

Executive Board's management report

2017: A RAMP-UP IN GROWTH
ACROSS THE BOARD

Renewed political visibility helped boost worldwide growth throughout the year, driven mainly by the euro zone and the United States. A new level of growth was reached in 2017, which fueled the upward trend of the equity markets, yet without generating an increase in bond yields. Renewed confidence, coupled with still-favorable financial conditions, encouraged increased investment in the developed countries. At the end of the year, this contributed to the slight resurgence of inflationary pressures, although very slow to materialize, which sets the stage for an ongoing gradual reduction in accommodative monetary policies.

A year marked by political risk

The first half of the year was marked by the elections in the euro zone and by Donald Trump's first steps as leader of the United States. The failure to reform the Obamacare healthcare system (in March 2017) was a turning point that triggered a fall in interest rates and in the dollar against the main currencies, reversing the trend observed in the wake of Donald Trump's election in November 2016. This currency trend intensified with the absence of incidents during the election season in Europe. The results of the French elections reassured businesses and investors across the globe, which triggered an upturn in European growth and the single currency. Conversely, clouds gathered over the United Kingdom given the lack of visibility related to the Brexit negotiations (as well as Theresa May's defeat in the June elections). As a result, activity in Britain entered a downward phase, which marks a break from the acceleration in the other regions.

In the third quarter, although geopolitical risk in North Korea did not seriously undermine market confidence, it did – temporarily – encourage capital flight to certain safe investments (namely gold and the yen). The Asian indices were mostly unaffected by this situation thanks to the strong international economic environment.

The end of the year was marked by a buoyant election season which, however, did not slow down growth. Angela Merkel's failure to win a majority forced her to enter into negotiations with the Liberals and the Greens, and then only with the SPD (socialists) in order to form a coalition capable of governing. Moreover, the situation in Catalonia since the October referendum continued to ease with the narrow separatist victory in the December elections.

Synchronization of growth on a global scale

In the euro zone, the absence of incidents during the various political campaigns contributed to a sharp upturn in growth during the last two quarters. This was the result of domestic factors (increase in consumer spending and recovery in household and corporate investment), in addition to buoyant world trade. Although the ramp-up in growth has already spread to the entire zone, the same is not yet true of inflationary pressures. However, 2017 was marked by an easing of deflationary risks (overall reduction in prices), which led the ECB to make its monetary policy less accommodative. The rapid drop in unemployment began to further intensify wage pressures, which implies a gradual and slow increase in inflation.

In the United States, growth continued to accelerate, moving above the 2% threshold, which boosted US equities but was unable to trigger an increase in sovereign rates or appreciation of the dollar. To regain momentum, the economy relied primarily on strong demand. Households enjoy a favorable environment with an economy at close to full employment. Although wage acceleration is overdue, the possible overheating of the employment market and the desire to avoid the formation of financial bubbles prompted the Fed to continue its monetary tightening despite the slowdown in core inflation through Q3 2017. The central bank therefore ended the year with a total of three increases in key interest rates and is preparing for a change in its leadership with the appointment of a new governor (Jerome Powell) whose approach is similar to that of the current Chair, Janet Yellen.

In China, the government confirmed in mid-October at the Congress of the Communist Party that its priorities were controlling pollution and reducing debt. The policy aimed at achieving more sustainable and lasting growth is therefore on track, and the authorities continue to steer the economy so as to avoid a serious accident. While this approach is reassuring, one of its consequences is a slowdown in economic growth. Lastly, in terms of commodities, 2017 saw an extension of the oil production cut agreements by OPEC and Russia. This strategy ultimately worked, with the result that the Brent barrel was over \$66 at year-end. The speed at which it has increased since mid-June is fueling short-term inflation.

In France, the new government's push for reform has fueled the upturn in growth

The election of Emmanuel Macron, along with a broad majority in the National Assembly, marked a turning point last year. The government tried to stay on the path of reform and, in the second half of the year, household and corporate confidence rose significantly to record high levels. The government confirmed its commitment to reform the employment market and the taxation of capital through the orders and the Finance Act passed in the fall. Growth continued to climb at a surprising rate and was driven mainly by demand and the increase in investment and consumption. This economic environment is conducive to the consolidation of public finances, which is one of the government's top priorities. 2017 was an exceptional year for the French real estate market, where the number of transactions involving new and existing properties increased significantly, triggering a sharp rise in prices.

In conclusion, it is clear that confidence spiked in the developed countries as well as in the emerging countries at the end of the year, which helped to accelerate worldwide growth. In 2018, tax reform in the United States will amplify the ramp-up in activity triggered by the recovery in investment. In the euro zone, the absence of political risk and the favorable outlook suggest a high level of growth in all countries. This economic and financial environment is making the central banks' accommodative monetary policies less and less necessary.

A customer-focused network bank for businesses and the real estate market

BANQUE EUROPÉENNE DU CRÉDIT MUTUEL

BECM is a reasonably sized, largely decentralized bank that caters to businesses and real estate professionals, maintains close ties with its customers and offers short decision times. It conducts its business nationally and in Germany and covers the following markets and areas of activity:

- small, medium and large companies, with appropriate targeting based on the regions to ensure that its services complement those of the Crédit Mutuel CM11 federations;
- financing of real estate development and real estate investors in France, mainly in the housing sector;
- real estate companies that manage commercial and business rental properties in France and Germany;
- payments processing for major players in the retail, transport and services sectors.

BECM operates in tandem with the CIC regional banks and in a subsidiarity capacity relative to the Crédit Mutuel CM11 regional banking network.

BECM offers its customers advanced technical expertise in investment financing and services to support their strategy. Its customer relationship managers ensure that customers benefit from all their expertise, as well as the skills of the teams at the various Crédit Mutuel CM11 Group subsidiaries.

For large operators in the real estate market in France and as part of the Crédit Mutuel CM11 Group's organization, BECM focuses and synthesizes expertise in coordination with the group's retail banking networks and real estate subsidiaries. In the real estate market, it partners with developers and real estate companies.

BECM also works with large German companies, including those with operations in France, and with the German subsidiaries of French groups. It contributes its knowledge of local German markets and makes its know-how available to corporate customers. The teams based in Frankfurt, Düsseldorf, Stuttgart, Hamburg and Munich design personalized solutions tailored to the needs of German customers. The business of financing major real estate investors was added in 2016 to support French

real estate companies that invest in German real estate assets as well as German real estate companies and investors.

Products and services for the corporate and real estate markets

BECM distributes the products and services of the Crédit Mutuel CM11 Group's subsidiaries in all areas related to the corporate and real estate markets.

It employs 408 people (under permanent and fixed-term contracts) at its 51 branches, including 37 dedicated to the corporate and local market, 13 that specialize in financing real estate professionals, and one in the Caribbean.

The total number of BECM customers at December 31, 2017 was 20,305, an increase of 3.8%, of whom 16,561 were businesses and professionals, 2,162 were individuals (mainly in the Caribbean) and 1,582 fell into other categories (property management companies, non-profit organizations, etc.). Broken down by geographic location, 18,041 customers are based in France and 2,264 are based abroad.

Sales results and operational efficiency

In terms of sales objectives, new business volumes increased in both the corporate market and the real estate market:

	UNIT	DECEMBER 31, 2017	VARIATION/DECEMBER 31, 2016
BUSINESS INDICATORS			
Corporate market (in € millions)			
New MTLV loans	M€	2,304	+10.6%
New equipment leasing	M€	346	ns
New real estate leasing	M€	79	+3.2%
Commission income on loans France	K€	10,959	+8.1%
Debits subject (to transaction fees)	M€	68,959	+5.1%
Commission income on accounts	K€	16,676	+11.7%
Real estate market			
New loans and guarantees for developers	M€	2,656	+10.7%
New investor loans in France	M€	338	ns
New loans for real estate companies in France	M€	985	+40.0%
Loan agreements with real estate companies and investors in Germany	M€	138	vs 50
Guarantee commissions – GFA (financial completion bond)	K€	22,335	+15.8%

BECM has made significant progress in diversifying its activities by business and by region, particularly in terms of corporate insurance, specialized financing and investment loans for businesses, real estate financing in Germany and financing of real estate investors in France.

Resource pooling increased in the commitments support function with CIC Est, for both corporates and real estate.

BECM has operational teams dedicated to specialized financing and whose expertise it shares with CIC Ile-de-France and CIC Est.

A technical sales team in such areas as payments, employee benefits, international business, specialized financing, equipment leasing and real estate leasing is shared not only with CIC but also with the Crédit Mutuel CM11 federations.

BECM demonstrates a proven ability to create shared functions within the Crédit Mutuel CM11 Group, with a view to developing the group's business efficiently and economically.

In Germany, with the support of a new business director since the summer of 2017, new projects have been launched both at the organizational level with Targobank Germany aimed at pooling support functions (accounting, taxation, legal affairs, human resources, purchasing, communication, marketing, control) and at the commercial level by increasing the workforce at the branches in the regions. A commercial offer called Program Partner aimed at employees of BECM's corporate customers was rolled out with the help of Targobank, a group company with which BECM is building a Crédit Mutuel full-service bank in all major economic regions in Germany.

In addition, BECM sent a branch manager to the Crédit Mutuel Antilles-Guyane federation to manage the staff of that federation's corporate business center and to organize the development of the corporate market in the Caribbean, along the lines of the action taken in 2016 with the three Crédit Mutuel CM11 federations that have business centers dedicated to the corporate market.

Balanced and controlled growth

The bank strengthened the criteria and the measures of its risk appetite framework by setting alert thresholds and limits for sector concentration and individual concentration risks. This oversight tool allows it to monitor business development to ensure balanced and controlled growth with respect to counterparty risk.

In June 2017, in addition to its participation in and its oversight by the group's risk committee, BECM set up its own risk committee that meets quarterly, in conjunction with the group's risk department, to analyze changes in its credit risk (volume, sector concentration and individual concentration) and operational risk, set the direction for new business and secure its activities.

Growth in loans and a strong interest margin

Loans (averaged monthly balances)
Total managed on-balance sheet and off-balance sheet loan commitments reached €23.7 billion, an increase of €1.5 billion or 6.7%.

On-balance sheet loans grew by 11.8% to €14.0 billion compared to 5.5% in 2016.

Real economy: significant increase in investment loans

The corporate market grew by 9.9%, with loans totaling €9.1 billion, compared to a 4.2% increase in 2016. Investment loans rose by 14.8% to €6.4 billion, with a significant 20.9% increase in Germany. Operating loans remained stable at €2.7 billion.

The real estate market is driven by real estate companies and investors, which increased by 20.1% to €3.7 billion. Loans to developers rose by 5.5% to €1 billion as a result of the growth in new business.

External loans backed by financial assets and held by the group's business subsidiaries (equipment leasing, real estate leasing and factoring) rose by 10% to €1.4 billion.

Guarantees given, mainly in the real estate sector, grew by 9.3% to €2.5 billion. Undrawn confirmed credit lines decreased by 6.0% to €5.7 billion.

Deposits (averaged monthly balances)
Deposits decreased by €656 million, or 5.1%. However, they increased by €639 million after reaching a low point in April 2017.

This decrease resulted from the regulation of deposit-taking in France and Germany, through action related to large depositors, particularly in Germany, and the structure of deposit-taking (current accounts and prior-notice accounts).

The loan-to-deposit ratio was 114.4% compared to 97.1% at end-2016. Financial resources decreased by €463 million, or 19.6%, to €1.9 billion as a result of low short-term interest rates.

Financial results

At odds with the general trend in retail banking, which has seen its profitability negatively impacted by interest rates, renegotiations and consumer-oriented and regulatory measures, BECM's interest margin grew significantly for the second straight year by 20.3% to €158.9 million.

Record growth

This growth was the result of:
 • a price effect in terms of deposits, resulting from a proactive pricing policy of reducing the cost of savings, which on average fell from 0.41% in 2016 to 0.15% in 2017, i.e. -26 basis points in a year, with an average cost in France that decreased from 0.53% in 2016 to 0.19% in 2017 and a volume representing 65.3% of savings in average annual deposits, on the one hand, and an average cost in Germany which fell from 0.15% in 2016 to 0.06% in 2017 and a volume representing 34.3% of savings in average annual deposits, on the other hand;

• a volume effect in terms of loans, which increased by 9.7% in average annual outstanding loans, coupled with an average margin on loans which held steady, falling from 1.49% in 2016 to 1.43% in 2017, i.e. only -5 basis points in a year, and
 • this and despite a €17.5 million decrease in net income from interest-rate hedging operations as a result of the expiration of very lucrative interest rate swap contracts used in asset-liability management in 2009 and 2010.

Other net interest income rose by 7.4% to €64.7 million thanks to the increase in guarantee commissions, including real estate development completion bonds

(+15.9%), commitment fees related to the provision of collateral under the TLTRO programs (€4.3 million) and despite the LCR liquidity cost, which represented a net expense of €1 million in 2017.

Other net banking commission income fell by 9.4% to €64.1 million; excluding commission income on electronic payments (see below), it increased by 10.4%. Commission income on loans rose sharply by 20.9% and commission income on accounts increased by 11.7%.

Commission income on electronic payments decreased by €11.6 million due to:
 • changes to the intragroup accounting systems with the billing in early 2017 of expenses related to the fourth quarter of 2016,
 • the increase in Visa and MasterCard fees and interchange fees for corporate cards and the inability to pass on these increases immediately to customers with whom BECM is bound by medium-term agreements,
 • competitive pressure on large customers. In 2016, other banking income included €65.6 million in non-recurring income for VISA transactions.

Net banking income amounted to €290.7 million, up 9.1% excluding the capital gain received from VISA in 2016.

General operating expenses rose by 4.7%, i.e. €4.1 million, to €91.5 million. This increase resulted from:

- the €1.9 million net increase in taxes on financial institutions, for a total of €9.9 million,
- the additional €1.0 million contribution to the common costs of CFCM, for a total contribution of €8.4 million, given the growth in BECM's capital,
- the increase in other general operating expenses limited to €1.2 million.

The cost/income ratio (general operating expenses/net banking income), excluding the VISA capital gain, again fell to 31.5% compared to 32.8% in 2016.

This performance was achieved by developing the business and providing customers with products, and therefore through value creation, rather than by reducing general operating expenses, which would limit the potential for growth.

Net provision allocations/reversals for loan losses stood at €40.6 million and were mainly impacted by a business account in the oil services sector and by the provisions for Sint-Maarten related to the effects of hurricane Irma in September 2017. However, actual net provisioning for known risks represented a moderate rate of 0.30% of average annual outstanding loans.

Income from ordinary operations before tax decreased by €64 million to €158.6 million. Excluding the VISA capital gain, it increased by 1% over the previous year.

An allocation had been made to the fund for general banking risks (FRBG) in 2016 in the amount of €40 million, which was almost equivalent to the calculation of the VISA capital gain after tax.

Therefore, after an income tax charge of €58.4 million, net income came to €99.8 million.

Equity and liquidity

Since its creation, BECM has developed its business in 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 regulatory constraints on banks.

BECM must comply with a capital adequacy ratio every year in line with the development of weighted risks (on- and off-balance sheet credit risks and operational risks).

In April 2017, BECM released its second ICAAP report to measure its capital adequacy in a number of adverse scenarios with high levels of intensity. In all cases, the tests confirmed the soundness of its balance sheet and the quality of its risk policy.

As proposed to the Shareholders' Meeting on May 3, 2017, BECM's shareholders unanimously agreed to use the option to reinvest the dividend in new shares, a clear indication of their confidence in BECM's ability to create value over the long term. Equity therefore increased by €43.7 million in addition to the share of income transferred to reserves.

BECM is also subject to liquidity requirements.
 At December 31, 2017, BECM had a CET1 (Common Equity Tier 1) ratio of 11.05%, compared to a requirement of 8.75%, a leverage ratio of 5.48% and a LCR (liquidity coverage ratio) of 97%, an improvement over the LCR at June 30, 2017 (94%).

Corporate market

BECM increased its investment loans by 14.8% to €6.4 billion. The sales campaigns launched in both France and Germany continued with this development, with appropriate prices, pre-approved loan amounts defined by customers and prospects, increased resources for specialized financing and rapid development in Germany.

In 2017, the bank signed an agreement with the Crédit Mutuel des Professions de Santé (CMPs) mutual banks to offer investment financing solutions to their customers when these Crédit Mutuel banks of the Crédit Mutuel CM11 federations have reached their maximum lending capacity. The initial results indicate a favorable trend.

External loans backed by financial assets and held by the group's business subsidiaries (equipment leasing, real estate leasing and factoring) rose significantly, with a strong 14% growth rate for factoring.

Growth in loans and financing activities played a crucial role in increasing the bank's income. In an intense and heightened competitive environment with leading companies, the new volumes made it possible to counter the decrease in the average return on loans and generate higher income than in 2016.

Development driven by customer acquisition

At the end of 2016, once deposits had exceeded outstanding on-balance sheet loans, BECM decided to regulate deposit-taking through a combination of actions: through volumes with large depositors, by adjusting the prices for term and passbook accounts in Germany, through prior-notice products, and through a shift toward non-interest-bearing current accounts with credit balances.

The savings reserve thus created allowed BECM to take an offensive position in terms of offering products to prospects and customers with whom it might be able to strengthen relations. This reserve represented a new opportunity for business development.

BECM focused its efforts on customer acquisition, mainly by organizing a four-day event dedicated to business development in France and Germany. The total number of appointments was 1,769, including 1,554 in France and 215 in Germany.

Weak revenue growth for customers in the mass retail sector impacted growth in merchant electronic payments. Nevertheless, debits subject to transaction fees increased by 5.1%, to €68.5 billion.

In 2017, the bank implemented an action plan for products related to corporate insurance banking. As is the case whenever new products are added to the catalog, a training plan was first developed.

Direct marketing focused on multi-channel and multimedia methods, particularly through the digital letter sent to a large number of customers.

Digital expertise that benefits the businesses

Lastly, a new website for customers and prospects was rolled out, with an updated look and feel and animation that aims to ensure greater loyalty among the bank's customers and prospects.

The real estate professionals market

For over 15 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 relations with national real estate developers and major multi-regional developers. Its customers also include leading property dealers, land developers and professional real estate investors in France. With 12 branches located throughout the country, BECM finances real estate development projects geared mainly towards housing, in cooperation with the group's banking networks and real estate subsidiaries.

Within the Crédit Mutuel CM11 Group, BECM is also responsible for relations with listed real estate companies and major investors that manage residential, commercial and business rental properties.

BECM, a key role in the real estate value chain

Thanks to its knowledge of the markets and operators, BECM plays a key role in the real estate value chain:

- helping CM-CIC Agence Immobilière 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.

It also acts as a liaison with the regulatory authorities for inquiries concerning the group's commitments vis-à-vis real estate professionals in connection with the tasks of the European Central Bank (ECB). In 2017, it participated in projects related to approval of the internal "Real Estate Development" rating model and to credit risk in the "Commercial Real Estate" sector (Financing of Real Estate Professionals).

The approval by the ECB of the Real Estate Development algorithm validated the model presented by the Crédit Mutuel Group, which will reduce related risks and therefore the capital consumed in this business. It was an expected achievement that rewarded the efforts made in terms of approval of the rating system and maintaining a high level of expertise and understanding of real estate issues.

Following a more than six-month project on Commercial Real Estate, in late 2017 the ECB also made a positive assessment of the quality of the organization and tools of the businesses engaged in the financing of real estate professionals across BECM's network.

In the real estate market, sales of new homes continued to rise by around 10% in 2017 after two years (2015 and 2016) in which they increased by approximately 20% per year. These strong sales, as a result of both purchases related to zero-interest loans and investment in rental property under the Pinel scheme, also benefited from still very low interest rates.

Against this backdrop, BECM, while remaining very selective, offered more loan agreements to developers, property dealers, land developers and real estate investors, with an overall increase of 8%.

Financing offered by BECM to operators 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 remained buoyant: France is the second largest market in the euro zone after Germany, although it has seen a decrease compared to 2015 and 2016. It benefits from increased demand from institutional investors, a risk premium that, although reduced, remains beneficial compared to other assets, and abundant liquidity. It remains sensitive to falls in interest rates, the financial health of tenants and tightening financing structures (extended terms and increased interest-only portions).

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

BECM has developed its profile in the real estate investment financing market conservatively, remaining very selective in its commercial proposals in view of the increase in asset values and heightened competition.

Overall, 2017 was BECM's best year in the real estate market, in terms of both new and outstanding loans and its contribution to income, with a risk level that remained extremely low.

New measures were taken after the adoption of the government's Housing plan to channel new developer loans to new housing units reserved for home-buying in the B2 zones that will eventually not be eligible for the Pinel tax incentive scheme and Zero-Interest Loans. In this way, BECM is demonstrating its ability to update its lending guidelines and commercial practices in order to best meet the needs of the Crédit Mutuel mutual banks in all regions covered by the federations.

Human resources

A revalued company status

In 2017, the Crédit Mutuel CM11 Group adopted a common status for Crédit Mutuel and CIC employees that supports the development of the company's culture, strengthens the social pact, protects all the group's employees, helps employees work better together by providing the same employee benefits, and offers new opportunities for mobility and career development.

In late-summer 2017, at the time of the update to the Crédit Mutuel CM11 Group's governance report on compensation, BECM reaffirmed its compensation policy:

- no links between risk-taking and variable compensation,
- individual raises based on performance, skills development and scope of responsibility,
- raises approved on a decentralized basis by branch and unit managers,
- raises based on loyalty, commitment, job competence in a team setting and the ability to be involved in the development of activities that help BECM move forward, and
- raises that ensure the regular strengthening of equity.

At December 31, 2017, the number of people employed under permanent and fixed-term contracts was 408 (400 permanent contracts and 8 fixed-term contracts).

Staff movements during the year included 42 hires under permanent contracts, 50 departures of employees under permanent contracts (mainly transfers of staff assigned to CM-CIC Services) and one net departure of an employee under a fixed-term contract.

The 2017 training plan focused on:

- 6 essential strategic actions,
- business-specific courses for new branch managers, Senior Relationship Managers and research managers and customer relationship managers in the real estate market,
- 23 different training modules for individual refresher training,
- 12 specific training modules for the back office.

BECM allocated 4.0% of payroll costs to employee training, the same as in 2016. 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.

Social and Environmental Responsibility

Social and Environmental Responsibility (SER) is built on a set of economic, social, societal, environmental and governance commitments.

The SER policy is part of 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. Its purpose is to achieve a balance between sustainable development, ethics and economic logic.

A responsible company that balances sustainable development, ethics and economic logic

BECM is part of our society, is committed to it and is considered a responsible player, mainly through four strategic priorities:

- economic responsibility: finance the economy in our regions and at the very local level,
- social responsibility: develop a human resources policy that promotes employment, training and professional employee development,
- environmental responsibility: adopt environmentally-friendly consumption habits,
- civic responsibility: promote collective action.

Economic responsibility

In 2017, BECM:

- issued €2.0 billion euros in new investment loans to businesses in France, up 9.8%,
- granted €2.4 billion in new facilities to developers, an increase of 7.3%,
- granted €1.2 billion to real estate companies and real estate investors in France, an increase of 18.2%, and €138 million in Germany,

in line with the sector-specific policy defined by the group (arms industry, civil nuclear sector, mining sector, coal-fired power stations, the group's private banking, etc.) and compliance rules (country lists, embargos, AML, etc.), including tax compliance.

Social responsibility

BECM is guided by the Crédit Mutuel CM11 Group's mutualist values. Thanks to the training policies and strong personal relations, the pursuit of mutualist values finds expression in responsible practices and a responsible sales offering. The social



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

Gender equality in the workplace also remains a priority and was the subject of an agreement in 2016.

The size of the training budget illustrates BECM's ongoing commitment to enhance its employees' skills.

Social responsibility also hinges on high-quality dialog between management and labor and supports employees' functional and geographic mobility.

Environmental responsibility

The use of the now fully integrated unified communication system (Lync-Skype Pro), including with customers, helps to reduce transport and travel expenses.

In addition, the new "Être éco-citoyen au travail" (Being environmentally responsible at work) site, originally created by CM-CIC Services, was made available in 2017 on the PIXISBECM intranet. Its aim is to make all employees aware of simple environmental practices in a range of areas such as travel, consumption, recycling and storage by offering concrete solutions and reminding them of best practices.

Supplies and services are consumed in accordance with the purchasing policy of the group (e.g. purchase of paper from a company employing disabled workers, etc.), which works only with suppliers that share its own sector-specific purchasing policy.

Civic responsibility

BECM continues to demonstrate its civic commitment through sponsorship activities, such as its support for melanoma research in partnership with the oncology department at the Institut Gustave Roussy in Villejuif.

This commitment is also reflected in its respect 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 3, 2017 renewed the terms of office as members of the Supervisory Board of Mrs. Danielle Joannes and Messrs. Jean-Daniel Azais, Jean-Louis Boisson, Damien Lievens, Alain Tétédoie and Michel Vieux.

The co-opted Mr. Philippe Tuffreau for the remainder of Mr. Bernard Flouriot's term of office was approved by the Supervisory Board on July 28, 2017.

Equity interests

At December 31, 2017, shareholdings in subsidiaries and other equity interests stood at €11,522,314.83, of which €11,022,900 related to the Monaco BECM subsidiary. For 2017, Banque Européenne du Crédit Mutuel Monaco posted net income of €1,298,276.70.

The SNC Foncière du Crédit Mutuel subsidiary acts as a property dealer in managing security related to cases in dispute or litigation. After impairment of one of its assets, the company posted a loss of €588,189.90 for the year.

Recent developments and outlook

In 2017, BECM continued to adapt its distribution methods based on a multi-channel approach that combines:

- physical sales using digital media to introduce itself and its offerings,
- distance selling: holding one-on-one videoconferences or videoconferences with the technical sales staff and representative offices abroad for international business, paperless contracts and electronic signature,
- indirect sales: online quote request and application by customers, as simply as possible,
- expertise-based sales: with the sales representatives of the businesses or subsidiaries and the call centers (Monesteil, Gestel, Sat, etc.).

2018 will be the last year of the Medium-Term Plan launched in 2014. The Commercial Action Plan (PAC) was restructured and became the Customer Relationship

Development Plan (PARC), with a customer-centered approach. There will be fewer direct marketing campaigns, which will leave more room for decentralized initiatives run by the branches and suited to their environment.

Guided by this customer-centered approach, 5 strategic priorities were defined for the corporate market in 2018:

1. customer acquisition and retention to grow the customer base more quickly. The business development methods will be enhanced, with the use of prospect/new customer processes, telemarketing events in France and Germany, a prospecting plan with the help of business experts (equipment leasing, payments, etc.) and joint prospecting initiatives with Banque Transatlantique on the theme of private management;
2. new lending to maintain a high level of loans issued, with pre-approved amounts for leasing and bank loans, specialized financing, joint initiatives with the subsidiaries (CM-CIC Investissement, CM-CIC Bail, Leasing Solutions);
3. Europe, which is essential for BECM. There will be a common theme for Spain and Germany, with joint initiatives with Targo Commercial Finance and Targobank for customers of the employees of BECM's customers in Germany;
4. the development of commissions with specialized financing, further diversification of activities in France with the launch of the e-invoice service, corporate insurance with group health policies and borrower's insurance, telephony, employee benefits and leased vehicle fleets;
5. flows from electronic payments with the acquisition of new customers, as well as the Monéico Paiement, e-factures, e-commerce, Lyf Pay and Webcash solutions.

In Germany, additional priorities have been defined in terms of business expansion, loan development, resource control and leasing.

The 4 strategic priorities specifically for the real estate professionals market in 2018 are as follows:

1. real estate development: maintaining a volume of new business in all zones, with increased selectivity in zones B2 and C in favor of products suited to primary residences;
2. Europe: in Germany with bilateral financing for real estate companies and in Spain to promote Targobank's development by working with the bank's French developer customers;
3. Banking activities with the real estate subsidiaries: collaboration with CM-CIC Agence Immobilière to increase the loyalty rate of developer customers and further develop equity interests in property management companies;
4. Optimization of the real estate value chain: organization of building site sourcing with corporate customers (production sites for sale in urban areas), customers of the retail networks (those selling land, inheritance) and the operational real estate subsidiaries. In addition to these commercial and operational priorities, 2018 will be the year for development of the 2019-2023 ensemble#nouveau#nouveau#nouveau strategic plan. In December 2017, Crédit Mutuel CM11's Chambre Syndicale et Interfédérale confirmed the plan's strategic priorities.

Starting in early 2018, BECM's branches will provide their input on the topic "think customer" in their environment. In April, the managers will conduct a self-assessment of their branches and develop action plans for their specific entities. Lastly, in May and June, they will define their quantified objectives for the plan term.

At the same time, the Executive Board will give the group its input as a specialized subsidiary for developing the corporate market.

Work will begin on other projects and action plans, such as setting up the organization for innovative companies and startups, with a unit leader, specialized customer relationship managers with dedicated portfolios in Paris, Strasbourg, Lyon and Toulouse, a dedicated website and a specific set of requirements.

An offering built on innovation

Together with Banque Transatlantique, BECM will also be a founding partner and coordinator of the Club In on innovation and international development; this corporate

club, which will be an additional opportunity for business development, will provide an added service to its customers who will present their products and activities to other partner business leaders.

In late 2017, the bank also created a collaborative innovation laboratory ("FabLab") for the corporate market and real estate professionals to provide disruptive responses when necessary. Employees take part in discussions to offer new ideas and carry out new innovative projects.

Major changes are underway – in customers' behaviors and new expectations, in work methods and content, and in the scope of new technologies and the speed at which they are being deployed one after another.

These prospects are both exciting and challenging: to maintain the quality of the services provided to its customers, BECM must find the right solutions to combine its services in a simple way, anticipate its customers' new needs, integrate all these changes to remain successful and understand the growing number of commercial, technological and regulatory changes in the banking sector.

FINANCIAL INFORMATION (BY MONTH-END BALANCE)

Management of financial risks

The Crédit Mutuel CM11 Group's ALM technical committee manages the group's interest rate, foreign exchange and liquidity risks and, therefore, 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, which means that BECM bears no liquidity risk of its own.

Balance sheet

Total assets at December 31, 2017 amounted to €19.0 billion compared to €19.1 billion in 2016 (-1.0%).

Liabilities

Interbank transactions amounted to €4.7 billion and consisted almost exclusively of refinancing activities with BFCM.

Customer deposits, down by 6.1% at €12.4 billion (including accrued interest), consisted mainly of term deposits (€5.8 billion), customers' current account credit balances (€4.7 billion) and savings accounts (€1.8 billion).

The fund for general banking risks (FGBR) amounted to €200 million. Reported shareholders' equity and reserves (including FGBR and income) were €1,408 million compared to €1,308 million in 2016 following the appropriation of 2016 retained earnings and reinvestment of the 2016 dividend in shares.

Subordinated debt totaled €301 million (excluding accrued interest), including €50 million in the form of super-subordinated securities subscribed by BFCM to help BECM bolster its long-term funding resources.

Information on payment terms of customers and suppliers

Articles L. 441-6-1 and D. 441-4 of the French Commercial Code require companies to provide specific information on the due dates of amounts due to suppliers and from customers.

In accordance with paragraph 8 of Article L. 441-6 of the French Commercial Code, the due dates of amounts due to suppliers and from customers of our company do not exceed 45 days end of month or 30 days from the invoice issue date.

Invoices received and issued not paid at the closing date of the year which are overdue

The sums in question are zero or insignificant in light of BECM's revenue.

Invoices received and issued for which payment was late during the year (Article D. 441-4 § II)

There were no significant transactions for which payment was late in 2017.

Assets

Interbank transactions mostly reflect cash surpluses placed with BFCM.

On the reporting date, loans to customers (including accrued interest) were up by 9.4% to €13.8 billion versus €12.6 billion in 2016.

Cash facilities (€1.6 billion), capital asset financing (€8.7 billion), loans to developers (€1.1 billion), other loans (€1.1 billion) and customers' current account overdrafts (€0.9 billion) accounted for most of the facilities granted.

Non-performing loans to customers (gross outstandings of €241 million) were 55% covered by provisions. BECM pursues a prudent loan reclassification and provisioning policy.

Income statement: additional regulated information

At December 31, 2017, interest and similar income totaled €266.3 million, consisting mainly of interest received on loan transactions with customers (€218.8 million).

Interest and similar expenses (€39.5 million) consisted mainly of interest paid to BFCM in respect of refinancing and interest paid on customers' term deposits. In 2016, other income included an amount of €65.6 million in respect of VISA transactions.

General operating expenses totaled €93.9 million, of which €2.6 million was incurred on behalf of other Crédit Mutuel CM11 Group entities and subsequently recovered. Net operating expenses for BECM therefore totaled €91.3 million.

An amount of €31,424 corresponding to non-tax-deductible rental and depreciation of company cars was added back to taxable income.

After an income tax charge of €58.4 million, net income for the year came to €99.8 million compared to €105.6 million in 2016.

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:

2017 net income	99,835,011.94
Prior year retained earnings	101,019.94
Total available for appropriation	99,936,031.88

The Executive Board proposes allocating:

- to distribution of dividends a total amount of €34,963,638.74, i.e.:
 - a dividend of €5.29 to each of the 6,478,673 shares entitled to the full year's dividend;
 - a dividend of €3.09 per share entitled from June 2, 2017 at the time of the capital increase following reinvestment of the 2016 dividend (223,773 shares);
- an amount of €447,546 to the legal reserve;
- an amount of €64,000,000 to the revenue reserve;
- and carry the residual balance of €524,847.14 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 the previous three years:

Year	2014	2015	2016
Amounts in euros	4.53	4.85	7.24 ⁽¹⁾ 4.13 ⁽²⁾
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 issued from June 6, 2016.

Strasbourg, February 21, 2018
The Executive Board

Balance sheet of Banque Européenne du Crédit Mutuel

(All amounts are expressed in thousands of euros)

	2017	2016
Assets		
Cash and due from banks	4 926 873	6 378 854
Investment securities	520	458
Investment in unconsolidated affiliates	11 023	11 023
Loans and advances to customers	13 780 136	12 594 206
Customer liabilities under acceptances	0	0
Bank premises and equipment	872	784
Goodwill and other intangible assets	1 067	1 017
Deferred tax assets	0	0
Other assets	247 864	165 159
Total assets	18 968 355	19 151 501
Liabilities and stockholders' equity	2017	2016
Liabilities		
Financial liabilities held for trading	–	–
Customer deposits	12 371 641	13 193 294
Due to other banks	4 674 226	4 027 932
Acceptances outstanding	–	–
Profit tax payable	1 253	29 199
Deferred tax liabilities	–	–
Provisions	9 535	10 056
Subordinated debentures	301 083	301 086
Other liabilities	202 586	281 738
Funds borrowed	–	–
Funds for general banking risks	200 000	200 000
Stockholders' equity	1 108 196	1 002 616
Issued capital	134 049	129 573
Share premium	368 011	328 811
General reserves	–	–
Other reserves	606 035	543 958
Retained earnings	101	274
Net result	99 835	105 580
Total liabilities and stockholders' equity	18 968 355	19 151 501

Income statement of Banque Européenne du Crédit Mutuel

(All amounts are expressed in thousands of euros)

	2017	2016
Interest income	266 290	267 348
Interest expense	(39 474)	(71 721)
Net interest income	226 816	195 627
Fee and commission income	382 584	365 829
Fee and commission expense	(318 534)	(295 142)
Net fee and commission income	64 050	70 687
Dividend income	1	2
Net trading income	927	1 267
Gains less losses from investments securities	1	6
Other operating income	(1 543)	64 554
Operating income	290 252	332 143
Salaries and other employee expenses	(43 231)	(42 602)
Occupancy expenses	(48 028)	(44 527)
Net impairment losses on loan and advances	(40 570)	(22 079)
Other operating expenses	(197)	(101)
Operating expenses	(132 026)	(109 309)
Net result from operations	158 226	222 834
Income from associates	–	–
Allocation to the funds for general banking risks	0	(39 974)
Net result before tax	158 226	182 860
Profit tax expense	(58 391)	(77 280)
Net result after tax	99 835	105 580

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, 2017 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)

	2017	2016
Assets		
Investment securities		
Available for sale	17 669	11 483
Held to maturity	0	0
Trading portfolio	0	0
Total investments	17 669	11 483
Less allowance for losses	(6 126)	(2)
Net investments	11 543	11 481
Loans and advances to customers		
Retail customers	24 281	25 441
Corporate customers	13 833 401	12 604 580
Public sector	34 053	63 031
Other	22 519	19 196
Total loans and advances to customers	13 914 254	12 712 248
Less allowance for loan losses	(134 118)	(118 042)
Net loans and advances	13 780 136	12 594 206
Liabilities		
Customer deposits		
Retail customers	31 013	24 497
Corporate customers	12 340 628	13 168 798
Other	–	–
Total customer deposits	12 371 641	13 193 295

BECM BANK

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Statutory auditors' report on the Summary Financial Statements

Year ended December 31, 2017

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

Opinion

The summary financial statements, which comprise the summary statement of the financial position as at December 31, 2017, 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, 2017.

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 16, 2018.

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 or dispute 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 23, 2018: The statutory auditors	
KPMG S.A.	ERNST & YOUNG et Autres
Arnaud Bourdeille	Hassan Baaj

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

	EQUITY (EXCLUDING NET INCOME)	NET INCOME
French Gaap	1 108 196	99 83
General provisions under French Gaap (funds for general banking risks)	200 000	0
IFRS Collective Impairment provisions	(11 402)	(774)
Deferred taxes under IFRS Gaap	7 519	895
Other differences between IFRS/French Gaap	(6 454)	(269)
<		