURAVENIR ASSURANCES	France	Insurance and asset management / Non-life insurance	100,0	100,0	100,0	100,0

Last name	Country	Sector / Activity	% control		% equity interest	
			06.30.2019	12.31.2018	06.30.2019	12.31.2018
Companies consolidated using the equity method						
AVIAFUND FUND FACILITY MANAGEMENT GMBH	Germany	Insurance and asset management / mutual funds	24.8	25.3	25.4	25.9
AVIAFUND FUND SOLUTION SERVICES GMBH	Germany	Insurance and asset management / mutual funds	24.8	25.3	25.4	25.9
AVIARENT CAPITAL MANAGEMENT SARL	Luxembourg	Insurance and asset management / mutual funds	24.8	25.3	25.4	25.9
AVIARENT INVEST AG	Germany	Insurance and asset management / mutual funds	24.8	25.3	25.4	25.9
CAISSE CENTRALE DU CREDIT MUTUEL	France	Banking / Mutual banking	20.6	21.0	20.6	21.0
CODABEL MANAGEMENT	Belgium	Insurance and asset management / mutual funds	10.2	10.4	10.5	10.7
DS INVESTMENT SOLUTIONS SAS (formerly DERIVATIVES SOLUTIONS)	France	Insurance and asset management / mutual funds	23.3	23.8	23.9	24.4
FINANSEMBLE	France	Insurance and asset management / Asset management	30.4	30.4	30.4	30.4
HALLES A FOURAGES SCCV	France	Insurance and asset management / mutual funds	17.5	17.8	17.9	18.3
JIVAI	France	Insurance and asset management / Insurance brokerage	32.4	32.4	32.4	32.4
LA COMPAGNIE FRANCAISE DES SUCCESSIONS	France	Insurance and asset management / Asset management	32.6	32.6	32.6	32.6
LA FINANCIERE DE L'ECHIQUIER	France	Insurance and asset management / mutual funds	11.7	11.9	12.0	12.2
LEEMO	France	Insurance and asset management / mutual funds	11.7	11.9	12.0	12.2
LINK BY PRIMONIAL	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
LINXO GROUP	France	Banking / Services	29.8	29.8	29.8	29.8
MARSEILLE FURNITURE SARL	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
MATA CAPITAL	France	Insurance and asset management / mutual funds	11.7	11.9	12.0	12.2
NEW PORT	France	Banking / Holding	31.0	31.0	31.0	31.0
NEW PRIMONIAL HOLDING	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
OIKO GESTION (formerly AIBO GESTION)	France	Insurance and asset management / mutual funds	14.9	15.2	15.2	15.5
PFP	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL HOLDING	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL IMMOBILIEN GMBH (formerly EC ADVISORS GMBH)	Germany	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL LUXEMBOURG	Luxembourg	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL LUXEMBOURG FUND SERVICES	Luxembourg	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL LUXEMBOURG REAL ESTATE	Luxembourg	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL MANAGEMENT	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL MANAGEMENT 2	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL PARTENAIRES (formerly PATRIMMOFI)	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
PRIMONIAL REIM	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
SEFAL PROPERTY	France	Insurance and asset management / mutual funds	28.8	29.4	29.5	30.1
SPORTINVEST	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
UPSTONE SAS	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
VIVIENNE INVESTISSEMENT	France	Insurance and asset management / Asset management	34.4	34.4	34.4	34.4
VOLTAIRE CAPITAL	France	Insurance and asset management / mutual funds	29.2	29.7	29.9	30.5
YOMONI	France	Insurance and asset management / Asset management	34.0	34.5	34.0	34.5
YOUNITED CREDIT	France/Italy/Spain/ Portugal	Banking / Services	25.8	25.8	25.8	25.8

Last name	Country	Sector / Activity	% control		% equity interest	
			06.30.2019	12.31.2018	06.30.2019	12.31.2018
Companies consolidated using the shortcut method						
AIS MANDARINE ACTIVE (formerly FEDERAL CONVICTION ISR EURO)	France	Insurance and asset management / mutual funds	78.1	77.2	78.1	77.2
AIS MANDARINE ENTREPRENEURS (formerly FEDERAL ACTIONS ETHIQUES)	France	Insurance and asset management / mutual funds	79.8	73.4	79.8	73.4
AIS MANDARINE MULTI-ASSETS (formerly SURAVENIR REFERENCE ACTIONS)	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
ARKEA CAPITAL 1	France	Banking / mutual funds	100.0	100.0	100.0	100.0
ARKEA CAPITAL MANAGERS	France	Banking / mutual funds	100.0	100.0	100.0	100.0
AUTOFOCUS CROISSANCE + SEPTEMBRE 2017	France	Insurance and asset management / mutual funds	99.2	99.3	99.2	99.3
AUTOFOCUS CROISSANCE JANVIER 2017 (4)	France	Insurance and asset management / mutual funds	/	97.2	/	97.2
AUTOFOCUS CROISSANCE JUIN 2015	France	Insurance and asset management / mutual funds	93.8	93.9	93.8	93.9
AUTOFOCUS CROISSANCE MAI 2017	France	Insurance and asset management / mutual funds	97.3	97.3	97.3	97.3
AUTOFOCUS CROISSANCE MARS 2015	France	Insurance and asset management / mutual funds	81.3	78.6	81.3	78.6
AUTOFOCUS JANVIER 2016 (4)	France	Insurance and asset management / mutual funds	/	92.4	/	92.4
AUTOFOCUS RENDEMENT DECEMBRE 2014	France	Insurance and asset management / mutual funds	93.5	93.6	93.5	93.6
AUTOFOCUS RENDEMENT JANVIER 2018 (2)	France	Insurance and asset management / mutual funds	99.3	/	99.3	/
AUTOFOCUS ENDEMENT JUIN 2018 (2)	France	Insurance and asset management / mutual funds	98.4	/	98.4	/
AUTOFOCUS RENDEMENT MARS 2015	France	Insurance and asset management / mutual funds	92.9	93.1	92.9	93.1
AUTOFOCUS RENDEMENT MARS 2017	France	Insurance and asset management / mutual funds	97.2	97.3	97.2	97.3
AUTOFOCUS SEPTEMBRE 2016	France	Insurance and asset management / mutual funds	96.7	96.6	96.7	96.6
BREIZH ARMOR CAPITAL (2)	France	Banking / mutual funds	50.0	/	50.0	/
DIAPAZEN CLIMAT SEPTEMBRE 2016	France	Insurance and asset management / mutual funds	97.6	97.8	97.6	97.8
FCT SP EUROCREANCES	France	Insurance and asset management / mutual funds	43.4	43.4	43.4	43.4
FCT SUR PRIV DEBT II	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
FCT SURAVENIR PRIVAT	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
FEDERAL AMBITION CLIMAT (2)	France	Insurance and asset management / mutual funds	99.3	/	99.3	/
FEDERAL APAL	France	Insurance and asset management / mutual funds	73.9	74.4	73.9	74.4
FEDERAL CAPITAL INVESTISSEMENT	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
FEDERAL CONVICTION GRANDE ASIE	France	Insurance and asset management / mutual funds	81.9	83.9	81.9	83.9
FEDERAL CROISSANCE	France	Insurance and asset management / mutual funds	91.4	90.5	91.4	90.5
FEDERAL ESSOR INTERNATIONAL	France	Insurance and asset management / mutual funds	41.9	45.0	41.9	45.0
FEDERAL INDICIEL JAPON	France	Insurance and asset management / mutual funds	64.0	66.7	64.0	66.7
FEDERAL INDICIEL US	France	Insurance and asset management / mutual funds	54.2	56.0	54.2	56.0
FEDERAL MULTI ACTIONS EUROPE	France	Insurance and asset management / mutual funds	73.6	74.0	73.6	74.0
FEDERAL MULTI L/S	France	Insurance and asset management / mutual funds	53.2	63.2	53.2	63.2
FEDERAL MULTI OR ET MATIERES 1ERES	France	Insurance and asset management / mutual funds	89.3	89.4	89.3	89.4
FEDERAL MULTI PATRIMOINE	France	Insurance and asset management / mutual funds	90.6	91.4	90.6	91.4
FEDERAL MULTI PME	France	Insurance and asset management / mutual funds	58.6	67.5	58.6	67.5
FEDERAL OPPORTUNITE EQUILIBRE	France	Insurance and asset management / mutual funds	99.8	99.9	99.8	99.9
FEDERAL OPPORTUNITE MODERE	France	Insurance and asset management / mutual funds	98.6	98.5	98.6	98.5
FEDERAL OPPORTUNITE TONIQUE	France	Insurance and asset management / mutual funds	99.0	99.0	99.0	99.0
FEDERAL STRATEGIES ACTIVES	France	Banking / mutual funds	/	99.8	/	99.8
FEDERAL SUPPORT COURT TERME	France	Insurance and asset management / mutual funds	31.2	/	31.2	/
FEDERAL SUPPORT MONETAIRE	France	Insurance and asset management / mutual funds	39.6	/	39.6	/
FORMUL'ACTION SECURITE (4)	France	Insurance and asset management / mutual funds	/	93.7	/	93.7
FPS SURAVENIR ACTIONS INTERNATIONALES PROTECT	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
FPS SURAVENIR ACTIONS LOW VOL	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
FPS SURAVENIR ACTIONS PROTECT	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
FPS SURAVENIR ACTIONS PROTECT II	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
FSP / COMPARTIMENT 5	France	Insurance and asset management / mutual funds	42.4	42.4	42.4	42.4
KALEIDOSCOPE	France	Insurance and asset management / mutual funds	98.7	98.5	98.7	98.5
OPCI CLUB FRANCE RET	France	Insurance and asset management / mutual funds	46.3	46.3	46.3	46.3
OPCI PREIM DEFENSE 2	France	Insurance and asset management / mutual funds	37.5	37.5	37.5	37.5
OPCI PREIM EUROS	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
OPCI PREIM EUROS 2	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
OPCI PREIMIUM	France	Insurance and asset management / mutual funds	77.9	89.5	77.9	89.5
OPCI SOFIDY PIERRE EUROPE	France	Insurance and asset management / mutual funds	77.9	84.5	77.9	84.5
OPCI TIKEHAU RET PRO	France	Insurance and asset management / mutual funds	39.3	39.3	39.3	39.3
PRIMO ELITE	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
PRO FEDERAL LIQUIDITES	France	Insurance and asset management / mutual funds	79.0	63.3	79.0	63.3
S.C.I PROGRES PIERRE	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
S.C.I SURAV PIERRE	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
SCI CLOVERHOME	France	Insurance and asset management / mutual funds	50.0	50.0	50.0	50.0
SCI LE VINCI HOLDING	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
SCI PR2 PREIM RET 2	France	Insurance and asset management / mutual funds	38.0	38.0	38.0	38.0
SCI SOFIDY CONV IMMO	France	Insurance and asset management / mutual funds	40.8	52.0	40.8	52.0
SCI USUFRUIMMO	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
SCPI PIERRE EXPANSION	France	Insurance and asset management / mutual funds	57.0	57.0	57.0	57.0
SCPI PRIMOFAMILY	France	Insurance and asset management / mutual funds	44.5	55.7	44.5	55.7
SCPI PRIMONIA CAP IM	France	Insurance and asset management / mutual funds	38.5	40.1	38.5	40.1
SP CONVERTIBLES ISR EUROPE	France	Insurance and asset management / mutual funds	/	26.6	/	26.6
SP HAUT RENDEMENT	France	Insurance and asset management / mutual funds	38.2	38.3	38.2	38.3
SP NS FAMILLE	France	Insurance and asset management / mutual funds	45.0	43.1	45.0	43.1
SP OPPORTUNITES EUROPEENNES	France	Insurance and asset management / mutual funds	34.9	31.2	34.9	31.2
SURAVENIR INITIATIVE ACTIONS	France	Insurance and asset management / mutual funds	100.0	100.0	100.0	100.0
SYNERGIE FINANCE INVESTISSEMENT	France	Banking / mutual funds	100.0	100.0	100.0	100.0
WE POSITIVE INVEST	France	Banking / mutual funds	100.0	100.0	100.0	100.0
WEST WEB VALLEY	France	Banking / mutual funds	35.4	35.4	35.4	35.4

(1) Merger of assets and liabilities
(2) Companies first-time consolidated in 2019
(3) Transfer
(4) Liquidation

Recognition using the short-cut method is based on the use of the fair value option for all assets held through UCITS to be consolidated.

The short-cut method entails:

- recognizing fund shares under assets at fair value for their full amount;

- creating a liability (financial liability) for the amount corresponding to non-controlling interests.

Note 32. Events after the reporting period

- No significant events occurred after the June 30, 2019 closing date.
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4. Risk factors

There were no significant changes in the risk factors in relation to the situation described in the 2018 Registration Document, other than as mentioned in this document.

4.1 Identification of risk factors

The main types of risks specific to the group's business are identified and presented hereafter. The management of these risks is detailed on pages 217 to 253 of the 2018 Registration Document.

Credit risk

Credit risk involves the risk incurred in the event of a default by a counterparty or counterparties considered as a single group of customers in the regulatory sense of the term. The default of a counterparty results in its inability to meet its commitments in accordance with the agreed conditions. For example, the commitments in the case of a market counterparty may relate to the repayment of its debt securities or the payment of flows in the context of performance swaps (derivative contracts).

As regards corporate debt securities in the investment portfolio, credit risk includes the risk of issuer default but not the spread risk, which is classified as market risk.

Credit risk would result in a deterioration in the credit quality of counterparties across the entire portfolio (systemic risk), in a particular sector or product (e.g. Breton real estate), or for a category of borrowers (e.g. individuals or companies).

The materiality in the event of occurrence is considered medium. The materialization of customer credit risk would lead to an increase in provisions and therefore have a one-off impact on the Arkéa group's net income. In accordance with IFRS 9 regulations, outstanding loans are divided into 3 buckets, with different provisioning rates.

- Bucket 1: provisioned over a one-year horizon;
- Buckets 2 & 3: provisioned over the lifetime of the loan.

A deterioration in credit quality would therefore lead to:

- a new breakdown of outstandings by bucket;
- a possible increase in the provision rate within each bucket.

By way of illustration, a one-point increase in the share of total gross outstandings assigned to bucket 3 (non-performing loans) at December 31, 2018 would have an impact of around €200 million on net income. This strong assumption would be equivalent to returning to the level of non-performing loans recorded during the 2009 crisis. Furthermore, a one-point increase in the share of outstandings in bucket 2 would have an impact of around €20 million on net profit.

Operational risk

The concept of operational risk adopted by the Arkéa group covers all risks included in the definition of the Basel III regulation and the administrative order of November 3, 2014.

The decree of November 3, 2014 defines operational risk as “the risk of losses resulting from inadequate or failed internal processes, personnel and systems, or from external events”. Operational risk includes in particular risks related to events with a low probability of occurrence but a high impact: risks related to internal and external fraud, risks related to information technology, legal risk, risk of non-compliance, including the risk of money laundering and terrorist financing and risks related to the model.

Risk of fraud

Risk of fraud includes cases of internal fraud and external fraud.

Fraudulent actions, including cyber risk, could include:

- Intrusion into the information system in order to make fraudulent banking transactions (e.g. fraudulent use of SWIFT access);
- Damage to data integrity giving rise to costs in respect of forensics, information system reconstruction and impact on customers, particularly if there is a lack of continuity during the reconstruction period;
- Data theft;
- Attack resulting in the destruction of a data center.

The Arkéa group does not carry out proprietary trading activities, thereby limiting the risk of internal fraud linked to rogue trading.

The likelihood of such events is considered to be medium, given the increase in the number of attacks affecting banking institutions (particularly cyber attacks) driven by the development of new technologies. The magnitude of fraud risk if it materializes is classified as medium. Fraud, if it occurs, has both a direct impact[11] (resolution cost, amount stolen) and an indirect impact (time spent, reputational damage).

Risks linked to information and communication technology

In the absence of capital markets activities, the probability of occurrence of risk associated with information and communication technologies is considered low. However, the scale in the event of materialization is considered medium, as deficient information and communication technologies could lead to inappropriate decisions at headquarter level (on the basis of erroneous information) or a paralysis of activity (in particular by blocking means of payment).

Legal risk

Legal risk is included in operational risk and relates, among other things, to exposure to fines, penalties, and damages for acts that may incur the group’s liability in connection with its activities.

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[11] For example, the national bank of Bangladesh was the victim of a fraudulent transfer of USD 100 million in February 2016 as part of a phishing attack.

Compliance risk, including money-laundering and terrorist financing risk

Compliance risk is defined as the risk of a court-ordered, administrative or disciplinary penalty or of significant financial loss or injury to reputation resulting from non-compliance with: i) directly applicable national or European legislative or regulatory provisions governing banking and financial activities; ii) professional and ethical standards; iii) instructions from the effective managers taken pursuant to the orientations set by the supervisory body. Ever-increasing regulatory pressure is putting banks at growing risk of sanctions or reputational damage.

Structural interest rate and liquidity risks

Interest rate risk on the banking and insurance portfolio

Interest rate risk means the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates. It may result from maturity differences between fixed-rate sources and applications of funds, a difference in benchmark indices (basis risk) or the exercise of options (such as caps and floors).

Banking portfolio

Interest rate risk is assessed and monitored for the consolidated banking scope and for each entity within that scope. All balance sheet and off-balance sheet positions, notably financial instruments (swaps, etc.) and forward-start facilities, are integrated into the risk assessment.

Insurance portfolio

A change in interest rates directly affects the bond portfolio's valuation and returns, for both the proprietary and euro-denominated funds. Fixed-rate bonds expose Suravenir to the risk of a change in asset values; variable-rate bonds create the risk of income fluctuations.

The risk of decreasing interest rates

Persistently low interest rates could put downward pressure on the net margin generated by Suravenir, affecting its profitability and ultimately its solvency. The euro-denominated life insurance policies create a commitment for the company to offer a minimum guaranteed rate. When market interest rates fall, the portfolio's return may be insufficient to satisfy this commitment. In that case, French regulations require insurance companies to make a special provision allocation (the so-called financial risks provision). Suravenir did not need to make any such allocation in 2018. At the end of 2018, the risk going forward concerned an average guaranteed return of 0.20%, well below the average actuarial rate of return on Suravenir's fixed-rate bond portfolio.

The risk of rising interest rates

Higher interest rates have several consequences on assets, starting with lower valuations on fixed-rate bonds held in the portfolio. Depending on which IFRS accounting classification is used for these securities, this loss in value can affect shareholders' equity or earnings. At end-2018, a 100-

basis point increase in rates would have a negative impact of €16.2 million on Suravenir's earnings, and shareholders' equity would decline by €147 million.
The second risk related to a significant and sustained increase in interest rates is a growing number of redemptions by policyholders on the euro-denominated funds, as the returns on these policies become less competitive relative to other investments. In that case, in order to make the necessary adjustments to managed assets, the company may need to sell assets. If it sells fixed-rate assets, it could incur capital losses. To avoid this risk, Suravenir maintains a considerable amount of variable-rate bonds and options (cap, spread cap and duration-adjusted cap) in its portfolio. These financial instruments also enable the returns on Suravenir's euro-denominated funds to converge more quickly toward the returns offered by other savings products, thereby limiting redemption risk. As of Monday, December 31, 2018, some 33% of the bond portfolio in general assets was hedged against an increase in interest rates.

Liquidity risk

Liquidity risk is the risk that the reporting company will not be able to meet its obligations or to unwind or offset a position because of its situation or the market situation within a specified period of time and at a reasonable cost. It arises from a maturity mismatch between the sources and applications of funds.
It may create additional expense in the event of widening liquidity spreads; in the most extreme case, it could result in the company being unable to honor its commitments.

Banking portfolio

The Group's specific risk can be assessed through the liquidity coverage ratio (LCR), which measures the ratio between liquid assets and net cash outflows at thirty days in a stress scenario.

Insurance portfolio

Liquidity risk arises when the company is forced to sell its assets following a massive wave of redemptions. This risk is assessed by studying the liquidity gaps between asset flows (dividends/redemptions, etc.) and liability payments, in both the central scenario and the stress scenario (three-fold increase in redemptions / deterioration in asset valuations).

Risks specific to the insurance business

Underwriting risks of life insurance

Suravenir is exposed to underwriting risks in connection with its life insurance and protection insurance business.

Underwriting risk means the risk of loss or of adverse change in the value of insurance liabilities. This results from an increase in claims that was not anticipated at the time of pricing, risk acceptance or risk monitoring (provisioning risk).

The main underwriting risks associated with Suravenir's activities are described below.

Surrender and arbitrage risks

Surrender risk (lapse risk) is the risk of loss or of adverse change in the value of insurance liabilities resulting from an increase or decrease in life-insurance policy surrender rates or in early re-

payment rates for borrower’s insurance. This risk also exists when policyholders switch between unit-linked and non-unit-linked vehicles.
This risk is the principal underwriting risk in life insurance.

Biometric risks

The main biometric risks applicable to the insurance policies marketed by Suravenir are:

- Mortality risk: Mortality risk means the risk of loss or an adverse change in the value of insurance liabilities resulting from an increase in mortality in the borrower’s insurance activity and the individual protection insurance activity.

- Risk of incapacity/disability: The risk of incapacity/disability corresponds to a loss or adverse change in the value of insurance liabilities resulting from an increase in accident and sickness claims leading to a temporary or permanent incapacity subject to claim payments. These risks are associated primarily with the borrower’s insurance activity but also with the individual protection insurance activity.

- Longevity risk: Longevity risk is the risk of loss or an adverse change in the value of insurance liabilities resulting from an increase in life expectancy over the course of the life-insurance policies in the portfolio.

Risk of an adverse change in insurance company expenses

Suravenir’s overhead is included in the pricing of its insurance policies. An adverse change in the expenses Suravenir could incur in the future to acquire and manage insurance policies could therefore lead it to underestimate the amount of premiums paid by policyholders.

Catastrophe risk

Catastrophe risk is defined as the risk of loss or an adverse change in the value of insurance liabilities attributable to a sudden event that directly causes serious harm to policyholders and which could be related to a natural phenomenon, human intervention or a combination of the two within the scope of the borrower’s insurance activity, the individual protection insurance activity and the guaranteed minimum for certain life-insurance policies.

Underwriting risks of non-life insurance

Suravenir Assurances is exposed to underwriting and provisioning risks in connection with the non-life (mainly health, car and home) insurance business.

Underwriting risk exists when the pricing of the guarantees granted proves inadequate to cover the insurance liabilities. Within this risk, a distinction is made between the concepts of under-pricing risk, catastrophe risk, and anti-selection risk.

Provisioning risk relates to inadequate underwriting provisions on the liabilities side of the balance sheet.

Underwriting risk in non-life insurance

The underwriting risk in non-life insurance is the risk of an adverse change in the profitability of the insurance products due to inadequate rules on acceptance, pricing and/or reinsurance cover for the guarantees offered to policyholders.

Underwriting risk consists of three risk sub-types:

1. Under-pricing risk which occurs when guarantees are not priced in accordance with the portfolio's profitability objectives. This risk relates to the design of new products and changes in the offering and/or pricing.

2. Anti-selection risk which leads to the excessive underwriting of an undesired risk through inappropriate pricing.

The monitoring and analysis of these data make it possible to define and implement appropriate policies:

- modification of the subscription policy with respect to rate-setting, selection, adjustments to products and coverage provided,

- targeting of initiatives by geographic area and by distributor.

3. Catastrophe risk, which stems from the occurrence of extreme or exceptional events. Coverage of these potential losses remains the major objective of reinsurance coverage (see "Reinsurance mechanism").

If an exceptional weather event – i.e. one with a statistical probability of occurring once every 200 years – occurs (a storm whose claims payments to policyholders is about €115 million), the reinsurance program is structured so that the residual expense for Suravenir Assurances is limited to €7.5 million, in accordance with the risk appetite framework defined by its Board of Directors.

Provisioning risk

Provisioning risk is the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate provisioning assumptions.
This risk is intrinsically linked to underwriting risk, as the monitoring of provisions must be consistent with the management of the risks and claims associated with the coverage sold.

Market risks

Definition and scope

Market risk, or price risk, stems from unfavorable changes in market parameters that affect the value of financial instruments recognized on the balance sheet.

The market risks for the banking scope arise either from the financial instrument portfolios managed by Arkéa's Financial Markets department or from Arkéa Direct Bank's portfolio. The Arkéa group is exposed primarily to significant spread, interest rate and exchange rate risks. The exposure of the proprietary activities to options risk is non-significant.

At the end of 2018, the market risk exposure of investments on the balance sheet totaled €10.7 billion,

Risk related to stocks and other variable-income securities

Equity risk arises in the event of adverse equity market trends, which result in a drop in the portfolio valuation. Some unlisted variable income securities are exposed to real estate risk, which arises in the event of an adverse change in the valuation of the underlying real estate assets. The fair value of the equities and other variable income securities portfolio recognized in the IFRS-compliant financial statements totaled €18.0 billion at December 31, 2018.

Currency risk

Foreign exchange or currency risk is defined as the risk that the fair value of or future cash flows from a financial instrument will fluctuate with changes in the value of foreign currencies.
The probability of currency risk occurring is considered low in view of the group's low exposure and the existing hedges. If it materialized, the impact would also be small.

4.2 Assessment of the importance of risk factors

Introduction on the risk appetite of the Arkéa group

Risk appetite is the level and type of risk that a company is able and willing to assume in its exposures and business activities, taking into account its objectives and obligations to stakeholders.

Given the level of its shareholders' equity and the comparative levels of its return on equity and solvency ratios, the Arkéa group's risk appetite is moderate on a long-term and overall basis.

Priority is given to reasonable profitability and risk, which reinforces the trust capital necessary to maintain the commercial relationship with customers. It is a particular feature of the Arkéa Group's cooperative model, where the shareholder is also a customer and favours the quality of a lasting relationship with his bank over the return offered by the share capital he holds. The criterion of the profitability of share capital is used in an overall assessment in the medium or long term, without immediacy.

In line with the link between risk and profitability mentioned above, Arkéa's risk appetite policy aims to place risk at a level compatible with its development objectives while ensuring that it can always be controlled by its organisation and know-how. The levels of risk and control of this risk are criteria that receive considerable attention and are particularly selective in their development orientation.

Summary of risk factors

Risks are classified by major category. Within each category, risk factors are ranked in order of importance1:

- The probability of occurrence is considered "low" if the risk has not occurred in the past and there is no presumption of occurrence;
- It is considered "average" if the risk has already occurred in the past), and there is no presumption of occurrence;
- It is considered "high" if the risk has already occurred in the past, and there is a presumption of occurrence.

The magnitude in the event of an occurrence was assessed on the basis of the impact of a stress scenario, on the basis of risk histories (example: credit risk) and on realistic scenarios on risk items that had not materialized significantly in the past. The magnitude in the event of an occurrence reflects the impact of the risk identified on the liquidity and solvency indicators, in the event of a materialization.

- The magnitude in the event of an occurrence is considered "low" if the risk has no significant impact on the liquidity and solvency ratios;
- The magnitude in the event of an occurrence is considered "average" if the risk would significantly affect the annual result and ratios, but would not compromise the announced remuneration of the various investment vehicles (company shares, debt securities);[5]

- It is considered "high" if the risk would be likely to compromise the remuneration of the various investment vehicles.

[5] In accordance with Regulation (EU) 2017/1129 of 14 June 2017 revising the Prospectus Directive, effective 21 July 2019

Summary table of Arkéa Group risk factors

Risk categories and factors	Probability of occurrence	X	Scale in the event of occurrence	=	materiality
Credit risk					
Customer credit risk	Medium		Medium		Medium
Credit risk on market counterparties	Low		Medium		Low
Operational risk					
Risk of fraud	Medium		Medium		Medium
Compliance risk (including money laundering)	Low		Medium		Low
Legal risk	Low		Low		Low
Interest-rate and liquidity risk					
Interest-rate risk	Medium		Low		Low
Liquidity risk	Low		Medium		Low
Insurance					
Life insurance	Low		Medium		Low
Non-life insurance	Low		Medium		Low
Market risk					
Risk on equities and other variable income securities	Medium		Low		Low
Foreign exchange risk	Medium		Low		Low

Legend

Low	Low or not-applicable to Arkéa
Medium	Medium
High	High

The risk factors identified within the Arkéa group do not deviate from the risk appetite framework defined by the group. Thus, taking into account the Arkéa Group's risk management and the factors that mitigate these risks, their materiality does not exceed a stage considered « Medium".

In addition to the risks identified above, the vote on the orientation of the Arkéa group's local mutual banks in spring 2018 confirmed the Arkéa group's intention to leave the Crédit Mutuel group and made it possible to launch a project to define the terms and conditions of its disaffiliation. This point is further developed in Chapter 4.3 below.

4.3. Risks relating to the disaffiliation of the Arkéa group from the Crédit Mutuel group

4.3.1 Change in the organisation of the main players in the public offering of shares

4.3.1.1 A cooperative banking group independent of the rest of Crédit Mutuel

At its meeting on January 17, 2018, Crédit Mutuel Arkéa's Board of Directors authorized the management to take any action that would enable Crédit Mutuel Arkéa to become a cooperative banking group independent of the rest of Crédit Mutuel in order to pursue its original development strategy based on three strengths: its regional presence, its culture of innovation and its intermediate size.

The directors of the local mutual banks and of the Bretagne, Sud-Ouest and Massif Central federations were invited to participate in an indicative vote in the first half of 2018. The Board of Directors of the Crédit Mutuel Massif Central federation opposed the principle of consulting the boards of directors within its scope. Nevertheless, a consultation process was initiated by six of the 30 local mutual banks that are members of the Crédit Mutuel Massif Central federation. At the end of the consultation process entered into by the Arkéa group's local mutual banks and after the meetings held by the federations' board of directors, Arkéa officially confirmed the voting results of the 307 local mutual banks that voted. 94.5% of the local mutual banks voted in favor of the project to establish the independence of Crédit Mutuel Arkéa, which will therefore become a cooperative and regional group, independent from the rest of Crédit Mutuel. This vote paves the way for Arkéa's exit from the Crédit Mutuel group and the establishment of a plan to define the terms of its disaffiliation within the framework of the DCG (general decision).

This plan aims to preserve the fundamental characteristics of the Arkéa group's cooperative model and purpose. It is also a growth driver and will enable the Arkéa group to continue serving its customer shareholders, customers and partners.

4.3.1.2 Operational implementation of disaffiliation

The Arkéa group has initiated the operational implementation of its disaffiliation. On June 29, 2018, Crédit Mutuel Arkéa's Board of Directors approved an outline of the intended organizational chart of the future independent group. Work to define the technical details of the project has been underway for several months and is in the process of finalization with the supervisors.

Disaffiliation operations will then be initiated in conjunction with CNCM, within the limits of the powers granted to it by law.

On February 18, 2019, the Board of Directors of CNCM recognized the possibility of disaffiliating the Crédit Mutuel group by adopting DCG No. 1-2019 which provides for the disaffiliation of the Crédit Mutuel local cooperative banks at their request. In accordance with the DCG, the main stages of disaffiliation are as follows:

i. the boards of directors of the Arkéa group's local mutual banks that wish to disaffiliate from the Crédit Mutuel group must establish a notification process for their proposed disaffiliation. The boards of directors of the local mutual banks will be consulted following ongoing discussions with the ECB and the ACPR on the basis of a consultation file;

ii. each Federation must then notify CNCM of the proposed withdrawal of each local branch;

iii. once authorization is received from CNCM's Board of Directors, within two months of receipt of the proposed disaffiliation, each Federation may organize the process of consultation with the members of each local cooperative bank at an extraordinary general meeting. The disaffiliation plan must be adopted by a two-thirds majority of the members present or represented;

iv. if the members approve the plan, the Board of Directors of CNCM will decide on the disaffiliation request within two months of receipt of the complete file sent by the federations. A memorandum of understanding between the outgoing banks and CNCM establishing the commitments of the banks and the practical arrangements for their disaffiliation must be signed.

4.3.1.3 Arkéa group's intended organizational structure

Under the draft organizational structure, the Arkéa group will comprise Arkéa (currently Crédit Mutuel Arkéa), a variable capital limited liability cooperative company and union of cooperatives, which will continue to be individually authorized as a cooperative bank.

Arkéa will be governed by Law no. 47-1775 of September 10, 1947 on cooperative status (the **Law of 1947**) and Article L. 512-1 of the French Monetary and Financial Code.

The local mutual banks will become local cooperative banks (SCLs), retaining their status as variable capital cooperative companies, and will continue to make up the Arkéa cooperative union, pursuant to the Law of 1947. The new SCLs will refocus on their original purpose: to expand customer membership and facilitate access to banking, financial and insurance services. They will notably be responsible for supporting and promoting membership as part of their territorial reach.

To this end, all of the regulated financial activities of the local mutual banks will be transferred to Arkéa, which will open corresponding local branches within the SCLs. Moreover, as part of this new organization, all of the banking and investment service activities will be carried out by the local Arkéa branch, located in the same premises as the SCL.

Each SCL will also be able to advise its associated Arkéa branch on the provision of appropriate banking, financial and insurance services to its member customers.

In accordance with the Law of 1947, each member customer will continue to participate in decisions by the SCL based on the “one person, one vote” principle, and stand for election to the board of directors of their SCL. The SCLs will continue to hold the A stock issued by

Arkéa. In other words, Arkéa's governance will hinge on the involvement and participation of each SCL in its role as shareholder.

In addition, a 99-year affiliation agreement between all of the SCLs and Arkéa will be signed with the aim of implementing solidarity, mutual aid and support mechanisms to further the achievement by the SCLs of their primary mission of facilitating access to banking, financial and insurance services for all.

Regional federations will ensure the smooth operation and governance of the SCLs.

A stock issue program is under discussion with the ACPR and the ECB. In this regard, it should be noted that the work underway favors a scheme in which the stock of Arkéa would be issued by Arkéa itself. In any event, the plan envisaged will be subject to approval by the authorities.

4.3.2 Risks related to the complexity of the situation and risks associated with Arkéa group’s disaffiliation from the Crédit Mutuel group

Crédit Mutuel Arkéa believes that the factors described below could affect the implementation of Arkéa group’s disaffiliation from the Crédit Mutuel group. These factors are linked to events that may or may not occur. Crédit Mutuel Arkéa is unable to measure the probability of these events occurring.

The disaffiliation planned by Crédit Mutuel Arkéa is unprecedented and particularly difficult to carry out. Investors should be aware of the complex nature of the planned disaffiliation of the Arkéa group from the Crédit Mutuel group and the related uncertainties and risks, particularly concerning accounting consolidation and prudential mechanisms.

Before making any investment decision, potential investors should conduct an in-depth analysis of the disaffiliation plan, the Arkéa Group’s intended organizational structure, as described above, and the related uncertainties and risks, as described below. In particular, investors should carefully examine all of the information included in this prospectus and all of the risk factors listed in it concerning the changes to the organization of the main players, the stock, and the disaffiliation of the Arkéa group from the Crédit Mutuel group.

The Arkéa group's disaffiliation will not change its status as a cooperative and regional group. However, its withdrawal from the Crédit Mutuel group has consequences that may be difficult for investors to understand but which must be considered and analyzed before making any investment decision. Because of its unprecedented nature, Crédit Mutuel Arkéa cannot guarantee that the plan will be completed, that it will not have to undergo major changes compared to what was initially planned or that new difficulties will not emerge during its implementation.

4.3.2.2 Risks related to the local mutual banks

- **Uncertainties as to the stock issued by the local mutual banks before Arkéa group's disaffiliation from the Crédit Mutuel group**

Based on Crédit Mutuel Arkéa’s analysis of the implementation of the disaffiliation, the A, B and C cooperative stock issued by the local mutual banks to date would not be affected.

The legal basis for early redemption of the A, B and C cooperative stock is set out in (i) the Law of 1947, and (ii) Regulation (EU) No. 575/2013 of June 26, 2013, as amended, based on the capital nature of the cooperative stock. These laws do not provide for early redemption in the event that the local mutual banks lose their banking license or change their corporate purpose, provided that they retain their cooperative status.

Moreover, the contractual terms of the A, B and C cooperative stock do not provide for early redemption in the event that local mutual banks that were converted to SCLs lose their banking license.

The risk is therefore low, in the planned target scheme, that the shares issued by the Local Banks before the Arkéa group's disaffiliation from the Crédit Mutuel group will be affected.

➢ **Uncertainties regarding the implementation of a new scheme for the issuance of cooperative stock after disaffiliation of the Arkéa Group from the Crédit Mutuel group**

The disaffiliation of the local mutual banks from the Crédit Mutuel group means that they will cease to be covered by the group banking license granted pursuant to Article R. 511-3 of the French Monetary and Financial Code, which could impact their ability to issue B class cooperative stock to the public in the future.

These B stocks currently constitute an essential source of funding for Crédit Mutuel Arkéa. A stock issue program is under discussion with the ACPR and the ECB. In this regard, it should be noted that the work underway favors a scheme in which the stocks of Arkéa would be issued by Arkéa itself. In any event, the plan envisaged will be subject to approval by the authorities.

It is therefore possible that the Arkéa group may not obtain the approval of the authorities, which could prevent the disaffiliation project from being carried out according to the planned target scheme.

➢ **Risks associated with the future status of the local mutual banks that vote against the proposed disaffiliation**

Under the DCG, finalization of the operational implementation of the disaffiliation of the Arkéa group remains subject to the approval and vote of the boards of directors of the local mutual banks, as the disaffiliation of Crédit Mutuel Arkéa (Arkéa Group's interfederal bank) does not automatically lead to disaffiliation of the local mutual banks that are shareholders in it.

The local mutual banks that vote against disaffiliation from the Crédit Mutuel group or that chose not to take part in the vote, may decide not to join this new organization.

Even though 94.5% of the local mutual banks voted in favor of independence in 2018, these results are not deemed an indication of the results of any future vote by the local mutual banks on the operational implementation of disaffiliation with the Crédit Mutuel group.

Each local bank will be asked to vote on the implementation phase before approval of the disaffiliation plan, procedures and filing of the request for disaffiliation by the Federation in question, in accordance with the DCG.

The local mutual banks that choose to vote against disaffiliation may join another federal or interfederal savings bank through which they can benefit from a new group accreditation.

This option shall not give rise to eligibility for early redemption of the A, B and C stock held by the members. These local mutual banks will be reimbursed for the A stock they hold in Crédit Mutuel Arkéa's share capital.

It is possible that some local mutual banks may ultimately choose to vote against the disaffiliation of Crédit Mutuel as a whole. However, the financial consequences for the Arkéa Group will depend on the number and characteristics (company shares, reserves, loans, deposits) of the Local Banks that choose to vote against disaffiliation. Based on the April 2018 orientation vote, the impact of this exit on the Arkéa group would be minimal.

➢ **Risks associated with the final vote of the cooperative shareholders**

The local mutual banks that vote in favor of disaffiliation from the Crédit Mutuel group will be required to convene an extraordinary general shareholders' meeting to approve the disaffiliation plan in accordance with the DCG and the necessary amendments to their bylaws.

The vote by the members, which, pursuant to Article 2.3 of the DCG, may not take place less than two months after the authorization given by the CNCM to the local mutual banks concerned to convene an extraordinary general meeting, shall concern express approval of the proposed disaffiliation, the procedures for disaffiliation set out in the notification document approved in advance by the boards of directors of the said local mutual banks, and their financial consequences, in particular for these local mutual banks and their members, in accordance with Appendix 2 of the DCG.

In accordance with Appendix 2 of the DCG, a presentation document summarizing the main points of the notification file as well as the amendments to the bylaws shall be sent to the members at least fifteen (15) days before each extraordinary general meeting. The members will thus have access to clear, precise and exhaustive information on the planned disaffiliation and its consequences for their local bank, its members, customers, creditors, employees and the Crédit Mutuel group as a whole, in accordance with the DCG.

The extraordinary general meeting of each local bank concerned must approve the request for disaffiliation by a two-thirds majority of the members present or represented, in accordance with Article 2.4 of the DCG.

If an extraordinary general meeting votes against the request for disaffiliation, the Federation concerned may not submit a new request for the withdrawal of membership of the local bank concerned before a period of three (3) years, in accordance with article 2.3 of the DCG.

The results of the indicative vote on the Arkéa group's proposed independence plan are not necessarily an indication of the outcome of the local mutual banks' future vote on the operational implementation of this disaffiliation from the Crédit Mutuel group.

It is possible that the extraordinary general meetings of some local mutual banks will not adopt the disaffiliation project and will not approve the amendment of their articles of association relating thereto. However, the financial consequences for the Arkéa Group will depend on the number and characteristics (company shares, reserves, loans, deposits) of the Local Mutuals that choose to vote against the disaffiliation project and the amendment of their statutes. Based on the April 2018 orientation vote, the impact of this exit on the Arkéa group would be minimal.

➢ **Risks associated with the process of converging the local mutual banks that are members of the Crédit Mutuel Massif Central federation with the Crédit Mutuel Alliance Fédérale**

The Crédit Mutuel Massif Central federation has started the convergence process. Between September and October 2018, extraordinary general shareholders' meetings of the Crédit Mutuel Massif Central local mutual banks were called to vote on the convergence process. The changes to the bylaws needed to continue the process have been approved by the thirty local mutual banks affiliated with the Crédit Mutuel Massif Central Federation and are expected to take effect, for these local mutual banks, by January 1, 2020 at the latest.

The Crédit Mutuel Massif Central Federation believes that from a regulatory perspective its change of affiliation will not lead to the removal of the federal savings bank status and therefore will not entail the removal of its group license. The Crédit Mutuel Alliance Fédérale group (formerly the CM11 Group) (the "**CMAF**") and the Crédit Mutuel Massif Central Federation will file a declaration with the ACPR notifying it of the extension of CMAF's scope following the Crédit Mutuel Massif Central Federation's membership.

Note that, to date, the banking activity of each of Crédit Mutuel Massif Central's thirty local mutual banks has been conducted under the collective license granted to Crédit Mutuel Arkéa as a credit institution.

Discussions are being held between Crédit Mutuel Arkéa, Caisse Fédérale de Crédit Mutuel and Fédération du Crédit Mutuel Massif Central to examine the technical conditions of the change of interfederal savings bank of which the Crédit Mutuel Massif Central local mutual banks that have chosen to change are members.

Based on financial data at the end of 2018, the impact of the exit of the thirty local mutuals from CMMC on the solvency of the Arkéa group is limited, estimated at the end of 2018 to a decrease of between 20 bp and 30 bp on the CET1 ratio, and would be positive a priori on the group's results.

In any event, the precise consequences remain subject to the outcome of discussions between Crédit Mutuel Arkéa, Caisse Fédérale de Crédit Mutuel and Federation of Crédit Mutuel Massif Central.

4.3.2.3 Risks related to the Arkéa group

At the conclusion of the disaffiliation of the Arkéa group from the Crédit Mutuel group, whose central body is the CNCM, the Arkéa group will continue to be structured around Arkéa (currently Crédit Mutuel Arkéa), which is licensed as a cooperative bank and directly supervised by the ACPR and the ECB.

➢ **Risks associated with the approval of the supervisory authorities**

In accordance with the French Monetary and Financial Code, at the time of Crédit Mutuel Arkéa's disaffiliation from the Crédit Mutuel group, the CNCM, as its central body, must notify the ACPR of the said disaffiliation.

The ACPR and the ECB must review the banking accreditation of Crédit Mutuel Arkéa and its affiliated local mutual banks.

In-depth, documented work is currently underway with these authorities to obtain their approval. There is no assurance that their approval will be obtained, and the time frame and conditions for obtaining such approval are uncertain. Changing Crédit Mutuel Arkéa's corporate name will also require the prior approval of these authorities.

It is therefore possible that the Arkéa Group may not obtain the agreement of the ACPR and the ECB, which could prevent the disaffiliation project from proceeding according to the planned target scheme.

➢ **Risks associated with prudential calculations**

The Arkéa group's disaffiliation from the Crédit Mutuel group may result in a change in the weighted risk calculation internal model, which may generate higher capital requirements, or may require a transition to a standard model.

At December 31, 2018, credit risk was assessed on the basis of net risk exposure totaling €95.5 billion, of which:

- risk exposure totaling €64.8 billion was measured using an internal rating approach; and
- risk exposure totaling €30.7 billion was previously measured using a standardized approach.

Therefore, the disaffiliation from the Crédit Mutuel group could lead to a review of the weighted risk assessment method for the €64.8 billion in risk exposure that is currently measured using an internal rating approach.

➢ **Risks associated with the practical arrangements for disaffiliation established by the DCG**

The DCG states that the notification dossier must mention "the commitments proposed by *the local cooperative bank to compensate all past and future costs incurred by Crédit Mutuel group entities due to the proposed disaffiliation"*. In addition, the request for withdrawal submitted to CNCM by the federations after the members of the relevant local mutual banks affiliated to them have voted on it must include the draft memorandum of understanding setting out the commitments of these local mutual banks and the practical arrangements for their withdrawal.

In this context, the local mutual banks will make a financial proposal to CNCM's Board of Directors on the basis of objective and legally-valid premises.

Finally, the DCG provides that the CNCM Board of Directors must set the final conditions for disaffiliation, "*in particular, the effective date of the disaffiliation of the local cooperative bank in question, the amount of compensation to be paid to Caisse Centrale de Crédit Mutuel and the memorandum of understanding establishing the local cooperative bank's commitments and the practical arrangements for disaffiliation*". The DCG shall not specify the methods for calculating this compensation or the related amount, which may ultimately be significant, and which Crédit Mutuel Arkéa may dispute.

Furthermore, in accordance with Article 2.4 of the DCG, in the event of a change in circumstances, by law or deed, between the time when authorization is given to the federations to organize a vote by their members and the approval vote at each extraordinary general meeting, or after the latter vote, the Board of Directors of CNCM may ask the local mutual banks and the federations concerned for any useful additional information in order to "*promptly assess whether the main conditions for withdrawal of membership are still met, as well as the consequences of such a change for the Crédit Mutuel group in the event of the actual withdrawal"* and *"decide whether to proceed with the request for disaffiliation*".

It is therefore possible that Crédit Mutuel Arkéa does not agree with the CNCM on the practical arrangements for disaffiliation set by the DCG, which could prevent the disaffiliation project from being carried out.

➢ **Risks related to the commercial issues of disaffiliation**

The disaffiliation of the Arkéa group from the Crédit Mutuel group has a number of consequences, in particular the commercial issues related to the adoption by Crédit Mutuel Arkéa of a name and trademarks that do not include the terms "Crédit Mutuel".

In addition, the assumption that a significant number of Caisses Locales de Crédit Mutuel will be opened in the territory of the Brittany and South-West federations could increase competition with the Arkéa group in these two territories.

In any case, the competition prevailing in the banking sector in France is strong. The Arkéa group considers that the intensification of competition in the context of its disaffiliation project will not affect its development capacities.

The preparatory work leading to the adoption of a new brand is being completed in order to initiate a new commercial and industrial dynamic.

It is therefore possible that Crédit Mutuel Arkéa's disaffiliation from the Crédit Mutuel group may have commercial impacts on the Arkéa group. However, work in progress indicates that the consequences of the occurrence of this risk are small.

➢ **Risks related to Crédit Mutuel Arkéa's governance**

The CNCM thus amended its Articles of Association by an Extraordinary General Assembly on 16 May 2018 (the "Articles of Association").

A new article 29 relating to the sanctions that may be imposed by the CNCM has been incorporated into the Statutes. This new Article 29 is accompanied by a disciplinary regulation which would have the same legal force as the Statutes.

The regulatory measures mentioned in the powers of the Board of Directors refer to the creation of a new Article 33 of the Statutes, entitled "Withdrawal of confidence or approval as a regulatory measure", which makes it possible to exclude the leaders of regional groups from any sanction procedure.

It is possible that these provisions of the Articles of Association may be implemented by the CNCM, as the potential negative impact on the Arkéa Group may be assessed as significant.

➢ **Risks related to potential ligitation**

Following implementation of the disaffiliation of the Arkéa group from the Crédit Mutuel group, there is a risk of legal dispute, particularly in connection with the application of the DCG.

In addition, the operational implementation of the disaffiliation could give rise to various appeals or litigation against the Arkéa group by Crédit Mutuel's members, customers or counterparties.

The litigation or legal proceedings that may potentially be instituted could have a potentially significant negative impact on the Arkéa Group.

➢ **Risk associated with the loss of inter-federal solidarity**

From the date that disaffiliation takes effect, Crédit Mutuel Arkéa will no longer benefit from the inter-federal solidarity mechanism if the Arkéa group becomes independent from the Crédit Mutuel group.

However, Crédit Mutuel Arkéa has its own solidarity mechanism which would function in the first instance.

An affiliation agreement between all of the SCLs and Arkéa will be entered into for a term of 99 years with the aim of implementing solidarity, mutual assistance and support mechanisms to further the achievement of the SCLs' primary mission, i.e. to promote access to banking, financial and insurance services for all.

For further information on the solidarity mechanism, investors may refer to section 1.6 on solidarity relations in the 2018 Registration Document.

Crédit Mutuel Arkéa's exit from the inter-federal solidarity mechanism could lead to the downgrading of certain Arkéa group financial ratings. However, it should be noted that the Fitch Ratings agency already assigns a rating to the Arkéa group independently of Crédit Mutuel as a whole, without taking into account this inter-federal solidarity mechanism.

At this stage, there is no certainty as to how this situation will evolve and/or when it will be resolved, or concerning the impact it will have on the B stock.

4.4 Risk management function

The numbering of the following items presented on pages 222-253 of the 2018 Registration Document has been updated:

4.4.1 Credit risk

4.4.2 Operational risk

4.4.3 Structural interest rate and liquidity risks

4.4.4.4 Risks specific to the insurance business

5. Statutory auditors' report on the 2019 half-year financial information

Crédit Mutuel Arkéa
A variable capital limited liability credit cooperative
1 rue Louis Lichou
29480 Le Relecq-Kerhuon, France

Statutory auditors' report

on the half-yearly financial information

Period from January 1 to June 30, 2019

Ladies and Gentlemen,

In accordance with the assignment entrusted to us by your General Meeting and in accordance with Article L. 451-1-2 III of the French Monetary and Financial Code, we have carried out:

- the limited review of the accompanying condensed half-year consolidated financial statements of Crédit Mutuel Arkéa for the period from 1 January 2019 to 30 June 2019;
- the verification of the information provided in the half-yearly activity report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. It is our responsibility, based on our limited review, to express our conclusion on these financial statements.

I - Conclusion on the financial statements

We conducted our limited review in accordance with professional standards applicable in France.

A limited review consists mainly of making inquiries of persons responsible for accounting and financial matters and applying analytical procedures. This work is less extensive than that required for an audit conducted in accordance with the professional standards applicable in France. Consequently, the assurance that the financial statements, taken as a whole, are free from material misstatement obtained in the course of a limited review is moderate assurance, less than that obtained in the course of an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared in all material respects in accordance with IAS 34, the standard of IFRS as adopted by the European Union applicable to interim financial information.

Without qualifying the conclusion expressed above, we draw your attention to the paragraph "IFRS 16 Leases" in the chapter "Applied accounting standards" which describes the effects of changes in presentation and application of this accounting standard on the condensed half-year consolidated financial statements at 30 June 2019.

II - Specific verification

We have also verified the information given in the half-year management report commenting on the condensed consolidated half-yearly financial statements subject to our limited review.

We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Courbevoie and Paris-La Défense, August 29, 2019

The statutory auditors

Mazars	Deloitte & Associés
Franck BOYER	Jean-Vincent COUSTEL

6. Corporate governance

6.1 - Board of Directors of Crédit Mutuel Arkéa

On 16 May 2019, the General Meeting of Crédit Mutuel Arkéa decided to renew the terms of office of Anne-Gaëlle Le Bail and Sophie Violleau as well as those of Christian David, Michel Gourtay and Christian Peron as directors for a period of three years. In addition, the General Shareholders' Meeting elected Valérie Moreau for the same three-year term.
The Board of Directors is now composed of 20 directors and one censor. The feminization rate stood at 45% at June 30, 2019.
In view of the changes that have taken place, the Board of Directors has decided to reorganise its specialised committees as follows:

Accounts Committee :
President : BOUGEARD Thierry
Members: DUNET Lionel, GLORIA Guillaume, LE BAIL Anne-Gaëlle, MAINGUET Yves, SENE Colette

Nominations Committee :
President : VIOLLEAU Sophie
Members: BOUGEARD Thierry, DAVID Christian, LE PROVOST Patrick, MOAL Luc

Compensation Committee :
President : LE PROVOST Patrick
Members: BOUGEARD Thierry, DARDE Isabelle, MOAL Luc

Risk and Internal Control Committee:
President: CHATEL François
Members: CRENN Marta, DAVID Christian, GOURTAY Michel, HUET Monique

Strategy and Corporate Social Responsibility Committee:
President : GROUSSARD Marie-Thérèse
Members: CHATEL François, GRAVE Anne-Sophie, LE PROVOST Patrick, MOREAU Valérie

6.2. - General management bodies and work

In April 2019, Hélène Bernicot, Director of the General Secretary and Corporate Communications, joined the Group's Executive Committee, whose general mission is to assist the General Manager in strategic management and performance development.
In addition, Elisabeth Quellec was appointed Group Risk Director and member of the General Co-ordination Committee, which supports the Executive Committee in February 2019, replacing Jean-Luc Queguiner.
The number of members of the Executive Committee has thus increased from 9 to 10, with a feminisation rate of 30% as at 30 June 2019.

The Executive Committee meets weekly and as of June 30, 2019, is composed of:

Ronan LE MOAL	**Chief Executive Officer of Crédit Mutuel Arkéa**
Anne LE GOFF	**Deputy Managing Director in charge of the Development Support Division**

Frédéric LAURENT	**Deputy Managing Director in charge of the Innovation and Operations division**
Sébastien MUSSET	**Deputy Managing Director in charge of the retail customer division**
Christelle LE BERRE	**Director of Arkéa Square**
Tarak ACHICH	**Director of the B2B division and specialized services**
Bertrand BLANPAIN	**Director of the Corporate and Institutional Division**
Marc GOSSELIN	**Human Resources Director**
Bernard LE BRAS	**Director of the Products Division**
Hélène BERNICOT	**Director of the General Secretary and Corporate Communication**

The General Coordination Committee shall meet at least once every quarter and shall include, in addition, members of the Executive Committee:

Philippe ROUXEL	**Chief Executive Officer of the Crédit Mutuel de Bretagne federation**
Jean-Marc JAY	**Chief Executive Officer of the Crédit Mutuel du Sud-Ouest federation**
Anne-Laure NAVEOS	**Director of External Growth and Partnerships**
Jean-Marie ALFONSI	**Chief Financial Officer**
Didier ARDOUIN	**Managing Director of the Nouvelle Vague subsidiary**
Antoine LEFEBVRE	**Director of Compliance and Permanent Control**
Alain TAROUILLY	**Director of the General Inspection and Periodic Control**

Jean-Luc LE PACHE	**Deputy Director in charge of the Development Support Division**
Elisabeth QUELLEC	**Risk Director**
Morgan MARZIN	**Director of Arkéa 360°**

7. General information

Date of the latest half-yearly financial information

The date of the last half-yearly financial information is 30 June 2019. They were approved by the Board of Directors on 28 August 2019. No quarterly financial information has been published since the date of the last half-yearly financial statements.

Documents available to the public

This document will be available for inspection at the company's registered office during normal business hours and days. A copy of this Universal Registration Document shall be sent free of charge to any person upon request. This document is also available on the company's website (www.arkea.com). The information on the website is not part of this Document, unless it is incorporated by reference.

This document supplements and incorporates the 2018 Registration Document filed with the Autorité des Marchés Financiers on 26 April 2019 under number D.19-0410 and constitutes the universal registration document established by EU Regulation 2017/1129. This document incorporates by reference the 2017 Registration Document filed with the Autorité des Marchés Financiers on 27 April 2018 under number D.18-0427.

Legal Entity Identification

CREDIT MUTUEL ARKEA
1, RUE LOUIS LICHOU
29480 THE RELECQ-KERHUON
FRANCE

96950041VJ1QP0B69503

8. Statutory auditors

Statutory Auditors :

Mazars - 61, rue Henri Regnault, Exaltis, 92075 La Défense Cedex
Start of first term: 1976 - Expiry of current term: 31 December 2020
The renewal of Mazars' mandate was decided on 6 May 2015 for a period of six financial years.

Deloitte & Associés - 6 Place de la Pyramide 92908 Paris-La Défense
Start of first term: 2007 - Expiry of current term: 31 December 2020
The renewal of the mandate of Deloitte & Associés was decided on May 6, 2015 for a period of six financial years.

Alternate auditors :

Mrs Anne Veaute - 61, rue Henri Regnault, Exaltis, 92075 La Défense Cedex
Start of first term: 2012 - Expiry of current term: 31 December 2020
The renewal of Mrs Anne Veaute's term of office was decided on 6 May 2015 for a period of six financial years.

Company BEAS - 7-9, villa Houssay, 92524 Neuilly-sur-Seine Cedex
Start of first term: 2009 - Expiry of current term: 31 December 2020
The renewal of BEAS' mandate was decided on May 6, 2015 for a period of six financial years.

9. Declaration of the person responsible for the Universal Registration Document

I certify, after having taken all reasonable measures to this effect, that the information contained in this Universal Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its scope.

I certify that, to the best of my knowledge, the financial statements for the past six months have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and results of the company and all the companies included in the consolidation, and that the half-yearly management report on pages 9 to 18 gives a true and fair view of the significant events that occurred during the first six months of the financial year, their impact on the financial statements, the main related party transactions and a description of the main risks and uncertainties for the remaining six months.

Done at Relecq Kerhuon, August 29, 2019

Ronan LE MOAL, Chief Executive Officer of Crédit Mutuel Arkéa

10. Cross-reference tables and alternative performance measures

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Cross-reference table of the annual and half-yearly management reports relating to the Arkéa group

The following cross-reference table is used to identify:

- on the one hand, in the Registration Document filed with the Autorité des Marchés Financiers on 26 April 2019 under number D.19-0410, the information that constitutes the company's annual management report (including the corporate governance report) and the consolidated management report,
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Alternative performance measures

ALTERNATIVE PERFORMANCE MEASURES	DÉFINITION	JUSTIFICATION FOR USE
Other group operating income and expenses	Difference between the income and expenses of other activities	Measures income excluding group financial margin and commissions
Other operating income and expenses for the scope of globalized accounts	Difference between the income and expenses of the other activities derived from Crédit Mutuel Arkéa's accounts	Measures income excluding financial margin and commissons from Credit Mutuel Arkea accounts
Operating ratio	Ratio of management expenses to Net Bankinsurance income	Measures of the group's operational efficiency
Net commissions	Difference beteween commissions (income) and commissions (expenses)	Measure sincome from commissions at group level
Cost of risk (in basis points)	Ratio of the cost risk (in €) to loans outsanding to customers at the end of the period	Measures the level of risk compared to balance sheet loan commitents
Operating expenses	Sum of general operating expenses and depreciation and amortization charges for property, plant and equipment and intangible assets	Measures the level of group general operating expenses
Group financial margin	Sum of the following items: - Net agains or losses on financial instruments a faire value through profit or loss - Net gains or losses on available-for-sale financial assets, - Difference between «interest and similar income» and «interest and similar expenses»	Measures income from the group's financial activity
Financial margin for the scope of globa-lized accounts	Under French accounting standards: interest and similar income - interest and similar expenses + net gains or losses on trading portfolio transaction + gains or losses on investment portfolio transactions and similar	Measures income from financial activity from Crédit Mutuel Arkéa accounts
Asset returns	Ratio of the net profit or loss to the balance sheet total on a consolidated basis at the end of the fiscal year	Measures the rates of return of total balancde sheet assets
Overall coverage ratio of non-performing loans (interest + capital)	Ratio of provision recognized in respect of credit risk on an individual basis to impaired loans outsanding on an individual basis	Measures the maximum residual rate of risk coverage for impaires loans outsanding
Rate of non-performing and litigated loans (including interest)	Ratio of impaired loans outsanding on an individual basis to customer deposits («Customer loans and receivables» recorded as assets on the balance sheet on a consolidated basis)	Measures the quality of loans

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