



HOME LOAN SFH

LA BANQUE POSTALE HOME LOAN SFH

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LA BANQUE POSTALE HOME LOAN SFH.**

Only the French version published on La Banque Postale Home Loan SFH website is authoritative.



**TRANSLATION INTO ENGLISH BY LBP HOME LOAN SFH OF THE SPECIFIC
CONTROLLER'S CERTIFICATION ON THE VALUATION AND PERIODIC REVIEW
METHODS AND RESULTS FOR REAL ESTATE AS OF 31st DECEMBER 2017**

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

In our capacity as 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 (hereafter CRBF), we assessed 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 31st December 2017 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 compliance of this procedure with respect to regulations in force as of 31st December 2017.

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 31st December 2017;*
- the information published together with the annual financial statements with, on the 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.*

Based on our reviews, no observation is to be related on compliance with the Articles 2 to 4 of regulation N°99-10 of the CRBF of the methods used to value the real estate and their results, and of the methods used for periodically reviewing their value. These methods are published together with the financial statement for the year ended 31st December 2017.



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PROPERTY VALUATION AND PERIODICALLY REVIEWING PROPERTY VALUES PROCEDURE

As of 31st December 2017

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1. Context

La Banque Postale Home Loan SFH, refinancing vehicle set up 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 appraise and review the appraisal value of the pledged properties (collateral), 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

The appraisal of the properties financed or provided as a collateral 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^{er} "De l'évaluation des immeubles"* ("properties appraisal") 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, of 26 May 2014 and of 3 November 2014.

Appraisal of properties

Article 1 – The financed properties "financed or provided as a collateral 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 appraised in a prudent manner that excludes any speculation.

Article 2 – "The appraisal value is 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 appraisal may be based on the initial transaction total cost when said cost is less than EUR 600,000 or when all home loans financed by the *société de crédit foncier* or by the *société de financement de l'habitat* and collateralized by the appraised property present an outstanding amount per transaction, assessed at the time of the acquisition of said loans or of their pledge as collateral, less than EUR 480,000" (*Order of 23 February 2011*).

Article 3 – "Following their acquisition or pledge as collateral, the properties appraisal is re-assessed under the risk measurement framework 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 the property loans held by the *société de crédit foncier* and collateralized by the appraised property present an outstanding amount per transaction less than 30% of the total amount originally lent or less than EUR 480,000, the appraisal may be carried out each year based on a statistical method;
- c) For business properties with a purchase cost or with a last appraised value of less than EUR 600,000 and when all loans held by the *société de crédit foncier* and collateralized by the appraised property present 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 appraisal, the value of said properties shall be re-appraised each year based on a statistical method.

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

Article 4 - "The appraisal is carried out 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 properties appraisal methods "and their results" (Order of 23 February 2011) as well as the methods of their from time to time re-appraisal 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*) who decides on their validity. They are published simultaneously with the annual accounts together with the specific controller assessment. "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

3.1. Initial valuation

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 EUR 600 000, or when all home loans financed by the *société de crédit foncier* or the *société de financement de l'habitat* and collateralized 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 EUR 480 000.

In order to implement this approach based on the initial cost of the operation, only the loans under the threshold and therefore which do not require a mandatory notice of value are selected in the cover pool. The transaction initial cost does not take into account neither the notary fees nor the real estate broker fees. For repurchased loans, the initial cost is the repurchased loan amount.

Therefore, the Collateral initial appraisal methodology is exclusively based on the transaction initial cost as of 31st December 2017.

3.2. Periodic reviewing of property values

3.2.1. Methodology

French regulation requires that La Banque Postale Home Loan SFH periodically reviews property values financed or provided as a collateral. The methodology used since the set up 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*.

Use of local (PERVAL and BIEN) indexes

Since 31/12/2016, the property value appraisal methodology has been enhanced¹ in order to take into account local real estate markets variations. These variations now refer to local indexes provided by the Ile-de-France Notaries (base BIEN²) for transactions located in Ile-de-France, and by PERVAL company³ otherwise. These indexes refer to transactions on residential ancient flats or houses sold over the counter. They are provided by property type (flat, house, or flat and house together⁴) for the three following levels of local authorities:

- City level: by city INSEE⁵ code, the most granular level,
- Department level: by Department INSEE code,
- National level⁶.

When local real estate market statistics are available⁷, indexes are provided on a quarterly basis (on a non final status first, then on a final status the following quarter). Subsequently, property reviewing process complies with French regulation⁸. Moreover, as this review is now performed on a quarterly basis, property values reflect latest available information on local real estate markets.

Property present value

Every loan contract is attached to a real estate property (hereafter property) which value is reassessed every quarter with the latest information available.

As of 31/12/2017, property value appraisal was performed in January 2018 with latest available indexes provided, i.e. indexes on 2nd quarter 2017 on non final version and on indexes of the previous quarters on final version.

If the credit offer first loan⁹ has been disbursed during the last quarter the indexes are available; the property value is not reassessed (property value equals to initial value). I.e, all properties attached to loans disbursed on Q3/2017 or later have not been reassessed at year end 2017.

Otherwise, current property value is equal to initial value increased by a factor reflecting local or national real estate market variation between the date the property was acquired and the reassessment date¹⁰; i.e.:

¹ According to previously used methodology, collateral value reassessment was performed using the Cost of construction index (Cf. "Procedure - Home Loans Collateral 31.12.13" available on LBP Home Loan SFH English website).

² Base d'informations économiques notariales (BIEN): provided by the Paris Notaries Association.

³ Company held by the Notaries.

⁴ MA indexes for Houses (MAison in French), AP indexes for flats (Appartement in French), CONF indexes when property type is not available (CONFondu: mixed in French).

⁵ INSEE: Institut national de la statistique et des études économiques: French National Institute of Statistics and Economic Studies.

⁶ Province level in the Perval database.

⁷ When too few transactions with the same property type happened, indexes are not contributed by data providers.

⁸ « Article 3. – "Following their acquisition or provision as collateral, 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;

⁹ First disbursement date among all the loans referring to the same credit offer.

¹⁰ Acquisition date refers to the 1st date when a disbursement was made on one of the loans of the credit offering.

$$\text{Current property value} = \text{initial valuation} \times \frac{\text{Reassessment index}}{\text{Initial index}}$$

- Reassessment index: last available index for the relevant local authority level and property type,
- Initial index: index referring to relevant local authority level and property type at the first disbursement date on one of the credit lines of the credit offer.

The index used for the relevant quarter is determined upon the following criteria:

- **national** index is used:
 - o if zip code for the city where the property is located does not exist in the index databases or,
 - o if the property is located in one of the following departments: Corsica (n°: 20), overseas departments (zip codes beginning by 97, 98), or
 - o in Paris when the local zip code for the property type is not available.
- If INSEE code for the property location refers to several zip codes: the **Department** where the property is located index is used,
- Otherwise¹¹, city¹² index is used.

These criteria are combined in the information systems used by La Banque Postale Home Loan SFH with the property type rule:

- When property type is available (house, flat), indexes will be considered with regards to that property type. Otherwise, indexes for the property type « CONFondu » is used.

Nota:

- Group Risk Department is appraising value with the same indexes, allowing consistency of methodologies.
- No conservativeness factor is applied on appraisal value.

¹¹ When zip code is the only one linked to INSEE code.

¹² where the property is located.

3.2.2. Statistics

As of 31st December 2017

- Both « initial property value » and « zip code » information are available for 100 % of properties attached to the cover pool loans .
- More than 40 % of properties are appraised at city level. Around 53 % of properties are appraised using department indexes. 4.5% are appraised with national indexes. Very few properties are not appraised; because of disbursement in Q3/2017.

Assessment and reassessment indexes used in conjunction with the level of local authorities	%
City level indexes	42.2%
Department level indexes	53.2%
National level indexes	4.5%
Properties no revalued	0.1%
Total	100%

Hence, the initial goal of adjusting property values to local real estate markets (city, Department or national level) is achieved.

- Most properties are reassessed using the Mixed property type (CONF)

Property type	%
Mixed (CONF)*	55%
Houses (MA)	26.3%
Flats (AP)	18.7%
Total	100%

*: property type not available in the IT systems and referring to loans appraised in the old credit application software replaced in 2014.

3.2.3.Results

Based on figures as of 31st December 2017

	Value of financed properties or provided as a collateral (in MEUR)	
	Initial value	Reassessed value ⁽¹⁾
Mortgage	6 212	6 184
Caution	19 138	19 008
Total	25 350	25 192

⁽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 » pursuant to instruction n°2016-I-09 on legal coverage ratio of *sociétés de crédit foncier et des sociétés de financement de l'habitat*.

Breakdown of property values by local authority levels and by property types

Local authority levels / property types	Present value MEUR	Indexes variation 2017/2016*
City level	11 490	
City level - flat	3 315	1.98%
City level - house	2 338	1.70%
City level - mixed	5 837	1.61%
DEPARTMENT	12 452	
Department level - flat	1 183	1.25%
Department level - house	4 584	1.44%
Department level - mixed	6 684	1.24%
REGION	1 218	
National – flat	77	1.28%
National – house	147	1.49%
National - mixed	993	1.42%
Non revalorisés (flat – house – mixed)	32	-
Grand total	25 192	

*Variation of the indexes average for the three property types between Q2/2016 and Q2/2017.

Breakdown of values for properties reassessed at Department level.

Department	Initial value MEUR	Indexes variation 2016/2017*
01	203.58	0.64%
02	134.74	-0.15%
03	55.25	3.28%
04	34.82	0.95%
05	59.35	0.59%
06	80.99	0.04%
07	113.12	1.80%
08	52.9	-0.71%
09	50.77	0.85%
10	41.75	1.01%
11	105.41	1.18%
12	69.57	0.27%
13	529.42	1.08%
14	171.5	2.19%
15	21.75	2.84%
16	60.54	1.20%
17	140.44	1.86%
18	38.29	-0.07%
19	38.46	0.10%
21	110.1	0.39%
22	112.88	1.49%
23	15.44	-0.08%
24	102.19	0.99%
25	77.32	2.25%
26	177.13	1.81%
27	127.95	0.78%
28	73.64	1.48%
29	118.47	1.20%
30	142.7	0.63%
31	571.04	1.90%
32	50.75	0.83%
33	488.87	4.40%
34	283.98	1.11%
35	218.21	1.60%
36	32.13	-1.47%
37	148.3	0.82%
38	376.33	1.03%
39	46.51	1.90%
40	106.41	3.76%
41	90.19	-1.50%
42	138.49	1.75%
43	49.27	3.00%
44	250.34	3.26%
45	140.11	-0.98%
46	48.16	0.88%
47	52.96	0.89%
48	34.35	0.94%

Department	Initial value MEUR	Indexes variation 2017/2016*
49	194.99	0.46%
50	48.05	2.06%
51	70.45	2.28%
52	31.68	0.01%
53	42.76	0.12%
54	151.4	1.05%
55	35.87	0.66%
56	115.27	1.89%
57	200.34	1.13%
58	25.47	-0.16%
59	335.62	1.07%
60	220.06	1.33%
61	27.86	1.32%
62	221.78	2.07%
63	124.59	3.12%
64	244.43	3.03%
65	86.07	0.82%
66	44.01	1.02%
67	121.52	2.19%
68	65.56	1.99%
69	848.37	2.41%
70	37.06	1.56%
71	108.11	0.76%
72	78.72	0.51%
73	143.2	1.60%
74	200.78	0.42%
75	0.66	4.06%
76	204.32	0.65%
77	371.09	1.34%
78	326.49	1.41%
79	79.61	1.34%
80	111.82	1.61%
81	77.07	-0.90%
82	51.44	-0.97%
83	166.88	1.43%
84	92.93	0.30%
85	127.36	1.44%
86	73.26	1.71%
87	48.95	0.20%
88	55.98	1.04%
89	50.41	-0.59%
90	11.98	2.39%
91	323.46	1.20%
92	31.24	2.33%
93	16.01	1.70%
94	26.27	1.52%
95	193.58	1.20%
TOTAL MEUR	12451.7	

*Variation of the average of indexes on the three property types between Q2/2016 and Q2/2017.