

**Executive Board's management report**

**2016: SUFFICIENT GROWTH TO COME TO TERMS WITH THE POLITICAL UPHEAVAL**

Worldwide growth was moderate in 2016, impacted by the ongoing difficulties of emerging countries, while developed countries continued to benefit from cheap oil prices and very low interest rates. The election of Donald Trump as President of the United States and the upturn in the price of oil throughout the year was game-changing and opened the way to even wider disparities in 2017. It can already be seen in monetary policies, in the tightening of the Fed and the staunchly accommodating position of the other large central banks.

**Renewed fears at the beginning of the year**

At the start of 2016, the rapid fall in the yuan and in Chinese foreign reserves, combined with the weakness of the US industrial sector, gave rise to fears about world growth. That was reflected in a slump in the financial markets and stalling oil prices, which reached a low point at \$27 (WTI(1)) in mid-February. As a result, the specter of deflation took hold, maintained by the currency war waged by the central banks, between the prudence of the Fed, the ECB's proactivity and the Bank of Japan's creativity. In March, the ECB announced new measures such as the additional lowering of key interest rates, the increase in monthly asset purchases to €80 billion, the inclusion of non-financial companies in the program and a new long-term lending program for banks. In the second quarter, world growth proved to be more resilient than expected with the recovery in China. The Chinese authorities demonstrated that they were capable of managing growth by reusing traditional measures to support the economy, in particular the use of bank lending and measures that favored real estate. The slowdown in eurozone activity ceased thanks to increased investment, which offset the fall in consumption and external trade. Nevertheless, the uncertainties prior to the Brexit vote marred the picture, with the maintenance of prudent policies, including in the United States and Asia. The Fed consequently maintained its accommodating monetary policy while Japan struggled as a result of the appreciation in its currency, the yen seen as a safe haven currency by investors.

(1) West Texas Intermediate - WTI.

**Brexit focuses attention**

From 23 June, all eyes turned to Europe, where the vote in favor of Brexit raised a serious challenge both to the United Kingdom and the European project. Although economic growth has not – yet – suffered in those two regions, the political uncertainty is genuine and penalizes investment, presaging difficulties to come in 2017. These political tensions were compounded by the problems with the Italian banking system, posing a threat to the rules introduced by the European Union on the prevention of direct bank rescues by governments. At the same time, the US economy was showing its dynamism and the Fed was preparing to normalize its monetary policy. There were positive signs from emerging countries, in particular Brazil and Russia, which began to recover thanks to the upturn in the price of oil, while the OPEC countries reached an agreement in Algiers at the end of September on limiting output.

**Towards the end of 2016, the US election led to renewed optimism on the markets.**

The final quarter was dominated by the surprise election of Donald Trump as President of the United States on November 8. All asset classes were impacted by this event which raised inflation expectations and caused US bond yields (and those in the rest of the world, through the ripple effect) and the US dollar to soar. Not to be outdone, the equity markets reach record levels, sustained by the optimism of investors who had largely counted on a "soft Trump" scenario (tax cuts and fiscal stimulus without protectionism). Europe also profited from this renewed appetite for risk. Growth was, however, slow to take off as consumption and investment remained held back by significant uncertainty. The second incident towards the end of the year was the agreement reached by OPEC on limiting oil output from the beginning of 2017. It sparked a new surge in the price of oil, thereby supporting the large emerging countries that are producers of oil (in particular, Russia and Brazil). Conversely, Europe and China risk being disadvantaged by the additional challenge posed by the rise in the price of oil, which will reduce households' purchasing power.

**In France, activity reacted to the global context in 2016, but with a slight delay.**

At the start of the year, the French economy benefited from the favorable world environment (low commodity prices and low interest rates). This translated into a rapid increase in household consumption and the continued recovery in investment. The uncertainties surrounding worldwide growth and the recovery of the euro curtailed this recovery, which came to an abrupt end in the 2nd and 3rd quarters, despite the government's support measures. The El Khomri law, the extension of recruitment subsidies and additional depreciation provided support to French businesses. Moreover, the continued lowering of interest rates was beneficial to the real estate sector, prompting a recovery in real estate transactions in respect of existing dwellings. The construction sector benefited from tax incentives offered by the authorities, sparking an increase in new housing projects and applications for building permits. This helped the construction sector to gradually make up for its negative contribution to investment and growth. Towards the end of the year, cyclical indicators were more favorable, despite the fact that the economic environment was less buoyant, given the rise in the oil price and sovereign spreads. This improvement could be seen in the positive changes to the business environment, the upturn in industrial output and the fall in Category A unemployment. Growth is only likely, however, to show modest improvement. The latent wait-and-see approach before the French elections and the increase in energy prices will have a negative impact on households' purchasing power. A number of promises were made at the end of 2016 but there was significant uncertainty going into 2017, both in the United States, with the start of Donald Trump's presidency and in Europe, with a full electoral calendar. The progress of negotiations over Brexit, capital outflows in China and the risk of a hard landing are ever-present negative indicators. Despite all of this, moderate acceleration in growth remains, however, the most likely scenario.

**BANQUE EUROPÉENNE DU CRÉDIT MUTUEL**

BECM is a network bank in the Crédit Mutuel- CM11 Group that operates in the corporate and real estate professional markets in tandem with the CIC regional banks and in a subsidiary capacity relative to the Crédit Mutuel-CM11 regional banking network, with thresholds for intervention adapted to each region.

At the request and on behalf of the Crédit Mutuel-CM11 group, BECM operates in Germany on the market for large and medium-sized companies and real estate companies. Similarly, on the professional real estate market in France, BECM is the appointed contact for national and larger multi-regional real estate developers, as well as for listed real estate companies and major investors that manage residential, commercial and business rental properties. With its 408 employees, it currently has 51 branches, of which 37 are dedicated to the corporate and local market and 13 specialize in financing real estate professionals, with one branch in the Caribbean. In 2016, it expanded its coverage in Germany by opening a branch for large accounts and a branch dedicated to real estate companies in Frankfurt.

BECM's principal areas of business are:

- financing and equipping businesses;
- financing property development in France, mainly in the housing sector;
- financing real estate companies and institutional investors that manage commercial and business rental properties in France and Germany;
- payments processing for major players in the retail, transportation and services sectors.

BECM distributes the products and services of the Group's other subsidiaries in all areas related to the corporate and real estate markets.

In Germany, BECM also targets French and German parent company-subsidiary relations. It provides its knowledge of the German local markets and makes its know-how available to BECM's and the Group's other banking entities' domestic network. The business of financing major real estate investors was added at the beginning of financial year 2016 to support French real estate companies investing in German real estate assets and to acquire real estate companies and German real estate investors as clients. It has eight branches in Germany. Four branches are located in Frankfurt, including the large corporate business center and the french-desk branch that manages the accounts of subsidiaries of French businesses in Germany, with the other branches in Düsseldorf, Hamburg, Munich and Stuttgart.

**Limited economic growth and exceptionally low interest rates**

In view of the principal markets covered by BECM, the economic situation in France and Germany, on the one hand, and the health of the new housing market in France and the real estate investment market in Europe, on the other hand, are important factors. In 2016, the GDP growth rate ultimately reached 1.1% in France (compared to 1.2% in 2015), lower than the rate in the eurozone, where growth was 1.7%. The main causes of this weak growth were associated with external trade, resulting especially from the slowdown in world trade but also, and most importantly, with difficulties in the traditional exporting sectors such as aeronautics and agriculture. Some satisfaction could be drawn from the French real estate market, as there was a near record number of sales and real estate transactions and new projects began to pick up. Maintained low interest rates has largely contributed to this situation. Moreover, the European economy remains saturated with liquidity as a result of the action taken by the ECB, reflected in the increased leveraging of resources. After gradually improving its loan to deposit ratio, which is now at 96.5%, BECM began to regulate deposit-taking and its partial reorientation towards financial savings products which have become priorities in achieving returns on assets.

**Commercial policy guidelines**

To support its development, adapt its activities to the challenges and constraints of the economic and regulatory environment, continue to improve its profitability, achieve the objectives set out in its 2014-2016 medium-term plan and provide its clients with high-quality service in line with their projects, BECM focused its efforts on the following key orientations of its commercial policy:

- **take advantage of its network** of 51 nationwide and German branches to continue to grow its customer portfolio through a wide variety of business development activities;
- **accelerating growth in lending** through investment loans, development of the corporate business in Germany, loans to real estate companies and to real estate developers but also through diversifying to loans backed by customers' assets executed by the group's specialized subsidiaries;
- **develop specialized financing operations** to be a preferred contact for customers on the financing of mergers and acquisitions and, more generally, to strengthen value-added lending activities that generate arrangement and participation fees. A team has been put together to assist the network in France and to increase the number of mandates as agent;
- **refocus the strategy** on the cost and structure of deposit-taking, and geographic diversification, particularly in Germany, where rates are lower than in France. This intake strategy has been a success as it is the source of the improvement in the overall interest margin in 2016;
- **support customers** that have an active presence internationally through appropriate financing and products and services designed for French and foreign parent companies and subsidiaries organized based on the Group's establishments abroad and its partnerships and equity interests, particularly in Germany, Spain, Canada and Morocco;
- **promote the recommendation of wealth management** activities through the operational partnership built with Banque Transatlantique, and the activities of the real estate business subsidiaries through financing for developers, in particular the sale of new housing by CMCIC Agence Immobilière. These orientations, integrated into the commercial action plan, were incorporated directly into the training plan and, thanks to the competence and active involvement of all employees, helped make 2016 a year of significant growth in business volumes and income, and confirmed the appropriateness of the options chosen.

**A positive review of the 2014-2016 medium-term plan that is to be ambitiously extended to 2017 and 2018**

The medium-term plan (MTP), which had been intended to cover the period 2014-2016, was a success even though the economic and financial environment proved to be significantly less favorable than anticipated in 2013. The ambitions for growth and profitability and the priorities of altering BECM's structure and strengthening its identity, proved to be accurate.

BECM grew, became financially stronger, developed its working methods, enhanced the expertise of its teams, strengthened the security of processing of customers' transactions and continued to improve its commercial effectiveness.

The MTP is accordingly a solid basis from which to make future plans and to move forward from 2016 ambitions to 2018 ambitions.

BECM's total number of customers at December 31, 2016 was 19,555, of whom 15,971 were businesses and professionals, 2,154 were individuals (mainly in the Caribbean) and 1,430 fell into other categories (property management companies, non-profit organizations, etc.). Broken down by geographic location, 17,470 customers are based in France and 2,085 are based abroad. Over the three years covered by the 2014-2016 MTP, the growth in new business and outstandings of group subsidiaries is as follows:

- Equipment leasing: +31%
- Real estate leasing: +92%
- Employee savings plans: +15%
- Factoring: +162%

New lending to developers has, for its part, contributed to CMCIC Agence Immobilière selling 19,500 properties over the period and paying more than €160 million in fees to the retail networks. BECM works with Banque Transatlantique to build trust-based relationships with its customers who are business executives, and to continue to grow business volumes with their companies. Approximately 100 meetings were organized in 2016 to take instructions from, executives, with new fund inflows of €115 million. BECM is also managing the convergence of three Crédit Mutuel-CM11 federations (Nantes, Angers and Marseille) in the corporate market: BECM's products, tools and joint customer acceptance policy for the corporate market have been rolled out in these three federations.

**An increase in managed funds and further strengthening of equity**

**Loans (average monthly balances)**

Growth in utilized credit facilities maintained its high tempo, up 5.49% to €12.5 billion. This growth was fueled by the increase in investment loans in France and Germany and loans to real estate companies. In terms of lending, it should be noted that the growth in volumes has offset the lower yields, which have been impacted by the fall in financing margins. The value of new repayment loans released rose to €2,449 billion in 2016. Investment loans to corporates were up 12.74% largely as a result of the large fluctuation of 15% on the German market. The outstanding amounts of external financing increased in overall terms by 5.1% for equipment leasing, real estate leasing and factoring (products of the group's subsidiaries). For the first time, total managed on-balance sheet and off-balance sheet loan commitments exceeded €22 billion, a 12-month increase of €888 million or 4.2%.

**Deposits (average monthly balances)**

Deposits increased by 18.7% to €12.9 billion, with a large intake in Germany of €1.9 billion, boosted by the Group's renewed financial strength. Savings under management (insurance, securities, UCITS, etc.) rose, in overall terms, to €2.3 billion. Penalized by low market rates and the low returns from money market funds, financial savings continued to fall sharply (by -16.6% over 12 months). BECM nevertheless maintained a high intake level in 2016, with total deposits increasing by 11.5% after a 17.6% increase in 2015. Intake in Germany represents the majority of the increase in deposits, and the German market now accounts for 38% of the bank's client resources, with a total of €4.9 billion. For its part, intake in the French corporate market fell by €208 million as a result of price regulation measures. At the end of December 2016, in average monthly balances, savings exceeded loan outstandings for the first time, by €373 million.

**Results**

At odds with the basic strategy of the retail bank, which has seen its profitability hit by interest rates, renegotiations and consumer-oriented and regulatory measures, BECM's financial margin, net banking income and operating profit after tax all enjoyed strong growth. This performance was achieved through business development and equipping customers, and therefore through the creation of value, rather than through reducing overheads, which would limit the potential for growth.

**Net interest income up 18.5%**

The interest margin grew significantly between 2015 and 2016, by 18.5%, to reach €132 million, as a result of both:

- the proactive pricing policy of decreasing the average cost of intake for bank deposits, both in France and Germany,
  - an increase in lending volumes which offsets the fall in average returns.
- Net fee income was up 10% to €71 million at 31 December 2016, principally as a result of fees on electronic payments and on real estate development financing. With compensation of €65.6 million received on the sale of shares in Visa Europe, recognized in other banking income, net banking income amounted to €332 million. If this non-recurring item is not taken into account, net banking income grew by €30.9 million, a rate of 13.1%.

General operating expenses rose by 10%. This increase was mainly due to the increase in taxes on financial institutions, including the contribution to the Single Resolution Fund (SRF), and the increase in BECM's contribution to Caisse Fédérale de Crédit Mutuel's operating expenses. There was a limited increase in overheads directly within BECM's control, with the full year impact of the investment made to expand the network in Germany. Net provision allocations rose to €22 million, compared to €13.9 million in 2015. It represents, however, a small percentage of loans, at 0.18% of average annual outstanding loans.

Income from ordinary operations before tax amounted to €223 million, compared to €142 million in 2015, given the growth in net banking income and the Visa Europe compensation. On recurring activities alone, income from ordinary operations before tax grew by 10.5%.

Corporation tax rose consistently to €77 million following in line with the growth in income from ordinary operations, but without the additional extraordinary corporation tax contribution at the rate of 10.7%.

**Net income up 19.9%**

A decision was taken to supplement the fund for general banking risks by €40 million. Net income ultimately totaled €105.6 million, up 19.9%, the highest level ever achieved by BECM.

**Equity**

Over the course of the last 10 years, BECM has developed its business on markets that are structurally more exposed than retail banking markets. Moreover, the prudential supervision mechanism introduced by the European Central Bank (ECB) after the 2008-2011 financial crisis tightened the regulatory constraints on banks. Against this background, BECM has, since 2015, been included in the individual supervisions mechanism implemented by the ECB in respect of certain subsidiaries in the Crédit Mutuel-CM11 group. This mechanism entails compliance with a capital adequacy ratio every year in line with the development in risk-weighting (on- and off-balance sheet credit risks and operational risks). BECM is also subject to liquidity requirements. Accordingly, appropriate measures were taken by BECM in 2016, with the support of its shareholders (including BFCM), to strengthen shareholders' equity through:

- a capital increase of €160 million subscribed for by all shareholders in BECM, who thereby gave institutional backing to BECM and its growth,
  - the reinvestment by all shareholders of the dividends received in respect of the 2015 financial year in new shares,
  - refinancing packages granted by BFCM at appropriate maturities to comply with our liquidity constraints.
- As a result, at December 31, 2016, BECM had a CET1 (Common Equity Tier 1) ratio of 9.72%, compared to a requirement of 8.75% and a LCR (Liquidity Coverage Ratio) of more than 115%.

BECM reached the end of financial year 2016 in a stronger position, with enhanced capital levels and liquidity in line with regulatory requirements.

**Corporate market**

With a view to furthering the development of its customer base, BECM has focused its efforts on customer acquisition by organizing dedicated marketing days.

**A focus on success and growth**

Targeting corporates with revenues of more than €10 million, with a core target of over €50 million, remains a priority. New customer relationships were entered into with 336 companies, 119 of which were key targets. However, in each region, it has adapted its approach to business development depending on the location of its branches in the territory of Crédit Mutuel regional federations affiliated with the Caisse Fédérale de Crédit Mutuel.

Business development meetings led to 2,095 new contacts in France and Germany. The corporate customer base, all segments combined, in net terms, includes 12,253 customers, up by 2.8%. To increase new lending, pre-approved loans were defined by customers and prospects to finance their projects. In addition, tools aimed at activating undrawn credit lines were made available on the network.

New investment loans and finance leases in France totaled €1.96 billion in 2016. In Germany, new loans and finance leases totaled €486.4 million.

In terms of utilized loans of all types, outstandings rose by 4.2%, including a 15.08% increase in Germany, where growth has been rapid in line with the opportunities on this market.

The lack of revenue growth for customers in the mass retail sector impacted the growth in merchant electronic payments. Income debits subject to transaction fees increased by 2.5%, to €65.2 billion.

The diversification and service activities, which draw on the skills and product and service offering of the Crédit Mutuel-CM11 Group's business centers and specialized subsidiaries, performed well in terms of new equipment leases, up 22% to €352 million. Real estate leasing amounted to €76.5 million in 2016, up by 20% compared to 2015.

**Enhanced security for transactions**

The security of processing customers transactions was also strengthened, through:

- the replacement of banking authentication cards by Safetrans and the K-Sign (signature certificate) a new, larger range of secure authentication measures,
- the introduction of secure messaging, with the remote Online-Banking being transformed into a virtual branch allowing customers to directly contact their advisor,
- through the provision of a mobile application to validate file transfers.

Commercial activity between parent companies and subsidiaries is organized with Germany (the French Desk branch), Spain (Targo Bank) and Canada, with the Desjardins bank. The issuing of international letters of credits and guarantees is growing strongly.

**Financing of real estate professionals**

For more than 10 years, the Crédit Mutuel-CM11 group has entrusted responsibility for the business division that finances real estate professionals to BECM.

As such, BECM manages the Crédit Mutuel-CM11 group's relationships with national and larger multi-regional real estate developers. It also counts the leading French property dealers, land developers and professional real estate investors among its customer base. With branches located throughout the country, BECM is involved in financing real estate development projects geared mainly towards housing, together with the Group's banking networks and real estate subsidiaries.

Within the Crédit Mutuel-CM11 Group, BECM is also responsible for handling relations with listed real estate companies and major investors that manage residential, commercial and business rental properties. Thanks to its knowledge of the markets and operators, it plays a key role in the real estate value chain:

- helping CMC-CIC Agence Immobilière to obtain real estate listing contracts,
- contributing to the development of EPS remote surveillance by bundling it into financed programs, and
- financing home loans through the Group's retail networks.

Lastly, in the area of real estate, BECM organizes and oversees, on behalf of the group, training, procedures and guidelines, legal watch and management and development of the «business» IT tools for which it is responsible. On the real estate market, investments in new residential property continued to recover, supported by the tax regime (Pinel regime and interest-free loans), very low interest rates, the low returns on financial investments and a market environment that is more favorable to developers (lack of stock for sale currently being worked on, measures taken against abusive claims for building permits and the accelerated procedure for obtaining building permits).

Sales of new residential properties rose sharply (up 20%) in 2016, and there were also increases in requests for building permits (up 14%) and new housing starts (up 10%).

**A 27% increase in lending to developers in 2016**

Against this background, BECM entered into 27% more loans with developers. Financing offered by BECM to real estate developers is governed by strict prudential rules adapted to the particular characteristics of each deal. Its decentralized organization close to the markets in which it operates, its specialized teams, its dedicated analysis and management tool and the financing guidelines framework enable BECM to ensure tight risk management.

Corporate real estate investment also remain buoyant: France is the second largest market in the eurozone after Germany. It benefited from increased demand from institutional investors, a risk premium that remains beneficial compared to other assets, but which has reduced significantly, and the abundance of liquidity. It remains sensitive to falls in interest rates, the financial health of tenants and tighter financing structures (extended terms and interest-only portions).

Encouraged by a growing number of investments on pan-European portfolios, in 2016, BECM opened a new branch in Frankfurt focused on financing real estate investors.

BECM carefully developed its profile in the real estate investment financing market and remained very selective with its commercial proposals in view of the increases in assets values and the competition. In overall terms, 2016 was a good year for the real estate market, with a level of risk that remained extremely low.

**Human resources**

Staff turnover affected more than 50 people in 2016, with 37 new joiners and 18 departing employees. Due to the squeeze on retail banking profit margins, there is a need to expand the Bank's range of services and be innovative with product offerings. This requires teams to continually remain focused on training.

The 2016 training plan focused on:

- 8 essential strategic actions,
- business line-specific training courses, with new courses in 2016 for new research managers and project managers on the real estate market and experienced project managers on the corporate market,
- 38 skill-building training programs,
- 12 back office training modules.

BECM allocates 3.6% of payroll costs of employee training. The functional and geographic mobility that allows employees to develop their career path and enables the Crédit Mutuel-CM11 Group to balance needs and available resources as best it can, is a core aspect of the human resources policy.

As a result, BECM can offer its employees good career prospects.

In 2016, it accordingly introduced a number of measures design to improve employees' changes of internal promotion through:

- consistency between the job titles at Crédit Mutuel- CM11 and CIC to make internal transfers more understandable,
- the roll-out of the training program and, in particular, courses specific to business lines. It has also entered into a new agreement on gender equality with employee representatives to firmly establish the new approach in the human resources policy.

**Corporate Social Responsibility**

Corporate social responsibility (CSR) is built on a set of economic, social, societal, environmental and governance commitments.

The CSR policy is entrenched in the Crédit Mutuel-CM11 group's cooperative and mutualist DNA and contributes to the group's development and image, through the search for increased efficiency, productivity and safety.

For BECM, it has 4 key aspects:

- economic responsibility: financing the economy ethically,
- social responsibility: developing a human resources policy that encourages employment and the professional development of employees,
- environmental responsibility: responsible and clean consumption,
- civic responsibility: promoting collective action.

**Economic responsibility**

In 2016, BECM granted:

- €1.9 billion euros in new investment loans to French businesses,
- €3.3 billion in new facilities to developers and real estate companies.

In line with the sectoral policy drawn up by the group (armaments industry, civil nuclear sector, mining sector, coal-fired power stations, the group's private bank, etc.) and compliance rules (country lists, embargos, AML, etc.), including tax compliance.

**Social responsibility**

It is informed by the Crédit Mutuel-CM11 group's mutualist values. As a result of the training policies and excellent personal relationships, the pursuit of mutualist values finds expression in responsible practices and a responsible commercial offering. The social policy is also reflected in a compensation

system that is not based on commission and that is supplemented by a profit-sharing and incentive plan that is favorable to employees.

Gender equality in the workplace also continues to remain a priority, and has been formally addressed in a new agreement.

Lastly, the size of the training budget illustrates BECM's commitment to furthering the expertise of its employees. Social responsibility also requires high-quality dialog with staff.

Lastly, it encourages employees to move around, either geographically or between departments.

#### Environmental responsibility

The entire network was equipped with unified communication system, Lync-Skype Pro, which also led to savings in terms of transport and travel expenses.

Digital document management has also been developed. Goods and services are purchasing in accordance with the group's purchasing policy (local partners, free trade, selective sorting of waste paper, purchase of paper from a company employing disabled workers, etc.).

#### Civic responsibility

BECM's civic commitment is demonstrated by its sponsorship activities, such as the support it has provided to research against melanoma in partnership with the oncodermatology department at the Institut Gustave Roussy in Villejuif.

It is also reflected in the respect shown for mutualist values such as solidarity, responsibility, autonomy and initiative, team spirit and compliance with the code of conduct and ethics.

#### Composition of the governing bodies

The Shareholders' Meeting of May 11, 2016 renewed the terms of office as members of the Supervisory Board of Messrs. Roger Danguel, Remy Grosz, Patrick Morel and Nicolas They and confirmed the co-option, approved by the Supervisory Board on July 30, 2015, of Mrs. Danielle Joannes for the remainder of the term of office of Mr. Michel Paoli and Mr. Damien Lievens for the remainder of the term of office of Mr. Francois Duret. It renewed the term of office as Principal Statutory Auditor of Ernst & Young et autres and that of Cabinet Picarlie & Associés as Alternate Statutory Auditor for a period of six years. Pursuant to Article L.225-102-1 of the French Commercial Code, the list of offices held and functions exercised by each corporate officer during the year is provided in the appendices.

#### Equity interests

At December 31, 2016, shareholdings in subsidiaries and other equity interests stood at €11,458,032.82, of which €11,022,900 related to the Monaco BECM subsidiary, whose share capital increased by €1,023,000 in 2016. For 2016, Banque Européenne du Crédit Mutuel Monaco posted net income of €748,270.22. Subsidiary SNC Foncière du Crédit Mutuel acts as a property dealer in managing security related to cases in dispute or litigation. The company posted a profit of €12,065.82 for the year.

#### Recent developments and outlook

In 2016, BECM introduced video chat and the equipment needed to enable it to be used effectively, at all employees' workstations. The use of video-conferencing became widely used by the bank's Management Committee, in commercial marketing meetings by geographic sector and market, and in work meetings with customers, sales teams and representative offices abroad. This tool increases commercial effectiveness and productivity. It also provides the image of a bank at the forefront of technology and focused on its customers' present needs.

BECM has moved towards multi-channel (email and website) and multi-support (digital newsletter, videos and Internet files) marketing methods. Since 2016, it has also published a monthly customer newsletter.

In 2016, BECM introduces a number of measures to improve its operational efficiency:

- the expansion of the commitments section, already shared with CIC Ile-de-France, to CIC Est, for both corporates and real estate,
- the creation of a Specialized Financing Team shared with CIC Ile-de-France, already operational with CIC Est,
- the formation of a technical sales team shared not only with CIC but also with the Crédit Mutuel federations. A joint team with Crédit Mutuel du Centre has already been created for employee savings schemes, and a team is to be created with Crédit Mutuel Méditerranéen for cash flows and equipment leasing. It is evidence of a proven ability to create shared functions within the group, with a view to developing the group's business efficiently and economically. The purpose of pooling resources is to avoid redundant duplication of the same tasks or roles, to combine roles and do things once where possible and appropriate, without harming BECM's identity and brand from the customer's perspective. The challenges for 2017, which

are the first hurdle to be overcome in the extended two-year medium-term plan, come in various forms:

- continuing to open accounts, as in 2016, in particular by enhancing business development activity in Germany, with the roll-out of business development days to support the new branches combined with the business development activity carried out by the former General Electric teams,
- continuing to grow lending on the corporate market in France, while stabilizing the level of outstandings in real estate development. New lending must be qualitative and must take into consideration its impact on the riskweighting under the CET1 common equity ratio,
- controlling and regulating the deposit-taking volumes,
- stemming the fall in the financial margin and replacing falling lending returns with increased growth in fees, with five areas of priority:
  - new lending volumes linked to the customer acceptance policy and the growth in cashflows in France and Germany,
  - revising the pricing structure,
  - value added with more specialized financing arrangements and cash flow engineering,
  - enhancing business diversification: e.factor, IARD insurance, financial savings, etc.
  - reducing disparities between customer facilities between branches,
  - strengthening the commercial relationship with Banque Transatlantique to improve customer loyalty to BECM. Certain strategic measures are specific to the real estate market:
    - real estate development:
      - maintaining a 20% market share with all major, economically sound national developers to help CM-CIC Agence Immobilière obtain mandates,
      - continuing diversification into long-term lending and property dealers.
    - real estate companies and major investors:
      - increasing utilized credit facilities, in particular through business development activities with managers of French SCPIs (real estate funds)
      - expanding the business with bilateral financings in Germany.
    - The activities of real estate subsidiaries:
      - continuing working with CM-CIC Agence Immobilière, in particular through procurement committees,
      - furthering our cooperation with CM-CIC Participations and CM-CIC Réalisations Immobilières through a restructured offering.

In addition to these commercial and operational priorities, plans are being developed to increase cooperation in the future with Targobank Germany, with a view to growing the leasing and factoring businesses, and with Targobank Spain, on the large and medium-sized companies market, depending on changes to economic conditions.

Improvements in the digitalization of business activities is planned, despite the fact that BECM has already rolled out an IT and telephone system that allows voicemail, data and images to be exchanged not only within BECM but also with external customers.

These are all key aspects of our project to create an efficient bank, a bank that is close by but accessible remotely, and focused on providing advice and serving its customers.

#### FINANCIAL INFORMATION (by month-end balance)

##### Management of financial risks

The Crédit Mutuel-CM11 Group's ALM technical committee manages the interest rate, exchange rate and liquidity risks of the Group, including those of BECM. As part of overall asset and liability management, the duration and type of refinancing is decided according to asset/liability management rules, particularly in terms of transformation and interest rate risk and regulatory ratios. As cash centralizer, BFCM ensures that Group entities have sufficient liquidity; accordingly, BECM does not bear any liquidity risk on its own account.

##### Balance sheet

Total assets at December 31, 2016 amounted to €19.1 billion, compared with €16.1 billion at year-end 2015, an increase of 18.8%.

##### Liabilities

Interbank transactions amounted to €4.0 billion and consisted almost exclusively of refinancing activities with BFCM.

Customer deposits, up by 21.8% at €13.2 billion (including accrued interest), consist mainly of term deposits (€5.4 billion), customers' current account credit balances (€4.0 billion) and savings accounts (€3.7 billion).

The fund for general banking risks (FGBR) amounted to €200 million, after an additional provision of €40 million. Total shareholders' equity and reserves (including FGBR and income), was €1.308 billion compared with €1.003 billion in 2015, following the appropriation of 2015 retained earnings, the reinvestment of the 2015 dividend in shares and a capital increase by way of cash contribution of €160 million.

Subordinated debt totaled €301 million (excluding accrued interest), including €50 million in the form of super-subordinated securities subscribed by BFCM to enable BECM to bolster its long-term funding resources. Articles L.441-6-1 and D.441-4 of the French Commercial Code provide for specific disclosures relating to the due dates of trade payables; the amounts involved are not material for BECM.

#### Assets

Interbank transactions mostly reflect cash surpluses placed with BFCM.

At the end of the reporting period, customer loans (including accrued interest) were up by 7.7%, at €12.6 billion, from €11.7 billion in 2015.

Cash facilities (€1.8 billion), capital asset financing (€7.4 billion), loans to developers (€1.0 billion), other loans (€1.0 billion) and customers' current account overdrafts (€0.9 billion) accounted for most of the facilities granted. Non-performing loans to customers (gross outstandings of €280 million) were 42% covered by provisions. BECM pursues a prudent loan reclassification and provisioning policy.

#### Income statement

Interest and similar income totaled €267.3 million in 2016, consisting mainly of interest received on lending transactions with customers (€226.2 million).

Interest and similar expenses (€71.7 million) essentially consist of interest paid to BFCM in respect of refinancing, and interest paid on customers' term deposits. Other income includes an amount of €65.6 million in respect of VISA transactions.

Net banking income amounted to €332 million, compared with €235.5 million in 2015.

General operating expenses totaled €89.8 million, of which €2.7 million was incurred on behalf of other Crédit Mutuel-CM11 Group entities and subsequently recovered. Net operating expenses for BECM thus totaled €87.1 million.

Net provision allocations/reversals for loan losses came to €22.1 million.

An amount of €32,455 corresponding to non-tax-deductible rental and depreciation of company cars was added back to taxable income.

After an income tax charge of €77.3 million, net income for the year came to €105.6 million, compared with €88.1 million in 2015.

#### Appropriation of prior year earnings and net income proposed to the Shareholders' Meeting

The appropriation of net income and retained earnings submitted to the Shareholders' Meeting is as follows (in euros):

##### Origin of income to be appropriated:

Net income for 2016	105,579,537.51
Retained earnings (previous credit balance)	274,243.38
Total available for appropriation	105,853,780.89

The Executive Board proposes to allocate:

- to distribution of dividends a total amount of €43,675,586.95, i.e.
  - a dividend of €7.24 to each of the 5,440,086 shares entitled to the full year's dividend,
  - a dividend of €4.13 per share entitled from June 6, 2016 at the time of the capital increase following the reinvestment of the 2015 dividend (147,023 shares).
  - a dividend of €4.13 per share entitled from June 6, 2016 at the time of the capital increase as a result of cash payments (891,564 shares).
- shareholders will be offered a choice between the payment of the dividend in cash or in shares, subject to approval by the Shareholders' Meeting;
- an amount of €2,077,174 to the legal reserve;
- an amount of €60,000,000 to the revenue reserve;
- and carry the residual balance of €101,109.94 forward as retained earnings. This dividend is eligible for the tax allowance provided for in Article 158 of the French Tax Code. In accordance with applicable laws, the Executive Board reminds you that the following dividends per share were paid in respect of prior years:

Year	2013	2014	2015
Amounts in euros	4.04 <sup>(1)</sup>	4.53	4.85
	2.12 <sup>(2)</sup>		
Dividend eligible for the tax allowance provided for in Article 158 of the French Tax Code	yes	yes	yes

(1) For shares entitled to the full year's dividend.  
(2) For new shares entitled from June 23, 2013.

Strasbourg, February 24, 2017  
The Executive Board

#### Balance sheet of Banque Européenne du Crédit Mutuel

(All amounts are expressed in thousands of euros)

	2016	2015
<b>Assets</b>		
Cash and due from banks	6 378 854	3 867 436
Investment securities	458	5 013
Investment in unconsolidated affiliates	11 023	10 000
Loans and advances to customers	12 594 206	11 673 996
Customer liabilities under acceptances	0	0
Bank premises and equipment	784	922
Goodwill and other intangible assets	1 017	1 017
Deferred tax assets	0	0
Other assets	165 159	564 107
<b>Total assets</b>	<b>19 151 501</b>	<b>16 122 491</b>
<b>Liabilities and stockholder's equity</b>		
<b>Liabilities</b>		
Financial liabilities held for trading	-	-
Customer deposits	13 193 295	10 851 281
Due to other banks	4 027 932	3 460 571
Acceptances outstanding	-	-
Profit tax payable	28 353	5 699
Deferred tax liabilities	-	-
Provisions	10 057	13 929
Subordinated debentures	301 087	371 147
Other liabilities	282 581	417 223
Funds borrowed	-	-
Funds for general banking risks	200 000	160 000
<b>Stockholders' equity</b>	<b>1 002 616</b>	<b>754 576</b>
Issued capital	129 573	108 802
Share premium	328 811	163 198
General reserves	-	-
Other reserves	543 958	481 983
Retained earnings	274	593
<b>Net result</b>	<b>105 580</b>	<b>88 065</b>
<b>Total liabilities and stockholders' equity</b>	<b>19 151 501</b>	<b>16 122 491</b>

#### Income statement of Banque Européenne du Crédit Mutuel

(All amounts are expressed in thousands of euros)

	2016	2015
Interest income	267 348	270 790
Interest expense	(71 721)	(100 015)
<b>Net interest income</b>	<b>195 627</b>	<b>170 775</b>
Fee and commission income	365 829	401 793
Fee and commission expense	(295 142)	(337 505)
<b>Net fee and commission income</b>	<b>70 687</b>	<b>64 288</b>
Dividend income	2	11
Net trading income	1 267	1 356
Gains less losses from investments securities	6	2
Other operating income	64 554	(1 486)
<b>Operating income</b>	<b>332 143</b>	<b>234 946</b>
Salaries and other employee expenses	(42 602)	(40 858)
Occupancy expenses	(44 527)	(38 311)
Net impairment losses on loan and advances	(22 079)	(13 911)
Other operating expenses	(101)	(234)
<b>Operating expenses</b>	<b>(109 309)</b>	<b>(93 314)</b>
<b>Net result from operations</b>	<b>222 834</b>	<b>141 632</b>
Income from associates	-	-
Allocation to the funds for general banking risks	(39 974)	16
<b>Net result before tax</b>	<b>182 860</b>	<b>141 648</b>
Profit tax expense	(77 280)	(53 583)
<b>Net result after tax</b>	<b>105 580</b>	<b>88 065</b>

#### Explanatory notes to the summary financial statements

##### A - Accounting policies Basis of preparation

French and European regulations do not require BECM to prepare and publish consolidated financial statements. It should be noted that BECM has no significant subsidiaries which would justify consolidated financial statements.

The summary financial statements are derived from the audited statutory financial statements of BECM and have been prepared according to French accounting principles (French Gaap) applied to credit institutions. The summary financial statement of financial position, the summary income statement and the summary explanatory notes are presented using the format defined in Appendices 1 through 3 of the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions issued by the Centrale Bank van Curaçao en Sint Maarten.

The audited financial statements of BECM as of December 31, 2016 will be made available at the registry of commerce in Strasbourg.

##### Investment securities

Securities recognized as assets are recorded in portfolios as laid down by regulations (trading, available for sale, held to maturity, portfolio, other long-term securities) according to management intention on acquisition. They are valued according to their classification. All portfolios are recognized at historical or amortized cost, with the exception of the 'trading portfolio' valued at the market value. Impairment charges are immediately recognized in the income statement, except for the unrealized temporarily losses on held to maturity portfolio.

##### Loans and advances to customers

Loans and advances to customers are initially measured at historical cost and subsequently at amortized cost and may be subject to impairment if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans.

##### B. - Specification of accounts of Banque Européenne du Crédit Mutuel

(All amounts are expressed in thousands of euros)

Assets	2016	2015
<b>Investment securities</b>		
Available for sale	11 483	15 014
Held to maturity	0	0
Trading portfolio	0	0
<b>Total investments</b>	<b>11 483</b>	<b>15 014</b>
Less allowance for losses	(2)	(1)
<b>Net investments</b>	<b>11 481</b>	<b>15 013</b>
<b>Loans and advances to customers</b>		
Retail customers	25 441	22 112
Corporate customers	12 604 580	11 675 357
Public sector	63 031	64 068
Other	19 196	19 146
<b>Total loans and advances to customers</b>	<b>12 712 248</b>	<b>11 780 683</b>
Less allowance for loan losses	(118 042)	(106 687)
<b>Net loans and advances</b>	<b>12 594 206</b>	<b>11 673 996</b>
<b>Liabilities</b>		
<b>Customer deposits</b>		
Retail customers	24 497	24 754
Corporate customers	13 168 798	10 826 527
Other	-	-
<b>Total customer deposits</b>	<b>13 193 295</b>	<b>10 851 281</b>

#### BECM BANK

Tamarin Plaza – Union Road # 133 – Cole Bay – Sint. MAARTEN  
Phone : (1) 721 546 0609

#### Statutory auditors' report on the Summary Financial Statements

Year ended December 31, 2016

To the Board of Directors of Banque Européenne du Crédit Mutuel,

##### Opinion

The Summary Financial Statements, which comprise the summary statement of financial position as at December 31, 2016, the summary income statements for the year then ended, and related explanatory notes, are derived from the audited financial statements of Banque Européenne du Crédit Mutuel ("the Company") for the year ended December 31, 2016.

In our opinion, the accompanying Summary Financial Statements are consistent, in all material respects, with the audited financial statements, on the basis described in Note A.

##### Summary Financial Statements

The Summary Financial Statements do not contain all the disclosures required by French Accounting Principles. Reading the Summary Financial Statements and our report thereon, therefore, is not a substitute for reading the audited financial statements and our report thereon. The Summary Financial Statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

##### The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated April 12, 2017.

##### Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the Summary Financial Statements on the basis described in Note A.

##### Auditors' Responsibility

Our responsibility is to express an opinion on whether the Summary Financial Statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), "Engagements to Report on Summary Financial Statements."

##### Restriction on use of our report

This report is governed by French law. The courts of France shall have exclusive jurisdiction over any claim, dispute or difference resulting from the engagement letter or the present report or any related matters. Each party irrevocably waives its right to oppose any action being brought before French courts, to claim that the action is being brought before an illegitimate court or that the courts have no jurisdiction.

Paris-La Défense, April 27, 2017

##### The statutory auditors

KPMG Audit

Département de KPMG S.A.

Arnaud Bourdelle

ERNST & YOUNG et Autres

Olivier Durand

For the BECM, deviations between French Gaap and IFRS Gaap are:

	EQUITY (EXCLUDING NET INCOME)	NET INCOME
<b>French Gaap</b>	<b>1 002 616</b>	<b>105 580</b>
General provisions under French Gaap (funds for general banking risks)	200 000	0
IFRS Collective Impairment provisions	(22 486)	11 084
Deferred taxes under IFRS Gaap	14 871	(7 352)
Other differences between IFRS/French Gaap	(9 440)	3 157
<b>IFRS Gaap</b>	<b>1 185 561</b>	<b>112 469</b>

All figures of the present report are expressed in thousands of euros.