

# **LA BANQUE POSTALE HOME LOAN SFH**

## **SPECIFIC CONTROLLER' S CERTIFICATION ON THE VALUATION AND PERIODIC REVIEW METHODS AND RESULTS FOR REAL ESTATE AS OF 31 DECEMBER 2013**

*This translation into English is for information purposes only. Only the French version published on La Banque Postale Home Loan SFH website is authoritative.*

**CAILLIAU DEDOUIT ET ASSOCIES**

**19, rue Clement marot**

**75008 PARIS**

**LA BANQUE POSTALE HOME LOAN SFH**

**115, rue de Sèvres**

**75275 PARIS CEDEX 06**

**SPECIFIC CONTROLLER'S CERTIFICATION  
ON THE VALUATION AND PERIODIC REVIEW METHODS AND RESULTS  
FOR REAL ESTATE AS OF 31 DECEMBER 2013**

To the Board of Directors of La Banque Postale Home Loan SFH,

In our capacity as the Specific Controller of La Banque Postale Home Loan SFH, and pursuant to the Article 5 of regulation No. 99-10 of the *Comité de la Réglementation Bancaire et Financière*, we proceeded to the assessment of the validity, in accordance with regulations in force, of the methods used to value the real estate assets underlying the loans and their results, and of the methods for periodically reviewing their value, as published together with the financial statements for the year ended 31 December 2013 and appended hereto.

The valuation methods and their results for real estate assets and the methods for periodically reviewing their value have been defined and implemented under the responsibility of your company's management.

Our responsibility is to assess the validity of this procedure in terms of its compliance with regulations in force as of 31 December 2013.

We implemented the diligences that we considered necessary in view of the professional standards of the *Compagnie Nationale des Commissaires aux Comptes* applicable to this assignment. Our work consisted in checking the compliance of:

- the procedures, the valuation and periodic review methods and their results, in their design and application, with regulations in force as of 31 December 2013;
- the information published together with the annual financial statements with, on one hand, the system for the valuation and periodic review implemented, and on the other hand, with the results arising from the implementation of the valuation system.

***La Banque Postale Home Loan SFH (France)***

***Specific controller's certification on the valuation and periodic review methods and results for real estate as of 31 December 2013***

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On the basis of our work, it is our responsibility to report the following comments and qualifications:

- The methods used to value the real estate and their results, and the methods for periodically reviewing their value, published together with the financial statement for the year ended 31 December 2013, are compliant overall with the Articles 2 to 4 of regulation No. 99-10 of the CRBF.
- The method for periodically reviewing the value of the real estate implemented by La Banque Postale Home Loan SFH is based on the Cost of Construction Index (CCI) published by Insee and an application of a haircut to provide a conservative valuation in case of a downward trend in the real estate market seen on the price index of second-hand dwellings. Indeed, CCI measures the price variation of new-build building for living purpose, and not appears to be the most relevant index to periodically review the value of second-hand dwellings, and especially in case of a downward trend in the real estate market. In order to correct this bias, a 5% haircut has been applied to the periodic reviewing of the value of the real estate since 31 December 2013 to provide a conservative reviewing compared with a review based on the price index of second-hand dwellings.
- Furthermore, we believe that the reviewing indexes should be refined in order to take into account, as a minimum, the geographical location of the reviewed real estate.

Paris, 13 May 2014

Specific Controller

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**CAILLIAU DEDOUIT ET ASSOCIES**

**Laurent BRUN**



**HOME LOAN SFH**

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**PROPERTY VALUATION AND PERIODICALLY REVIEWING  
PROPERTY VALUES PROCEDURE**

**As of 31<sup>st</sup> December 2013**

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## 1. Context

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La Banque Postale Home Loan SFH, refinancing structure built in 2013, is a French *Société Anonyme* under the laws of France, licensed as credit institution (*établissement de crédit*) – *société de financement de l'habitat*. This entity is 100% owned by La Banque Postale.

The purpose of this document is to describe the methodology used by La Banque Postale Home Loan SFH to evaluate and review the pledged properties, in accordance with provisions of *Article 5* of *Règlement n°99-10* of *Comité de la Réglementation Bancaire et Financière* relative to *sociétés de crédit foncier* and *sociétés de financement de l'habitat*.

## 2. Regulatory Framework

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The valuation of the properties financed or provided as a guarantee pursuant to *Articles L. 513-3* and *L. 513-29* of the French Monetary and Finance Code (*Code monétaire et financier*) is governed by *Articles 1* to *5* of *Chapitre 1<sup>er</sup> "De l'évaluation des immeubles"* ("Valuation of properties") of *Règlement n°99-10* of 9 July 1999 relative to *sociétés de crédit foncier* and *sociétés de financement de l'habitat*, amended by *Règlements n°2001-02* of 26 June 2001 and *n°2002-02* of 15 July 2002 and by *Arrêtés* of 7 May 2007 and of 23 February 2011.

### *Valuation of properties*

**Article 1** – The financed properties "financed or provided as a guarantee within the meaning of *Articles L. 513-3* and *L. 513-29* of the French Monetary and Finance Code" (*Code Monétaire et Financier*) (*Order of 23 February 2011*) are the subject matter of a prudent valuation that excludes any speculation.

**Article 2** – "The valuation is made based on the sustainable long term characteristics of the property, normal and local market conditions, actual use of the property and other uses that may be made thereof.

Said value is determined in writing in a clear and transparent manner and cannot exceed the market value.

Notwithstanding, the valuation may be based on the total cost of the initial transaction when said cost is less than EUR 600,000 or when all property loans financed by the *société de crédit foncier* or by the *société de financement de l'habitat* and guaranteed by the valued property presents an outstanding capital per transaction assessed at the time of the acquisition of said loans or of their provision as guarantee less than EUR 480,000" (*Order of 23 February 2011*).

**Article 3** – "Following their acquisition or provision as guarantee, the valuation of properties is re-examined under the risk measurement system applicable to *sociétés de crédit foncier* and *sociétés de financement de l'habitat* under regulation No. 97-02 :

- a) For residential properties, said examination is carried out each year based on a statistical method;
- b) For business properties for which all of the property loans held by the *société de crédit foncier* and guaranteed by the valued property presents an outstanding capital per transaction less than 30% of the total amount originally lent or less than EUR 480,000, the examination may be made each year based on a statistical method;
- c) For business properties whose purchase cost or whose last estimated value is less than EUR 600,000 and when all loans held by the *société de crédit foncier* and guaranteed by the valued property presents an outstanding capital per transaction in excess of EUR 480,000, said examination shall be carried out every three years on an individual basis. Between two individual examinations, the value of said properties shall be re-examined each year based on a statistical method.

- d) For business properties whose purchase cost or last estimated cost is in excess of EUR 600,000 and when all loans held by the *société de crédit foncier* and guaranteed by the valued property presents an outstanding capital per transaction in excess of EUR 480,000, this examination shall be carried out each year on an individual basis". (Order of 23 February 2011).

**Article 4** - "The real property is valued by an independent expert within the meaning of *Article 168* of the order of 20 February 2007 relating to equity capital requirements applicable to financial institutions and investment companies" (Order of 7 May 2007).

**Article 5** – The methods "and the results" (Order of 23 February 2011) of valuation of properties as well as the methods of re-examining the value thereof from time to time are kept at the disposal of the specific controller mentioned in *Article L. 513-23* of the French Monetary and Finance Code (*Code Monétaire et Financier*) which decides on the validity thereof. They are published simultaneously in the annual accounts with the assessment of the specific controller. "The Prudential Regulatory Authority" (*Autorité de Contrôle Prudentiel et de Résolution*) (Order of 23 February 2011) may require them to be modified.

### **3. Methodology used by La Banque Postale Home Loan SFH**

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#### **3.1. Initial valuation**

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According to *Article 2* of *Règlement n°99-10* of *Comité de la Réglementation Bancaire et Financière* amended by *Arrêté* of 23 February 2011, the valuation, by exemption, may be based on the total cost of the initial operation when this cost is less than 600 000 euros, or when all home loans financed by the *société de crédit foncier* or the *société de financement de l'habitat* and guaranteed by the valued property have a unitary current balance, assessed at the time of acquisition of these loans or at the time of their provision as collateral, less than 480 000 euros.

In order to implement this approach based on the initial cost of the operation, only the loans under the threshold and therefore which not require a mandatory notice of value are mobilized on the cover pool. The initial cost of the operation does not take into account neither the notary fees nor the prospective agency fees. For the loans that have been repurchased, the initial cost corresponds to the amount of the repurchased loan.

Thereby, the methodology to initially assess the pledges is exclusively based on the initial cost of the operation as of 31<sup>st</sup> December 2013.

#### **3.2. Periodic reviewing property values**

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Statutorily, La Banque Postale Home Loan SFH is required to periodically review property values financed or provided as a guarantee. The methodology that has been set up since the creation of the *société de financement de l'habitat* is based on a statistical method pursuant to *Article 3* of *Règlement n°99-10* of *Comité de la Réglementation Bancaire et Financière*.

##### **3.2.1. Index**

Revaluation of real estate properties is based on the Cost of Construction Index (CCI) (*Indice du coût de la construction*) available on the Insee website. This index is quarterly updated since fourth-quarter of 1953.

Definition of the Cost of Construction Index (source Insee):

The Cost of Construction Index (CCI) is a quarterly index, which reference is 100 at fourth-quarter of 1953, starting date of this index. It measures the price variation of new-build building for living purpose in Metropolitan France. The CCI is published in *Journal Officiel*, by the middle of the fourth month following the analyzed quarter. Insee calculates the CCI, together with the Ministry of Ecology, Energy and Sustainable Development.

Although sanctioned by use, the common denomination "Cost of Construction Index" is unsuitable since it is a price index, based on deals concluded between the owner and building firms, without taking into account other fees entering into the real estate cost price (property taxes, prospective fees, financial fees, etc...). The cost of construction itself is measured by other indicators, as "Index BT" monthly updated by the Ministry of Ecology, Energy and Sustainable Development together with the French Building Federation.

### **3.2.2. Methodology**

In order to provide a conservative valuation, as required by the regulation (*Article 1<sup>er</sup> of Règlement 99-10* amended by *Arrêté* of 23 February 2011 states that the value of financed properties or provided as a guarantee is prudently determined and excludes any speculative element), La Banque Postale Home Loan SFH has decided to replicate the CCI increases only at a level of 80%. All negative index variation will be fully replicated. Moreover, a 5% haircut has been applied to the reviewing property values that have been done since the 31<sup>st</sup> of December 2013.

Furthermore, the CCI publication being quarterly and then shifted from the revaluation date, the series is centered on the home loan portfolio analysis date using the  $n^{\text{th}}$  worst quarterly historical variation with a 95% confidence interval. The centering of the series is obtained by applying the monthly rate of the  $n^{\text{th}}$  worst value on the number of observed month between the last known index date and the revaluation date. Each new index publication by INSEE is taken into account at the next cut-off date.

The methodology covers Metropolitan France, Corsica and overseas departments.

### **3.2.3. Computation Formula**

For each loan, the periodic reviewing property value is based on the loan origination quarter.

The present value is computed using the following formula:

Present value = initial value \* (1 + (centered index variation \* conservativeness factor)) \* (1 – haircut)

Centered index variation = (last estimated quarterly index / quarterly index of the loan origination date) \* (1 +  $n^{\text{th}}$  worst value \* (number of month between the cut-off date and the end date of the quarter of the last estimated quarterly index) / 3) – 1

Last estimated quarterly index =

- last published quarterly index multiplied by (1 +  $n^{\text{th}}$  worst value) if the number of month between the cut-off date and the end date of the quarter of the last published quarterly index is strictly greater than 3 months
- last published quarterly index otherwise

Conservativeness factor = 80% if the centered index variation is positive or 100% if it is negative

As of December 31<sup>st</sup> 2013, the haircut is 5%, the  $n^{\text{th}}$  worst value is -1% and the number of month between the cut-off date and the end date of the quarter of the last published quarterly index is equal to 3.



### 3.2.4. Results

Based on figures as of 31<sup>st</sup> December 2013:

	Value of financed properties or provided as a guarantee (in M€)	
	Initial Value	Present Value <sup>(1)</sup>
Residential first-ranking mortgage	433.50	421.94
Guarantee granted by credit institution	4 009.04	3 924.59
Total	4 442.55	4 346.53

(1) Figures notified to the *Autorité de Contrôle Prudentiel et de Résolution* in the document *Eléments de calcul du ratio de couverture et de contrôle des limites* according to *Instruction n°2012-I-03* relative to the legal coverage ratio of *sociétés de crédit foncier* and *sociétés de financement de l'habitat*.

Paris, 13<sup>th</sup> May 2014,

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#### 4. Annex : Present value / initial value ratio by origination quarter

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<b>Origination quarter</b>	<b>Present value / initial value ratio</b>
T1 2006	108.05%
T2 2006	107.79%
T3 2006	106.83%
T4 2006	105.26%
T1 2007	106.57%
T2 2007	103.52%
T3 2007	103.05%
T4 2007	101.28%
T1 2008	100.02%
T2 2008	96.65%
T3 2008	95.09%
T4 2008	98.64%
T1 2009	99.70%
T2 2009	99.97%
T3 2009	99.75%
T4 2009	99.48%
T1 2010	99.43%
T2 2010	98.95%
T3 2010	98.79%
T4 2010	98.12%
T1 2011	97.05%
T2 2011	95.14%
T3 2011	93.36%
T4 2011	92.56%
T1 2012	93.76%
T2 2012	91.00%
T3 2012	92.00%
T4 2012	92.50%
T1 2013	92.11%
T2 2013	92.61%
T3 2013	94.05%
T4 2013	95.00%