

Arkéa Home Loans SFH

Private Company with share capital of 70 000 000 €

232, rue du Général Paulet BP 103
29802 Brest Cedex 9

Statutory Auditors' review report on the half-year financial information

For the period from January 1st to June 30th, 2019

MAZARS
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This is a free translation into English of the statutory auditors' report on the interim financial statements issued in the French language and is provided solely for the convenience of English speaking readers. The report must be read in conjunction and construed in accordance with French law and French auditing professional standards.

Statutory auditors' review report on the half-year financial information

To the Shareholders,

In compliance with the assignment entrusted to us by your annual General Shareholder's Meeting, and in accordance with the requirements of article L.451-1-2 III of the French monetary and financial code (Code monétaire et financier), we hereby report to you on :

- the review of the accompanying half-year financial statement of Arkéa Home Loans SFH for the period from January 1st to June 30th, 2019;
- the verification of the information contained in the interim management report.

These half-year financial statements have been prepared under the responsibility of the board of directors. Our role is to express our conclusion on these financial statements, based on our limited review.

I- Conclusion on the financial statements

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

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, we did not identify any material misstatements that would cause us to believe that the half-year financial statements do not present fairly, in all material aspects, the results of operations for the six-month period ended June 30th, 2019 and the financial position of Arkéa Home Loans SFH and its assets at that date, in accordance with accounting rules and principles applicable in France.

II- Specific verifications

We have also verified the information presented in the interim management report commenting the half-year financial statements subject to our review.

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

Courbevoie and Paris-La Défense, September 10th, 2019

The Statutory Auditors
French original signed by

MAZARS

DELOITTE & ASSOCIES

Franck BOYER

Jean-Vincent COUSTEL

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Financial statements at June 30, 2019

Balance sheet

Assets (in thousands of euros)	Notes	06/30/2019	12/31/2018
Cash and amounts due from central banks		5	3
Due from banks	1	6,937,520	6,955,958
Customer items			
Equities and other variable-income securities			
Investments in non-consolidated undertakings and equity securities held for long-term investment			
Other participating interests			
Intangible assets			
Tangible assets			
Subscribed capital unpaid		10,000	
Other assets		441	441
Accrued income	2	28,151	31,500
Total		6,976,117	6,987,902

Liabilities (in thousands of euros)	Notes	06/30/2019	12/31/2018
Central banks, Post Office banks			
Debt from banks			
Customer items			
Debt securities	3	6,974,207	6,913,277
Other liabilities	4	108	210
Accrued expenses	5	27,910	31,808
Provisions for contingencies and charges			
Subordinated debts			
Reserves for general banking risks			
Shareholders' equity	6	73,892	42,607
Share capital		70,000	40,000
Issue premium			
Retained earnings		233	215
Carried forward		2,094	2,022
Net income		1,565	370
Total		6,976,117	6,987,902

Off-balance sheet items (in thousands of euros)

	Notes	06/30/2019	12/31/2018
Commitments given		0	0
Financing commitments given			
Guarantees given			
Commitments on securities			
Commitments received	9	8,980,910	8,980,916
Financing commitments given			
Guarantees received		8,980,910	8,980,916
Commitments on securities			
Financial futures and other forward agreements		0	0

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Financial statements at June 30, 2019

Income statements

(in thousands of euros)	Notes	06/30/2019	06/30/2018
Interest income and related revenues	10	89,937	81,754
Interest expense and related costs	10	(88,249)	(80,468)
Income on equities and other variable income instruments			
Commissions (income)		16	15
Commissions (expense)			
Net gains (losses) on sales of securities available for sale			
Other operating income arising from banking activities			0
Other operating expense from banking activities		(2)	(1)
Net banking income		1,702	1,300
Operating expense		190	(963)
Depreciation, amortization and provisions on tangible and intangible assets			
Gross operating income		1,892	337
Net additions to provisions for credit risks			
Operating income		1,892	337
Income before tax		1,892	337
Net non-recurring expense or income			
Income taxes		(327)	(199)
Movements in the reserve for general banking risks and regulated provisions			
Net income		1,565	138

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Financial statements at June 30, 2019

Notes

1- LEGAL AND FINANCIAL FRAMEWORK AND MAJOR EVENTS DURING THE YEAR

1-1 Legal and financial framework

Arkéa Home Loans SFH, a French corporation (société anonyme) governed by a Board of Directors, is in the business of refinancing Crédit Mutuel Arkéa Group's housing loans through the issuance of covered bonds as part of on date AAA-rated Euro Medium Term Notes program, which benefit from the special protection mentioned in Article L.515-19 of the French Monetary and Financial Code.

1-2 Highlights of 2019

On March 25, 2019, the Extraordinary Shareholders' Meeting approved a capital increase in the amount of €30 million (thirty million euros). Two-thirds was effective on March 29, 2019, with €20 million (twenty million euros) paid up. This increase raises Arkéa Home Loans SFH's capital to €70 million.

2- ACCOUNTING PRINCIPLES AND VALUATION METHODS

2-1 Presentation of the financial statements

The financial statements are presented in accordance with Authority of Accounting Standard (ANC) No. 2014-07, concerning financial statements of credit institutions.

2-2 General principles and valuation methods

General principles

The financial statements of Arkéa Home Loans SFH have been prepared in accordance with the generally accepted accounting principles as well as the regulatory provisions applicable to banks in France, in accordance with Authority of Accounting Standard (ANC) No. 2014-07, set out in ANC Regulation 2014-07 of November 26, 2014, which consolidates in a single regulation, on the basis of established law, all accounting standards applicable to credit institutions.

Valuation options and methods

Receivables

Receivables due from credit institutions and customers are governed by ANC Regulation 2014-07 on the accounting treatment of credit risk at companies subject to the supervision of the French Banking and Financial Regulations Committee (CRBF). Accrued interest on receivables is recognized in the accrued interest account through profit or loss.

Credits are recognized at their nominal amount. Discounts and compensatory payments on loans are spread on a straight-line basis over the life of the corresponding receivables. They are reported Accrued interest on these receivables is recorded as such in the statement of financial position with a corresponding entry to the income statement.

Debt securities

Debt securities are recognized at their nominal amount. The associated issuance and redemption premiums are spread on a straight-line basis over the life of the corresponding securities. They are Accrued interest on these securities is recorded as such in the statement of financial position with a corresponding entry to the income statement.

Personnel expense

Arkéa Home Loans SFH has no employee. In 2008, it has constituted together with Crédit Mutuel Arkéa a "groupement de fait" pursuant to articles 261B and seq. of the French General Tax Code in order to manage human and material resources shared.

Crédit Mutuel Arkéa is the employing company. It provides Arkéa Home Loans SFH with the appropriate human resources allowing the latter to meet its contractual commitments and to comply with legal and regulatory requirements relating to its activities.

Total remuneration allocated to members of the Board of Directors for the first semester of 2019 is 2,520 €.

NOTES TO BALANCE SHEET, OFF- BALANCE SHEET ITEMS AND STATEMENT OF INCOME

Note 1. Due from banks

	In thousands of euros					
	06/30/2019			12/31/2018		
	On demand	On time	Total	On demand	On time	Total
Ordinary deposits	61,998		61,998	41,065		41,065
Loans, securities purchased under agreements to resell		6,808,900	6,808,900		5,018,900	5,018,900
Accrued interest receivable		66,622	66,622		95,993	95,993
TOTAL	61,998	6,875,522	6,937,520	41,065	6,914,893	6,955,958

Note 2. Accruals, prepayments and sundry assets

	In thousands of euros	
	06/30/2019	12/31/2018
Discount on loan	9,631	12,301
Bond redemption premium	17,406	19,101
Share premium	117	98
Accrued income	997	
Miscellaneous accrual accounts		
TOTAL	28,151	31,500

Note 3. Debt securities

In thousands of euros

	06/30/2019			12/31/2018		
	Gross value	Accrued interest payable	Total	Gross value	Accrued interest payable	Total
Certificates of deposit						
Interbank market instruments and negotiable debt instruments						
Debenture loans	6,808,900	65,307	6,874,207	6,818,900	94,377	6,913,277
TOTAL	6,808,900	65,307	6,874,207	6,818,900	94,377	6,913,277

Bonds

In thousands of euros

Issue date	Amount	Type	Duration in years	Rate
24/06/2015	700,000	Bonds	10	1,29 %
08/06/2018	500,000	Bonds	10	1,20 %
30/05/2011	12,000	Bonds	10	4,13 %
01/07/2011	22,000	Bonds	10	4,035 %
24/06/2011	30,000	Bonds	10	4,03 %
06/07/2011	100,000	Bonds	15	4,375 %
13/04/2011	996,400	Bonds	10	4,5 %
18/11/2011	750,000	Bonds	10	4,5 %
26/05/2011	41,000	Bonds	10	4,1225 %
07/07/2011	10,000	Bonds	20	4,53 %
07/04/2011	5,000	Bonds	20	5,10 %
11/07/2011	16,000	Bonds	10	4,08 %
05/07/2011	10,000	Bonds	20	4,54 %
11/02/2011	5,000	Bonds	20	4,64 %
05/07/2011	6,000	Bonds	20	4,54 %
20/01/2011	10,000	Bonds	18	4,33 %
22/09/2011	155,000	Bonds	20	4,20 %
14/10/2011	55,000	Bonds	15	3,835 %
28/03/2011	20,000	Bonds	20	4,96 %
01/12/2011	20,000	Bonds	30	4,325 %
13/09/2011	150,000	Bonds	20	4,20 %
17/02/2011	10,000	Bonds	15	4,57 %
19/01/2011	15,000	Bonds	15	4,40 %
13/08/2010	50,000	Bonds	30	4,215 %
01/06/2011	10,000	Bonds	15	4,40 %
21/07/2011	26,500	Bonds	20	4,35 %
07/04/2011	4,000	Bonds	20	5,10 %
21/07/2011	15,000	Bonds	15	4,51 %
26/05/2011	21,000	Bonds	20	4,81 %
04/10/2011	20,000	Bonds	30	4,12 %
15/11/2011	10,000	Bonds	20	4,26 %
22/07/2010	23,000	Bonds	20	4,05 %
11/07/2011	10,000	Bonds	20	4,86 %
11/02/2011	10,000	Bonds	20	4,64 %
12/04/2011	16,000	Bonds	20	5,07 %
23/11/2011	10,000	Bonds	30	4,32 %
13/12/2011	100,000	Bonds	30	4,65 %
20/12/2011	25,000	Bonds	30	4,56 %
02/02/2012	10,000	Bonds	15	4,05 %
07/02/2012	10,000	Bonds	10	3,50 %
27/02/2012	10,000	Bonds	7	E3M + 0,94 %
11/07/2013	500,000	Bonds	10	2,375 %
30/09/2015	500,000	Bonds	7	0,625 %
05/10/2017	500,000	Bonds	10	0,75 %
29/03/2018	50,000	Bonds	25	1,534 %
01/06/2018	500,000	Bonds	15	1,50 %
02/11/2018	750,000	Bonds	6	0,375 %
Total	6,808,900			

Note 4. Other liabilities

	In thousands of euros	
	06/30/2019	12/31/2017
Premium payable on derivatives products		
Government taxes	108	210
Salaries and wages		
Social security taxes		
Other		
TOTAL	108	210

Note 5. Accrued expenses

	In thousands of euros	
	06/30/2019	12/31/2018
Tied-up collection operation accounts		
Share premium	9,631	12,301
Prepaid income	248	263
Compensatory payment on loan	17,406	19,101
Accrued liabilities	623	143
Various		
Adjustment accounts		
Other accruals	2	
TOTAL	27,910	31,808

	In thousands of euros			
	Beginning of the year	Allocation of the previous	Changes of the years	End of the year
SHARE CAPITAL	40,000		30,000	70,000
ISSUE PREMIUM	0			0
RESERVES	215		18	233
Legal reserve	215		18	233
Statutory reserve	0			0
Long-term capital gains reserves				
Other reserves				
CARRIED FORWARD	2,022		72	2,094
DEFERRED LOSSES				
NET INCOME	370		(370)	1,565
Dividends			280	
TOTAL	42,607	0	31,565	73,892

The share capital consists of 7,000,000 ordinary shares each with a par value of €10 for total share capital of €70,000,000.

Note 7. Breakdown of certain assets / liabilities according to maturity date

In thousands of euros						
Maturity	Less than 3 months	Less than 1 y,	Less than 5 y.	Over 5 years	Debts and accrued interest receivable	Total
Assets						
Due from banks	61,998		3,627,400	3,181,500	66,622	6,937,520
On demand	61,998					61,998
On time			3,627,400	3,181,500	66,622	6,875,522
Advances to customers						
Other customer loans						
Current accounts						
Liabilities						
Due to banks						
Customer deposits and related						
Customer time deposits						
Customer demand deposits						
Debts securities	700,000		4,276,400	1,832,500	65,307	6,874,207
Interbank market instruments and negotiable debt instruments						
Debenture loans	1,210,000		3,036,400	1,832,500	65,307	6,874,207

Note 8. Equity investment held for a long-term investment and shares in affiliated companies

In thousands of euros				
	Equity interests		Subsidiaries and associates	
	06/30/2019	12/31/2018	06/30/2019	12/31/2018
COMMITMENTS GIVEN				
Financing commitments				
Guarantees given				
TOTAL COMMITMENTS GIVEN	0	0	0	0
Financing commitments				
Guarantees received			8,960,810	8,980,916
TOTAL COMMITMENTS RECEIVED	0	0	8,960,810	8,980,916

As of 06/30/2019, all significant transactions between related parties were carried out at arm's length.

Note 9. Commitments given and received

	In thousands of euros	
	06/30/2019	12/31/2018
Commitments given	0	0
Financing commitments given		
to banks and financial institutions		
to customers		
Guarantees given		
to banks and financial institutions		
to customers		
Commitments on securities		
other commitments given		
Commitments received	8,960,810	8,980,916
Financing commitments received		
from banks and financial institutions		
Guarantees received	8,960,810	8,980,916
from banks and financial institutions	8,960,810	8,980,916
Commitments on securities		
other commitments received		

Note 10. Interest income and expense, related revenues and costs

	In thousands of euros			
	06/30/2019		06/30/2018	
	Revenues	Expenses	Revenues	Expenses
Interbank and money market items	87,267	(2,670)	79,084	(2,670)
Customers items				
Bonds and other fixed-interest securities		(85,579)		(77,798)
Other interest and similar income	2,670		2,670	
TOTAL	89,937	(88,249)	81,754	(80,468)

Note 11. Cash flow statement

	In thousands of euros	
	06/30/2019	12/31/2018
Cash flows from operating activities		
Net income	1,565	370
Income Tax	327	509
Pre-tax income	1,892	879
Amortisation and depreciation of property, plant and equipment and intangible assets		
Depreciation and impairment of goodwill and other fixed assets		
Net additions to depreciations		
Share of earnings of companies carried under equity method		
Net loss/(gain) from investing activities		
Net loss/(gain) from financing activities		
Other movements without cash flows	(251)	(508)
Total non-cash items included in net income and other adjustments	(251)	(508)
Interbank and money market items	10,000	(1,800,000)
Customer items		
Other financial items		
Other non-financial items	(1)	46
Dividends received from companies carried under equity method		
Taxes paid	(428)	(490)
Increase/(decrease) in operating assets/liabilities	9,572	(1,800,444)
CASH FLOWS FROM OPERATING ACTIVITIES	11,212	(1,800,072)
Cash flows from investing activities		
Financial investments		
Investment property		
Plant, equipment and intangible assets		
Other	0	0
CASH FLOWS FROM INVESTING ACTIVITIES	0	0
Cash flows from financing activities		
Cash flows from/(to) the shareholders	19,720	(160)
Other cash flows from financing activities	(10,000)	1,800,000
CASH FLOWS FROM FINANCING ACTIVITIES	9,720	1,799,840
Net increase/(decrease) in cash and cash equivalents	20,932	(232)
Cash flows from operating activities	11,212	(1,800,072)
Cash flows from investing activities	0	0
Cash flows from financing activities	9,720	1,799,840
Cash and cash equivalents, beginning of the year	41,062	41,294
Cash, due from/to central banks (Assets and liabilities)	(3)	5
Loans and receivables due from/to banks (Assets and liabilities)	41,065	41,289
Cash and cash equivalents, end of the year	61,994	41,062
Cash, due from/to central banks (Assets and liabilities)	(5)	(3)
Loans and receivables due from/to banks (Assets and liabilities)	61,998	41,065
CHANGE IN NET CASH	20,932	(232)

Net cash and cash equivalents includes the net balance of cash accounts, accounts with central banks and demand loans and borrowings with credit institutions.

Changes in cash and cash equivalents resulting from operating activities include changes in cash and cash equivalents generated by the group's activities, including those related to negotiable debt securities.

Note 12. Tax consolidation

The company is included in the consolidation scope of the Crédit Mutuel Arkéa Group, whose parent company has been Crédit Mutuel Arkéa since 1/1/2008. With regard to corporation tax, under the terms of the tax consolidation agreement, tax is determined by the subsidiary as if it were not consolidated. The amount thus calculated, less any tax deductions and credits, is due to the parent company.

Note 13. Consolidated accounts

Arkéa Home Loans SFH has neither exclusive control nor significant influence over any company. It is therefore not required to produce consolidated financial statements. Its accounts are fully consolidated into the consolidated financial statements of the Crédit Mutuel Arkéa Group located at 1, rue Louis Lichou 29480 Le Relecq Kerhuon.

The consolidated financial statements are available on Crédit Mutuel Arkéa's website at http://www.arkea.com/banque/assurance/credit/mutuel/ecb_5034/fr/rapports-annuels.