

**CRH**  
**CAISSE DE REFINANCEMENT DE L'HABITAT**

**2016 ANNUAL REPORT**

**- REGISTRATION DOCUMENT -**

*integrating by reference the 2015 and 2014 financial statements and the reports submitted by the statutory auditors in relation to the said financial statements, as submitted in the registration documents filed on March 24, 2016 and March 26, 2015, respectively, with the Autorité des Marchés Financiers. The information contained in these two registration documents, other than the information cited above, has where applicable been updated and/or replaced by information included in this registration document.*

**Specialised credit institution (*Établissement de crédit spécialisé*)**  
**French corporation (*Société anonyme*) with a share capital of EUR 539,994,737.75**  
**Registered office: 35 rue La Boétie - 75008 PARIS**  
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This registration document was filed with the French securities regulator (*Autorité des marchés financiers*) on March 22, 2017, under number D. 17- 0204, in accordance with Article 212-13 of its general regulations. This document may be used in support of a financial transaction if supplemented by an information notice authorised by the AMF. This document was prepared by the Issuer and is binding on its signatories.

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## Annual financial report's cross-reference table

Pursuant to Article 212-13 of the AMF's general regulations, this document contains the annual financial report information referred to in Article L. 451-1-2 of the French Monetary and Financial Code (*Code monétaire et financier*) and in Article 222-4 of the AMF's general regulations:

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This registration document is available on the CRH website ([www.crh-bonds.com](http://www.crh-bonds.com)) and on the website of the AMF ([www.amf-france.org](http://www.amf-france.org)).

## **REPORT SUBMITTED BY THE BOARD OF DIRECTORS TO THE COMBINED GENERAL MEETING OF SHAREHOLDERS HELD ON MARCH 20, 2017**

Dear Shareholders,

In accordance with provisions of law, we have convened this general meeting in order to review the financial statements for financial year 2016.

In many respects, 2016 may be characterised as a transition year.

First, from a regulatory standpoint, major progress has been made and now makes it possible to contemplate a resumption of the company's operations.

As regards major risks, the main obstacle barring a resumption of refinancing operations has been lifted. The amendment to the articles of association and internal rules makes it possible, pursuant to the provisions of Article 493-3 (e) of the CRR and Article 2-1 (c) of the ministerial decree of December 23, 2013, to fully exempt until January 1, 2029 the promissory notes held by CRH from the rules related to major risks. The survival of such exemption was confirmed by the European Banking Authority (EBA) in its report of October 24, 2016<sup>1</sup>.

Also, the communication policy initiated upon the drafting of the second recovery plan enabled CRH to make progress toward a better recognition, by the various supervisory authorities, of its own specific features, having regard to its business model and its contribution to financial stability.

Thus, in addition to the survival of the major risk exemption referred to above, we may cite the following factors:

- Article L. 613-44 of the French Monetary and Financial Code makes it possible for CRH to be dispensed from the Minimum Requirement for Own Funds and Eligible Liabilities (MREL).
- The draft provision implementing the rules defined by the BIS on interdependent assets and liabilities for the calculation of the NSFR.
- Finally, as regards the leverage ratio, such provision contains exemptions for certain types of exposures.

Such exchanges have enabled CRH to progress in its procedures and analyses pertaining to its risk policy.

Regarding CRH's governance, Mr. Marc NOCART is the Company's Chief Executive Officer since September 1, 2016 and replaces Mr. Henry RAYMOND, who remains on the Board as a non-executive director.

Also, in January 2017, French tax authorities audited the conditions under which CRH had maintained in 2014 the risk provision related to medium- and long-term lending operations, which had been set aside between 1992 and 2012, reaching an amount of € 2,812,000.

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<sup>1</sup> EBA report on the review of the large exposures regime (EBA-Op-2016-17) page 24.

Absent any proven and specifically allocated risks, tax authorities promptly issued a tax reassessment notice and added back such provision to the net income for financial year 2014. CRH accepted such reassessment.

After consultation with the board of statutory auditors, in accordance with the accounting principles governing events occurred after the closing, the financial consequences of such tax reassessment were recognised in the financial statements closed as of December 31, 2016, and the provision for risks related to medium and long-term lending operations was fully reversed as of December 31, 2016.

## **OPERATIONS**

As no new transaction was carried out during the last year, the total amount of the loans granted and settled since the incorporation of the company remains at the same level as at the end of 2015, i.e. € 88.6 billion and CHF 2.4 billion, i.e. a total amount of € 90.5 billion after conversion into euro.

After taking into account repayments made on the contractual due dates in a total amount of € 2.8 billion and contractual prepayments in the amount of € 0.2 billion, total loans outstanding as of December 31, 2016 amounted to € 38.2 billion (as compared with € 41.2 billion as of December 31, 2015 and € 47.6 billion as of December 31, 2014).

Total assets as of December 31, 2016 amounted to €39.6 billion (as compared with € 42.6 billion as of December 31, 2015 and € 49.1 billion as of December 31, 2014).

## **EARNINGS, FINANCIAL POSITION AND DEBT**

In accordance with the provisions of the French Commercial Code (Art. L. 225-100), an analysis of the Company's earnings, financial position and debt must be prepared.

### **a) Earnings:**

Funding transactions, i.e. lending, borrowing and repayment, have no direct impact on earnings. Indeed, CRH does not charge any interest margin on these transactions, and lends to its shareholders all capital raised on financial markets under the same conditions, at the same rates and with the same maturities.

As a result, CRH's earnings correspond to the income from shareholders' equity invested on the money market, net of overhead expenses.



## Revenues

Since 2015, the revenues generated by the investment of CRH's own funds no longer suffice to cover its overhead, as CRH is subject to two new European contributions<sup>2</sup> in an environment marked by exceptionally low rates. Therefore, such contributions were recharged to borrowers.

In 2016, the continuation of the quantitative easing policy led by the European Central Bank (ECB) caused, on the basis of an unchanged volume of invested capital, a collapse (minus 54%) of investment income, which amounted for this year to € 1,546,247. Such collapse was limited by a lengthening of the term of the investments renewed during the financial year.

The reversal of the provision for risks related to medium and long-term lending operations mechanically increases revenues in the amount of €2,812,000.

## Expenses

Overhead, not including any European contributions, amounted in 2016 to € 2.6 million as compared with € 2.4 million in 2015. Such difference was principally due to the change in CRH's governance, which occurred in May.

In accordance with Article 5.1 of the internal rules and Article 3.4 of the collateralization agreements, the following amounts were recharged to borrowers, taking into account, where applicable, such borrowers' specific features:

- The FRU contribution, in a total amount paid by CRH equal to € 7,431,342 including the amount of € 6,316,640.70 which was immediately borne.
- The ECB contribution, representing an expense of €742,513.26.
- The expenses related to the Prudential Supervision Authority and to the Single Resolution Board.
- The fees paid to rating agencies.

Also, a management fee equal to € 760,000 was charged.

Under such conditions, net banking revenues decreased by 32% to € 2.3 million against an amount of overhead, net of any recharges, equal to € 2.14 million.

Following the tax reassessment referred to above, CRH set aside a tax regularization provision in the amount of € 149,709 serving to cover the additional corporate income tax calculated on the basis of the 2014 rates, as well as any interest for late payment.

Appropriations were made to the funds for general banking risks in the amount of € 1,700,000.

The net income before corporate income tax thus amounted to € 57,480.90 as of December 31, 2016, against € 338,599.09 as of December 31, 2015.

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<sup>2</sup> Contribution to the Single Resolution Fund (SRF) and supervision contribution paid to the European Central Bank (ECB).

## **b) Financial position:**

CRH's shareholders' equity now exclusively consists in Common Equity Tier 1 Capital (CET1).

For prudential purposes, the provision for risks related to medium- and long-term lending operations was posted to the Funds for General Banking Risks (*Fonds pour Risques Bancaires Généraux* - FRBG) which themselves are, since January 1, 2014, taken into account for the calculation of the CET1. The reversal of the said provisions thus impacted accordingly, in the same amount, the level of the CET1, which now amounts to € 563 million.

The solvency ratio, as of December 31, 2016, calculated in accordance with the provisions of Regulation (EU) No. 575/2013 of June 26, 2013, is equal to 12.40%.

In the absence of additional capital, the Common Equity Tier 1 Capital (CET1) adequacy ratio was thus at the same level, i.e. 12.40%.

Henceforth, for the sake of stability, expenses and reversals related to the FRBG shall no longer be added back for the calculation of the CET1.

Following the Supervisory Review and Evaluation Process (SREP) carried out by the ECB in 2015, the total minimum level of Common Equity Tier 1 Capital (CET1) phased for CRH is set at 9.75% as of January 1, 2016. This requirement includes the capital conservation buffer. CRH is not subject to any additional requirement imposed on systematically important financial institutions.

As regards the 2016 Supervisory Review and Evaluation Process (SREP), effective from January 1, 2017:

- The prudential demand for own funds increased by 0.25% and is equal to 10% of the risk-weighted assets.
- The composition of the own funds serving to match prudential demand is relaxed with the lowering of the CET1 requirement from 9.75% to 7.50%.
- All other things being equal, with the increase in the conservation buffer comprised of CET1 capital, the prudential demand for own funds should be equal to 11.25% of the assets weighted according to the risks as of January 1, 2019, thus leading to a CET1 ratio equal to 8.75%.

Table summarising those currently valid delegations of authority, granted by the general meeting of shareholders to the Board of Directors for the purposes of capital increases, and the utilization made of said delegations during the financial year:

General meeting Resolution	Purpose of the delegation of authority given to the Board of Directors	Amount	Term	Utilisation of the authorisations as of 31/12/2016	Unutilised amount
General meeting of 11/03/2014 4 <sup>th</sup> resolution	After cancellation of any previous delegation of authority for the purposes of capital increases, to increase the share capital by the issue of ordinary shares	Maximum nominal amount of the authorised capital increase: EUR 300,192,757.75	5 years	EUR 240,187,500.00 in 2014	EUR 60,005,257.75

### c) Debt:

CRH does not borrow for its own account but on behalf of banks, which contribute the amounts required to service the debt when the interest and principal payments become due. CRH therefore does not have to generate operating cash flow to service and amortise its debt. As a result, an analysis of its debt is of only limited significance.

## OUTLOOK

Because CRH does not earn any spread in relation to its operations, the lack of new refinancing transactions is without direct impact on CRH's earnings and financial structure.

As stated in the introduction, the confirmed relaxation of the regulatory constraints that weighed on CRH's operations since 2014, allows for a resumption of operations, which will then depend, as was the case in the past, on potential refinancing demand from shareholders or institutions agreeing to become shareholders.

CRH shall pursue, throughout this year, its efforts aimed at an optimal stabilization of its regulatory framework.

It is necessary to note that in 2017, with € 7.3 billion in bond repayments, CRH will have an extremely comfortable margin in order to issue new bonds without calling any additional capital.

Also, the resumption of bond issues:

- is anticipated by investors and supervisory authorities.
- would contribute to a welcome relaxation of the duration and rate convergence constraints which have an adverse impact on CRH's borrowers.

## **AUTHORISATION TO BE GRANTED TO THE BOARD OF DIRECTORS, WITH A VIEW TO A POSSIBLE SHARE CAPITAL INCREASE RESERVED FOR EMPLOYEES**

Article L. 225-129-6 paragraph 2 of the French Commercial Code sets forth that an extraordinary general meeting is to be convened every three years in order to review a draft resolution for the completion of a share capital increase reserved for employees.

To date, no share of the Company is held by its employees. The previous general meeting that had to review such a draft resolution was held on December 10, 2013 and rejected the said resolution.

In accordance with provisions of law, we again submit to you for review the authorization possibly to be granted to the board of directors to increase the share capital through issuance of new shares of the company whose subscription shall be reserved for employees within the limit of 3% of the share capital.

## **COMPENSATION OF CORPORATE OFFICERS AND DIRECTORS AND STATUTORY AUDITORS**

As required by law, the compensation paid to corporate officers and directors is shown in Note 14 to the financial statements on page 104.

The fees paid to the statutory auditors are shown on page 44 and in Note 12 to the financial statements on page 103.

## **LIST OF CORPORATE OFFICES**

The list of corporate offices or positions held during the financial year by each of the corporate officers and directors is shown in Chapter 9, pages 77 to 81.

## **SUPPLIERS' PAYMENT TERMS**

CRH complies with rules applicable in this area. As of December 31, 2016, trade payables amounted to € 33,000.63. Amounts due to creditors are typically settled within less than one month.

## RECOMMENDATIONS MADE BY THE BOARD OF DIRECTORS TO THE COMBINED GENERAL MEETING

Dear Shareholders,

Matters to be reviewed by the ordinary shareholders' meeting:

- We recommend that you approve the financial statements for financial year 2016 as presented to you.

- We recommend that you approve the agreements covered by the special report of the statutory auditors.

- We recommend that the income for financial year 2016 be allocated as indicated below:

. Net income for the year available for allocation € 57,480.90

To be allocated as follows:

. Legal reserve € 2,900.00

the total amount of the legal reserve being thus increased to € 3,255,900.00

. Balance to the other reserves account € 54,580.90

with the relevant item being thus increased to €376,179.99.

We recall that no dividend was paid during the last three financial years.

Extraordinary resolution:

- In accordance with provisions of law, we also propose that you decide on the completion of a share capital increase reserved for employees.

### TEXT OF THE RESOLUTIONS

#### ORDINARY DECISIONS

##### FIRST DECISION

*(Approval of the Company's financial statements for the financial year ended December 31, 2016)*

The general meeting, following the presentation of the Board of Directors' management report on the management of the Company during the financial year ended December 31, 2016, and after having heard the statutory auditors' report on the annual financial statements, approves the Company's financial statements as presented for said financial year comprising the income statement, balance sheet and notes to the financial statements, as submitted to it, as well as the transactions recorded in these financial statements and summarised in these reports.

The general meeting also notes the terms of the report of the Chairman of the Board of Directors on internal control and corporate governance which was presented to it, as well as the terms of the statutory auditors' report, which sets out their observations on said Chairman's report and the terms of the report of the statutory auditors appointed as an independent third party, on the labour, environmental and social information contained in the management report.

The general meeting notes that the Company did not, during the period under review, incur any expenses or charges that are not deductible for tax purposes, in accordance with Article 39-4 of the French Tax Code (*Code Général des Impôts*).

## **SECOND DECISION**

*(Review and approval of agreements governed by Article L. 225-38 of the French Commercial Code)*

The general meeting, having heard the special report of the statutory auditors on the agreements governed by Articles L. 225-38 *et seq.* of the French Commercial Code, notes the findings of the said report and resolves to approve the agreements described therein.

## **THIRD DECISION**

*(Board of Directors' proposed allocation of the net income for the financial year ended December 31, 2016)*

The general meeting approves the allocation of the net income for financial year 2016 as shown in the following table:

. Net income for the year available for allocation	€ 57,480.90
To be allocated as follows:	
. Legal reserve	€ 2,900.00
the total amount of the legal reserve being thus increased to € 3,255,900.00	
. Balance to the other reserves account	€ 54,580.90
with the relevant item being thus increased to € 376,179.99.	

We recall that no dividend was paid in respect of the last three financial years.

## **EXTRAORDINARY DECISION**

### **FOURTH DECISION**

*(Share capital increase reserved for employees)*

The general meeting, deciding in accordance with the quorum and majority requirements applicable to extraordinary general meetings, after reviewing the report submitted by the Board of Directors and the special report prepared by the statutory auditors in accordance with Article L. 225-138-1 of the French Commercial Code:

- Authorizes, if necessary, in accordance with Articles L. 225-129-6 and L. 225-138-1 of the French Commercial Code and Articles L. 3332-1 *et seq.* of the French Labour Code, the Board of Directors to complete a share capital increase, in one or more times as it shall see fit, through issuance of new shares of the company of the same class as the existing shares, with the subscription of such shares being reserved for employees, in accordance with provisions of law, in an amount allowing employees affiliated with the Corporate Savings Plan to be created to hold 3% of the nominal share capital, i.e. a maximum amount of € 16,200,000.

- Delegates, to the Board of Directors, the powers necessary to implement this authorisation, within the limits and subject to the conditions set forth above.

- Decides that the Board of Directors shall have all necessary powers, in accordance with the terms set forth by law, to implement this delegation, in order in particular to:
  - set up a Corporate Savings Plan in accordance with the provisions of Articles L. 3332-18 *et seq.* of the French Labour Code;
  - determine the seniority requirements to be satisfied by the beneficiaries of the new shares and, within the limits set forth by law, the time granted to subscribers in order to pay for the said shares;
  - determine the dates and terms of subscription of the new shares against cash contributions;
  - determine the price and conditions of such share capital increase;
  - determine the amounts of the new shares and their ex dividends date, even where the same is retroactive;
  - decide to apply the expenses associated with the share capital increase against the amount of the share premiums;
  - decide, where applicable, to limit, in accordance with provisions of law, the amount of the share capital increase to the amount of the received subscriptions;
  - note the share capital increase(s) resulting from the implementation of this delegation and amend the articles of association accordingly.
  
- Decides that the delegation so granted to the Board of Directors is valid from the date of this general meeting and for a term of three years.

## **JOINT DECISION**

### **FIFTH DECISION**

*(Formalities and powers of attorney)*

The general meeting grants any and all powers of attorney to the bearer of any copy or excerpt of these minutes in order to complete any and all statutory and regulatory formalities.

*(The first, second, third and fifth decisions were unanimously approved by the shareholders present or represented at the combined general meeting of shareholders held on March 20, 2017.)*

*(The fourth decision was unanimously rejected by the shareholders present or represented at the combined general meeting of shareholders held on March 20, 2017.)*

CAISSE DE REFINANCEMENT DE L'HABITAT

Five-year financial summary

	2012	2013	2014	2015	2016
<b>Share capital at year end:</b>					
. Share capital (in €)	299 702 043,25	299 807 237,75	539 994 737,75	539 994 737,75	539 994 737,75
. Number of ordinary shares in issue	19 652 593	19 659 491	35 409 491	35 409 491	35 409 491
. Number of non-voting preferred shares in issue	0	0	0	0	0
. Maximum number of shares to be issued through conversion of bonds or exercise of subscription rights	0	0	0	0	0
<b>Business and earnings (in € thousands):</b>					
. Total revenues (not including VAT)	2 085 466	2 108 053	1 927 447	1 788 039	1 588 892
. Income before tax, employee profit-sharing, depreciation, amortization and provisions	2 931	1 130	1 047	3 067	6 173
. Corporate income tax	981	449	326	2 824	4 223
. Employee profit-sharing benefits due in respect of the financial year	0	0	0	0	0
. Income after tax, employee profit-sharing, depreciation, amortisation and provisions	1 764	632	545	339	57
. Distributed dividend	1 769	0	0	0	0
<b>Earnings per share (in €):</b>					
. Income after tax and employee profit-sharing, but before depreciation, amortisation and provisions	0.10	0.03	0.02	0.01	0.06
. Income after tax, employee profit-sharing, depreciation, amortization and provisions	0.09	0.03	0.02	0.01	0.00
. Net dividend per share	0.09	0.00	0.00	0.00	0.00
<b>Staff:</b>					
. Average number of employees during the financial year (1)	10	10	9,4	9,75	10,33
. Payroll expenses of the financial year (in € thousands)	798	816	817	797	925
. Benefits (social security, welfare funds, etc.) (in € thousands)	376	389	391	390	437

(1) Including compensated corporate officers.



## **REPORT SUBMITTED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS ON INTERNAL CONTROL AND CORPORATE GOVERNANCE**

Dear Shareholders,

In accordance with legal requirements and in my capacity as Chairman of the Board of Directors of CRH – CAISSE DE REFINANCEMENT DE L’HABITAT, I am pleased to submit to you this report as approved by the Board of Directors during its meeting held on January 31, 2017.

This report concerns information related to Board membership, conditions for preparing and organising the work of the Board of Directors, internal control and risk management procedures within the Company, corporate governance, and the terms of shareholder participation at Company Shareholders’ Meetings in respect of financial year 2016.

### **1. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES**

The aim of the internal controls implemented by the Company is to meet the internal control and compliance obligations for credit institutions defined by the ministerial decree of November 3, 2014.

In accordance with the said regulatory provisions, a report on internal control, compliance, and risk measurement and monitoring must be submitted to the board of directors at least once a year.

#### **1.1. INTERNAL CONTROL PARTICIPANTS**

The system of internal control has been adapted to meet the particular needs of the Company, the main characteristics of which are its degree of specialisation and the transparency and security of its operations. Its organisational structure is also influenced by a limited number of employees. For that reason, the Chairman and Chief Executive Officer and the General Secretary have responsibility for monitoring the consistency and effectiveness of the internal control system.

Also, in 2009, the Board of Directors decided to set up an audit committee. Furthermore, in October 2015, the board of directors decided to reactivate the risk committee and to create an appointments committee.

The Chairman and Chief Executive Officer reports regularly to the Board of Directors on the Company’s business operations and on the results of the internal control and risk monitoring activities.

Internal control is enhanced by audit assignments carried out by the inspection and audit departments of CRH’s credit institution shareholders, as specified in Article 9 of the internal rules and regulations.

The new drafting of Article 9 of the internal rules also makes it possible to entrust such task to an audit firm selected from the list of statutory auditors.

Finally, CRH is placed under the direct supervision of the European Central Bank (ECB) and has therefore been subject during the financial year to various audit and assessment procedures.

## **1.2. ORGANISATION OF INTERNAL CONTROL, WITH REGARD TO THE PREPARATION OF FINANCIAL AND ACCOUNTING INFORMATION**

The Company's Senior Management is responsible for the preparation and integrity of the financial statements presented to you. These financial statements have been prepared and are presented in accordance with generally accepted accounting principles and the regulations applicable to French credit institutions. The financial information presented elsewhere in the annual report is in conformance with the financial statements.

The Company maintains a system of internal control providing it with reasonable assurance as to the reliability of its financial information, the protection of its assets and the compliance of its operations, commitments and internal procedures with all applicable regulations.

In practical terms, the internal control system is based on regularly updated written procedures and an organisational structure that strictly separates duties and responsibilities.

The Company's senior management considers that these financial statements present accurately the financial position of the Company, the results of its operations and its cash flows.

## **1.3. RISK MANAGEMENT PROCEDURES**

As a preliminary remark, it is recalled that, in addition to senior management's control functions, the provisions of Article L. 313-49 of the French Monetary and Financial Code provide for a specific legal control of CRH's operations by the banking authority.

In accordance with applicable regulations, a risk mapping has been established and is periodically reviewed. The main risks are described in Chapter 3 of this registration document, to which it is useful to refer. It should be noted that CRH does not claim that the said description is exhaustive.

Identification of operational risks is regularly sought by Senior Management, and the business continuity plan must, in principle, ensure the sustainability of operational procedures during and after any interruption of activities. By way of reminder, such risk was substantially reduced in 2009 by the implementation of the Euroclear direct payment procedure via the Banque de France in respect of the amounts required to service the debt.

Also, in 2013, CRH strengthened the safety of its IT system by changing the relevant service provider.

As CRH's only objective is to lend all the proceeds of its borrowings, credit risk is the most important structural risk. This risk concerns only credit institutions, which are now under the direct supervision of the ECB and is covered by a specific pledge of refinanced loans in accordance with the requirements of Articles L. 313-42 through L. 313-49 of the French Monetary and Financial Code. This pledge in particular is the subject of the aforementioned specific legal review.

CRH also regularly audits borrowing banks' portfolios using a team of auditors dedicated to this task.

The procedures in place within this team have, as principal objectives, the monitoring of the condition of CRH's receivables and an evaluation of their coverage level, using controls conducted on a sample basis and the examination of monthly electronic statements of duplicate lists of pledged receivables.

A significant risk that was addressed by CRH with relevant authorities more than five years ago is that regulatory changes designed for major deposit and investment banks are therefore poorly adapted to the specific nature of CRH's business. Thus, the new CRR regulation now implemented is severely hindering CRH's operations\*, and CRH has not granted any loans since June 2013. Nevertheless, CRH's internal rules and regulations stipulate the following:

- a comprehensive report on CRH's loans is regularly submitted to the Board of Directors,
- limits on loans granted by CRH are set by senior management in accordance with the credit policy and rules established by the Board,
- these limits take into account in particular the institution's rating and the characteristics of outstanding home-purchase loans eligible for refinancing.

The basic structure of the CRH mechanism is such that the profitability of credit transactions is, by its nature, always zero, because CRH borrows on behalf of French credit institutions and provides them with the resources raised without charging any margin.

CRH has typically a low exposure to market risks. This issue is addressed in paragraphs 3.1.2 to 3.1.5. of this registration document.

In addition, the provisions of Article 8.3 of CRH's internal rules and regulations allow CRH, if necessary and under certain conditions, to draw on lines of credit from its shareholders.

Finally, the Board of Directors has set at € 10,000 the materiality threshold for the purposes of fraud alert defined in Article 98 of the ministerial decree of November 3, 2014.<sup>3</sup>

These procedures are regularly revised owing to the implementation of the new European regulatory framework.

## **2. MEMBERSHIP AND CONDITIONS FOR PREPARING AND ORGANISING THE WORK OF THE BOARD OF DIRECTORS (see provisions of Title III of the Company's articles of incorporation)**

The CRH shares are not publicly rated and, in accordance with the articles of incorporation, are allocated annually among borrowers on pro rata basis of the loans outstanding.

\* The regulatory risk is addressed in paragraph 3.1.7.2.

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<sup>3</sup> Ministerial decree of November 3, 2014 on the internal control of enterprises from the banking, payment services, and investment services sectors, subject to the control of the prudential supervision and resolution authority.

The Board represents the shareholders and therefore comprises most of the main players on the French residential mortgage market.

### 2.1. COMPOSITION OF THE BOARD OF DIRECTORS (see Chapter 9 of this document)

- <b>Mr. Olivier HASSLER</b>	Chairman
- <b>Mr. Henry RAYMOND</b>	Director
- <b>Banque Fédérative du Crédit Mutuel</b> represented by Mr. Christian ANDER	Director
- <b>BNP Paribas</b> represented by Ms. Valérie BRUNERIE	Director
- <b>BPCE</b> represented by Mr. Roland CHARBONNEL	Director
- <b>Caisse Centrale du Crédit Mutuel</b> represented by Ms. Sophie OLIVIER	Director
- <b>Crédit Agricole SA</b> represented by Ms. Nadine FEDON	Director
- <b>Crédit Lyonnais</b> represented by Mr. Christian LARRICQ-FOURCADE	Director
- <b>Société Générale</b> represented by Mr. Vincent ROBILLARD	Director

These directors are appointed for a term of six years (see pages 77 and 78).

### 2.2. CONDITIONS FOR PREPARING AND ORGANISING THE WORK OF THE BOARD OF DIRECTORS

The Board is a collegial body that deliberates on all matters concerning the life of the Company and, in particular, on strategic issues.

There do not exist any internal rules and regulations specific to the operations of the Board.

### 2.3. WORK OF THE BOARD OF DIRECTORS

The Board of Directors met six times in 2016. More than half of the directors usually attended or were represented.

The main business of the Board during the year included:

- discussing and approving the results and the Company's financial statements for fiscal year 2015 examining quarterly financial statements and discussing and approving the semi-annual financial statements;

- reviewing the annual report on the conditions of exercise of internal controls and of various discussions related to internal controls;

- the periodic examination of internal control and compliance activities and results;
- examining the findings of the audit committee and the risk committee;
- setting the compensation of the Chairman and of the Chief Executive Officer;
- reviewing CRH's new governance;
- reviewing the ECB's draft decision concerning capital requirements;
- reviewing the ICAAP and ILAAP documents;
- reviewing the recovery plan;
- examining the outcome of audits by the audit and inspection department of portfolios of receivables pledged to CRH.

#### **2.4. COMPENSATION COMMITTEE (see Section 9.1.5. of this document, page 79)**

The compensation committee, comprised of three members selected among the directors, met on April 12, 2016.

During the said meeting, the compensation committee principally:

- voted on, and then approved, a career-end indemnity and bonus in connection with the retirement of Mr. Henry RAYMOND;
- voted on and then approved the compensation of Mr. Marc NOCART as Deputy CEO and then as Chief Executive Officer.

#### **2.5. RISK COMMITTEE (see Section 9.1.5. of this document, page 79)**

The risk committee, comprised of three members selected among the directors, met on January 28, 2016, July 12, 2016 and November 29, 2016.

During the said meetings, the risk committee principally:

- reviewed the results of the audit of portfolios of receivables pledged in favour of CRH
- reviewed the annual report on the mode of exercise of internal controls;
- reviewed the preventative recovery plan that was sent to the ECB at the end of 2016;
- reviewed the ECB's findings concerning the results of the on-site inspection of CRH's risk management and control system as carried out by the ACPR;
- reviewed the stress tests exercise to which CRH was subject during financial year 2016.

## **2.6. AUDIT COMMITTEE (see Section 9.1.3. of this document, page 79)**

The audit committee, comprised of three members appointed from the directors, met on January 28, 2016, July 12, 2016, and November 29, 2016.

During the said meetings, the audit committee principally transacted the following business:

- reviewed CRH's operations, results and financial position as of December 31, 2015 and the financial statements for the half-year ended June 30, 2016;
- reviewed the forecast-looking financial statements forecast as of December 31, 2016;
- met with CRH's management and statutory auditors;
- reviewed the financial information.

## **2.7. APPOINTMENTS COMMITTEE (see section 9.1.3. of this document, page 79)**

The appointments committee, comprised of three members selected from the directors, met on April 12, 2016 and July 12, 2016.

During the said meetings, the appointments committee principally transacted the following business:

- reviewed the candidatures received with a view to the appointment of a Chief Executive Officer replacing Mr. Henry RAYMOND;
- appointed Mr. Marc NOCART as Chief Executive Officer;
- took note of the resignation of Mr. Henry RAYMOND;
- appointed Mr. Henry RAYMOND as honorary chairman of Caisse de Refinancement de l'Habitat.

## **3. CORPORATE GOVERNANCE**

Most principles of corporate governance are now enshrined in the French Commercial Code or in the General Regulations of the French securities regulator (*Autorité des Marchés Financiers* or AMF), to which the Company is subject.

In practice, the Company takes into account the recommendations of the AFEP/MEDEF (the French Association of Private Businesses/French Business Confederation) Code of October 2008 related to corporate governance, which is available on MEDEF's website ([www.medef.com](http://www.medef.com)).

However, it is specified that these principles and recommendations are applicable only to the extent that they can be implemented in a relevant manner:

1. CRH is a market institution whose capital stock belongs to French banks.
2. The shares comprising CRH's capital are not listed on any stock exchange.

3. The associated voting rights are diluted in order to maintain CRH's independence.

4. CRH does not charge an interest margin on transactions.

5. The compensation of the Chairman and of the Chief Executive Officer cannot be contingent on CRH's results due to the special characteristics of CRH's structure. Their compensation consists solely in their salary and is established by the Board of Directors on the recommendation of the compensation committee. The corresponding amount is clearly specified in this document. Neither the Chairman nor the Chief Executive Officer is eligible for either a "golden parachute" or an additional complementary retirement plan, or stock options.

6. The other directors do not receive from CRH any compensation whatsoever and are senior executives of the shareholder institutions.

#### **4. TERMS OF PARTICIPATION OF THE SHAREHOLDERS AT COMBINED SHAREHOLDERS' MEETINGS (Article 23 of the articles of incorporation)**

The said terms are summarised in Article 23 of the articles of incorporation (see Appendix 5 to this document).

Olivier HASSLER  
Chairman of the Board of Directors





## **REPORT ON LABOUR, SOCIAL AND ENVIRONMENTAL TRANSPARENCY**

Article 225 of Act No. 2010-788 of July 12, 2010 concerning the national commitment for the environment enhanced the content of the information to be included in the management report by promulgating obligations of transparency on labour, social and environmental matters.

Despite the limited resources available to it and the specific nature of its business, in an effort to meet the demands of certain investors, CRH had already compiled, in financial year 2011, its first report on Social and Environmental Transparency.

First, we wish to reiterate certain key principles:

As a responsible employer, CRH adheres to the following principles:

- respect for human rights,
- freedom of association and the right to collective bargaining,
- support for employees over the long term,
- promotion of equal opportunities.

As CRH's operations are solely of a financial nature, they have only a limited direct impact on the environment. In order to ensure respect for the environment, CRH seeks, to the greatest extent possible, to limit:

- use of paper,
- polluting forms of transportation,
- consumption of heat and electricity.

CRH seeks to comply with applicable rules and has never been fined or been subject to any adverse ruling as regards any labour or environmental matter.

### **Methodological memorandum on CSR reporting**

CRH's approach to CSR reporting is based on Articles L. 225-102-1, R. 225-104 and R. 225-105-2 of the French Commercial Code.

#### **1. Reporting period**

Information gathered covers the period from January 1, to December 31, of each year, regardless of the type of data gathered. This information is reported annually.

#### **2. Scope**

The CSR reporting scope is intended to be representative of the Group's activities. It is determined according to the following principles: the reporting scope covers CRH only. The reporting scope for financial year 2016 covers all CRH operations.

#### **3. Selection of indicators**

Indicators are chosen with regard to the labour, environmental and social impacts of the activities of the Company and the risks associated with issues related to its business activities.

#### 4. Consolidation and internal control

Data are gathered centrally from monitoring carried out within the administration department. Data are checked and validated by the contributors in charge of gathering information and then by the General Secretariat and Senior Management.

#### 5. External controls

Pursuant to the regulatory requirements imposed by Article 225 of the Grenelle 2 Act and its implementing Decree of April 24, 2012, CRH has asked one of its independent auditors to provide, from financial year 2013 onwards, a report including a statement on the preparation of the information to be included in the management report and a reasoned opinion on the accuracy of the published information.

#### Indicators of Act No. 2010-788 concerning the national commitment for the environment

#### 2016 Data

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##### 1° Labour information:

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##### a) Employment:

Total headcount and breakdown of employees per gender and region.

In 2016, the total salaried headcount remained stable and was equal to 8 employees, all being executives under permanent contracts.

The company employs 3 female workers.

The 40-49 and 50-59 age brackets<sup>4</sup> accounted for 40% and 30% of total headcount, respectively, while the 30-39 and 60+ brackets accounted for 10% and 20%, respectively.

All positions are located at the head office in Paris (France).

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Hiring and dismissal

No new staff members were hired under either temporary or permanent contracts, nor were there any redundancies or voluntary departures.

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Compensation.

Aggregate gross compensation amounted to € 924,616.88 in financial year 2016, as compared with € 796,710.77 in financial year 2015. The CRH compensation policy and any changes thereto aim at reaching a fair balance between the various individual compensation levels according to merit and responsibilities. The Company does not pay any variable compensation.

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##### b) Work organisation:

Working time organisation.

The number of hours worked per annum by a full-time employee was 1,603.60 hours, unchanged compared with 2015. All employees work full time with personalised working hours

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<sup>4</sup>Age brackets include the two corporate officers.

Absenteeism	In 2016, the absenteeism rate <sup>5</sup> increased very slightly, to 1.54% compared with 1.51% in 2015. 73% of absences are attributable to sickness.
c) Staff relations: Organisation of staff dialogue.	Having regard to the limited headcount, there is no organized staff dialogue within the Company.
Review of collective agreements.	The agreement on arrangements for the reduction in working hours signed on February 7, 2002 is still in force. Employees are covered by the collective agreement for financial companies.
Staff welfare	Having regard to the limited headcount, there is no works council. The Company pays in full all contributions for additional health coverage as well as collective coverage for death and dependency. The Company uses a staff canteen for which it pays EUR 6.60 per meal taken by each of its employees. For employees seeking a long-service award and having completed 20 years of service in the Company, the Company pays a bonus of one month's basic salary (excluding seniority bonus and thirteenth month) for the month of the relevant promotion (January or July). In 2016, one request for a long-service award was made within CRH.
d) Health and safety: Health and safety conditions	As indicated above, the Company is mindful of the welfare of its employees and has taken out additional health coverage, as well as collective coverage for death and dependency. The Company uses a multi-employer occupational health service. CRH has prepared a single assessment document for occupational risks.
Agreements signed with trade unions and staff representative bodies on workplace health and safety.	Because of the Company's limited headcount, there is no collective bargaining on workplace health and safety.
Frequency and seriousness of industrial accidents and recognition of occupational illnesses.	In 2016, there were no industrial accidents in the Company. Also, no employee suffered from any occupational illness.
Compliance with the provisions of the ILO's fundamental conventions.	The Company complies with the laws and regulations applicable to France as a signatory to the ILO's eight key conventions.

<sup>5</sup> The absenteeism rate is defined as the ratio between: (Number of other cases of absence x 7.6) / ((Number of worked days x 7.6 x Number of employees)). 1 day = 7.6 hours. The other cases of absence do not correspond to RTT days (working time reduction days) or to paid holidays.

e) Training: Total number of training hours	As a Company with fewer than ten employees, CRH participates in the financing of employees' professional training by paying Agefos PME a contribution of 0.55% of its total payroll. CRH's employees did not make use of any training entitlement in 2016.
Specific professional training programs for employees.	The Company has not instituted any specific professional training programs for employees.
f) Diversity and equal opportunities: Policy implemented and measures taken to: - promote equality between men and women; - encourage the employment and integration of disabled individuals; - fight against discrimination and promote diversity.	For positions of the same level of responsibility, there is very little difference between the average compensation of men and women. The Company reiterates its keenness to comply with the legal and regulatory provisions encouraging professional and pay equality between men and women for similar jobs in terms of hiring as well as career development. The Company guarantees equal treatment for individuals with similar qualifications and length of service, with regard to promotion opportunities, career progression and access to professional training. On request, any member of staff can meet with the Company's management in order to review any problems that could arise in assessing this equality of treatment. A substantiated response is provided within no more than one month. Having fewer than 20 employees, CRH is not subject to the requirement to employ and integrate persons with disabilities. The Company refrains from any discrimination and whenever possible, promotes diversity.
<b>2° Environmental information:</b>	
a) General policy in environmental matters: Company's policy for taking into account environmental issues and, where applicable, assessment and certification approaches to environmental matters	In accordance with the arrangements introduced by Article 225 of the Grenelle Act and set out in the ministerial decree of May 13, 2013, CRH had its labour, social and environmental data audited by an independent third-party body in respect of year 2016. In addition, Management encourages its employees to adopt environmentally-aware behaviour within the Company.
Training and informing employees on matters pertaining to environmental protection	For reasons probably attributable to the limited number of employees, employees have readily complied with environmental issues, without the Company's having to implement initiatives to heighten awareness of such matters.
Resources earmarked for the prevention of environmental risks and pollution.	Not relevant, given the nature of the Company's business.
Amount of provisions and guarantees for risks on environmental matters.	Not relevant in terms of direct impact, given the nature of the Company's business.

<b>b) Pollution and waste management:</b>	
Prevention of waste production - recycling and elimination	As a financial sector company, the main raw material consumed is paper. Two initiatives have been implemented to limit the volume used: - widespread use of both sides of the paper, - production of major publications in paperless form. Employees have implemented an ongoing initiative for selective sorting to facilitate the recycling of water bottles, magazines, newspapers and small boxes. Toner cartridges are returned to the supplier. Obsolete office equipment is taken to the waste disposal site.
Preventing, reducing and redressing emissions into the air, water and soil that could seriously affect the environment.	Given the nature of its business, the Company does not emit any greenhouse gases other than CO <sub>2</sub> and creates no polluting impact in the water or soil. Its premises are not air-conditioned. The Company has not carried out a carbon assessment. The Company promotes the use of public transport both for home/work, travel and business trips for its employees.
Actions for the prevention of food waste.	Not relevant, given the nature of the Company's business.
Taking into account noise pollution and, where applicable, any other form of pollution specific to an activity.	Not relevant in terms of direct impact, given the nature of the Company's business.
<b>c) Sustainable use of resources</b>	
Water consumption.	Due to the absence of separate water meters, we are unable to ascertain the Company's water usage. However, given the nature of its business and its small workforce, water consumption is limited.
Consumption of raw materials.	Paper is the main raw material used in the Company. The majority of the paper used has been awarded the European Union's Ecolabel. Approximately 95,100 sheets were used in 2016, i.e. approximately 12% more than the 2015 consumption.
Energy consumption.	Due to the absence of separate power meters, we are unable to ascertain the Company's energy usage. However, given the nature of its business and its small workforce, energy consumption is limited.
Use of soil	Not relevant in terms of direct impact, given the nature of the Company's business.
<b>d) Contribution to the adaptation and the suppression of global warming:</b>	
Greenhouse gas emissions.	Not relevant in terms of direct impact, given the nature of the Company's business.
Taking into account the impact of climate change.	Not relevant in terms of direct impact, given the nature of the Company's business.
<b>e) Protection of biodiversity.</b>	The Company does not own, rent or manage any sites in or near any protected areas or zones rich in biodiversity outside these protected areas.

3° Social information:	
a) Territorial, economic and social impact of the business.	Not relevant in terms of direct impact, given the nature of the Company's business.
b) Relationships with stakeholders.	The Company's articles of incorporation provide for dilution of the voting rights attached to the shares in order to preserve its independence vis-à-vis shareholders. Furthermore, there are no conflicts of interest with other stakeholders. The Company was not involved in any sponsorship activities in 2016.
c) Sub-contracting and suppliers and social and environmental responsibility in relation with such parties.	Reliance on sub-contracting is restricted to a few services such as archiving, cleaning and maintenance tasks entrusted to companies exercising their business in France. Non-compliance with social regulations is covered by a breach of contract clause.
d) Fair practices: - prevention of corruption; - measures protecting consumer health and safety.	No corruption incident was ever identified within the Company. The Company is keen to protect its reputation from any trading of favours by its employees when they audit the Company's guarantees at borrowing institutions, and has adopted good practice principles for on-site controls. More generally, as a credit institution, the Company has implemented all legislative and regulatory provisions concerning the fight against money laundering and the financing of terrorism, notably concerning staff training. The Company has appointed two TRACFIN Correspondents. The Company's business has no direct impact on the health and safety of consumers.
e) Promotion of human rights	The Company advocates respect for human rights.

# **REPORT OF THE STATUTORY AUDITORS ON THE ANNUAL FINANCIAL STATEMENTS**

**for the financial year closed on December 31, 2016**

To the Shareholders,

In pursuance of the engagement entrusted to us by your General Meeting, we hereby submit to you our report for the financial year closed on December 31, 2016 concerning:

- the audit of the annual financial statements of Caisse de Refinancement de l'Habitat SA as attached to this report;
- the basis for our opinion;
- the specific verifications and information mandated by law.

These annual financial statements have been drawn up by the Board of Directors. Our role consists in expressing an opinion on the said financial statements on the basis of our audit.

## **1 OPINION ON THE ANNUAL FINANCIAL STATEMENTS**

We have performed our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit so as to obtain reasonable assurance that the annual financial statements are free from any material misstatement. An audit involves the verification, using sampling or other methods of testing, of evidence supporting the amounts and disclosures in the annual financial statements. It also involves an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall presentation of the financial statements. We believe that the information that we have gathered provides a sufficient and appropriate basis for the opinion expressed below.

In our opinion, the annual financial statements present a true and fair view of the Company's financial position and its assets and liabilities at the end of the last financial year and of the results of its operations at the end of the said financial year.

## **2 BASIS FOR OUR OPINION**

In compliance with the provisions of Article L. 823-9 of the French Commercial Code regarding the basis of our opinion, we hereby inform you that our assessments focused on the appropriateness of the accounting principles applied and on the reasonableness of significant estimates used for the preparation of the financial statements, in particular as regards securities transactions (see Note 2-C of the notes to the financial statements).

The assessments that we made of these items form part of the framework of our audit approach to the annual financial statements as a whole and therefore contributed to the opinion expressed in the first part of this report.

### **3 SPECIFIC VERIFICATIONS AND INFORMATION**

We also performed the specific verifications required by law, in accordance with professional standards applicable in France.

We have no comments to make regarding the accuracy and consistency with the annual financial statements of the information provided in the management report of the Board of Directors and in the documents issued to the shareholders with respect to the Company's financial position and annual financial statements.

As regards the information provided in accordance with the provisions of Article L. 225-102-1 of the French Commercial Code on the compensation paid and benefits awarded to the corporate officers as well as commitments assumed in their favour, we have verified that it is consistent with the financial statements or the data used to prepare the said financial statements. On the basis of the said work, we certify the accuracy and fairness of such information.

La Défense and Paris, February 28, 2017

The Statutory Auditors

**AUDITEURS & CONSEILS ASSOCIÉS**

Represented by  
Mr. Laurent CAZEBONNE

**KPMG Audit**  
**a department of KPMG SA**  
Represented by  
Ms. Sophie SOTIL-FORGUES



## **SPECIAL REPORT OF THE STATUTORY AUDITORS ON RELATED-PARTY AGREEMENTS AND COMMITMENTS**

### **Shareholders' Meeting convened in order to approve the financial statements for the financial year closed on December 31, 2016**

To the Shareholders,

In our capacity as statutory auditors of your company, we hereby submit to you our report on related-party agreements and commitments.

Our role consists in informing you, on the basis of the information provided to us, of the key features, terms and conditions of the agreements and commitments of which we have been apprised or of which we have become aware during the performance of our work. It is not our responsibility to express an opinion on the usefulness and advisability of such agreements and commitments or to ascertain whether any other agreements or commitments exist. It is your duty, pursuant to the provisions of Article R. 225-31 of the French Commercial Code, to assess the merits of such agreements and commitments with a view to their approval.

In addition, it is our responsibility, where relevant, to provide you with the information mandated by Article R. 225-31 of the French Commercial Code related to the performance, during the year under review, of the agreements and commitments already approved by the general meeting.

We have performed the due diligence procedures that we deemed necessary in order to comply with the professional standards of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) in relation to this assignment. Those procedures involved verifying the consistency of information provided to us with source documentation.

#### **1 Agreements and commitments submitted for approval to the general meeting**

Under Article L. 225-40 of the French Commercial Code, we have been advised of the following agreement, which has been granted prior approval by your Board of Directors.

- **Executive Officers' Social Guarantee (GSC)**

During its meeting of July 12, 2016, the Board of Directors authorised the execution of an unemployment insurance agreement. The said agreement provides, in case of removal of a non-salaried executive officer, for an annual indemnification equal to 70% of tranches A and B and 55% of tranche C of the annual income for a period of 12 months effective from November 1, 2017.

Under the said agreement, Caisse de Refinancement de l'Habitat paid € 1,238.71 including VAT in respect of the net annual premium related to the said agreement for financial year 2016.

#### **2 Agreements and commitments already approved by the general meeting**

In accordance with Article R. 225-30 of the French Commercial Code, we have been informed of the following agreements and commitments which have already been approved by general meetings in previous financial years and which remained in force during the year under review.

- **Corporate officer liability insurance contract**

During its meeting held on December 4, 2007, the Board of Directors authorised the execution of a corporate officer liability insurance contract. The said contract covers liability for damages that a corporate officer of your Company would be required to pay as a result of a claim against him for misconduct or negligence. The maximum cover under this contract is EUR 3,000,000.

Under the said policy, Caisse de Refinancement de l'Habitat paid the amount of € 4,948.60 including VAT in respect of the annual net premium due, in relation to the said policy, for financial year 2016.

Paris La Défense and Paris, February 28, 2017

The Statutory Auditors

**AUDITEURS & CONSEILS ASSOCIÉS**

Represented by  
Mr. Laurent CAZEBONNE

**KPMG Audit**  
**a department of KPMG SA**  
Represented by  
Ms. Sophie SOTIL-FORGUES

**REPORT OF THE STATUTORY AUDITORS  
(PREPARED PURSUANT TO ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL  
CODE) ON THE REPORT SUBMITTED BY THE CHAIRMAN OF THE BOARD OF  
DIRECTORS OF CAISSE DE REFINANCEMENT DE L'HABITAT**

**Financial year closed on December 31, 2016**

To the Shareholders,

In our capacity as statutory auditors of Caisse de Refinancement de l'Habitat and pursuant to the provisions of Article L. 225-235 of the French Commercial Code, we hereby submit our report on the report prepared by the Chairman of your Company for the financial year closed on December 31, 2016, in accordance with the requirements of Article L. 225-37 of the French Commercial Code.

The Chairman is responsible for preparing and submitting a report for the Board of Directors' approval on the internal control and risk management procedures in place within the Company, supplying the additional information required by Article L. 225-37 of the French Commercial Code concerning in particular the Company's corporate governance procedures.

Our responsibility consists in:

- providing you with comments on the information contained in the Chairman's report on internal control and risk management procedures related to the preparation and processing of accounting and financial information; and
- certifying that the report includes all of the additional information required under Article L. 225-37 of the French Commercial Code, although it is not our responsibility to verify the accuracy of such additional information.

We have conducted our work in accordance with professional standards generally accepted in France.

**1. Information related to the internal control and risk management procedures pertaining to the preparation and processing of financial and accounting information**

The relevant professional standards require that we plan and perform our work so as to be able to assess whether the information concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information contained in the Chairman's report is presented fairly. Such work consists in particular of:

- familiarising ourselves with the internal control and risk management procedures related to the preparation and processing of accounting and financial information supporting the information presented in the Chairman's report, as well as the existing documentation;
- familiarising ourselves with the work supporting the preparation of such information and the existing documentation;

- determining whether any major deficiencies in the internal control procedures, related to the preparation and processing of accounting and financial information, that we discovered when carrying out our audit work, have been appropriately disclosed in the Chairman's report.

On the basis of our work, we have no comments to make on the information concerning the Company's internal control and risk management procedures related to the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Board of Directors, prepared in accordance with the provisions of Article L. 225-37 of the French Commercial Code.

## **2. Additional information**

We certify that the report of the Chairman of the Board of Directors includes the additional information required under Article L. 225-37 of the French Commercial Code.

Paris La Défense and Paris, February 28, 2017

The Statutory Auditors

**AUDITEURS & CONSEILS ASSOCIÉS**

Represented by  
Mr. Laurent CAZEBONNE

**KPMG Audit**  
**a department of KPMG SA**  
Represented by  
Ms. Sophie SOTIL-FORGUES

**REPORT OF THE STATUTORY AUDITOR,  
APPOINTED AS INDEPENDENT THIRD-PARTY BODY, ON THE LABOUR,  
SOCIAL AND ENVIRONMENTAL INFORMATION CONTAINED  
IN THE MANAGEMENT REPORT**

To the Shareholders,

In my capacity as statutory auditor (designated as independent third-party expert and accredited by COFRAC) of Caisse de Refinancement de l'Habitat, under number 3-1100, I hereby submit my report on the labour, environmental and social information for the financial year closed on December 31, 2016, as disclosed in the management report (hereinafter the "CSR Information") in pursuance of the requirements of Article L. 225-102-1 of the French Commercial Code.

**Responsibility of the Company**

The Board of Directors is responsible for preparing a management report including the CSR Information as required by Article R. 225-105-1 of the French Commercial Code, drawn up in accordance with the reporting methodology used by the Company (hereinafter the "Guidelines"), a summary of which appears in the management report.

**Independence and quality control**

Our independence is defined by regulations, by our professional code of ethics and by Article L. 822-11 of the French Commercial Code. In addition, we have established a system of quality control including documented policies and procedures to ensure compliance with rules of conduct, professional standards and applicable legal and regulatory requirements.

**Statutory auditor's responsibility**

On the basis of our work, our role consists in:

- certifying that the required CSR Information is included in the management report or, in the negative, that an appropriate explanation is given in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code (certificate ascertaining the presentation of the CSR Information);

- expressing a limited assurance as to whether the CSR information, as a whole, has been provided fairly, in all material respects, in accordance with the Guidelines (substantiated opinion on the fairness of the CSR Information).

Our work has been carried out by a team of two employees between October 2016 and February 2017, for a period of approximately one week.

We have conducted the work described below in accordance with professional standards applicable in France, and with the ministerial decree of May 13, 2013 setting forth the terms under which independent third-party bodies shall perform their engagement.

## **1. Certificate related to the submission of the CSR Information**

### *Nature and scope of the works*

We have examined, based on interviews with the heads of the departments concerned, the presentation of guidelines for sustainable development based on the labour and environmental consequences of the Company's activities and its social commitments and, where appropriate, activities or programs arising therefrom.

We have compared the CSR Information provided in the management report against the list set out in Article R. 225-105-1 of the French Commercial Code.

Where certain information was not provided, we have verified that an appropriate explanation was given in accordance with paragraph 3 of Article R. 225-105 of the French Commercial Code.

### *Conclusion*

On the basis of the aforementioned work, we hereby certify that the required CSR Information has been provided in the management report.

## **2. Substantiated opinion on the fairness of the CSR Information**

### *Nature and scope of the work*

We conducted two interviews with the persons responsible for preparing the CSR Information in the departments in charge of information-gathering processes and, where relevant, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of relevance, completeness, reliability, neutrality and clarity, taking into consideration, where applicable, best industry practice;

- verify that the Company has established a process for collecting, compiling, processing and checking the Information to ensure that it is complete and consistent, and review internal control and risk management procedures related to the preparation of CSR Information.

We determined the nature and scope of our tests and controls in light of the features and importance of CSR Information, having regard to the characteristics of the Company, the labour and environmental issues associated with its activities, its policies in the area of sustainable development and best industry practice.

As regards the CSR Information that we considered to be the most important<sup>1</sup>:

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<sup>1</sup> Labour information: headcount at end of the period, female headcount, breakdown of workforce per age bracket, number of recruitments, dismissals and voluntary departures, amount of compensation, annual number of hours worked, absenteeism rate, number and seriousness of industrial accidents, rate of contribution to the financing of vocational training, steps taken to favour professional equality and the integration of citizens with disabilities, anti-discrimination actions. Environmental information: paper consumption. Social information: anti-corruption actions.

- we perused the documentary sources and conducted interviews in order to validate qualitative information (organisation, policies, initiatives), we applied analytical procedures to the quantitative information, verified the relevant calculations, on the basis of sampling techniques, and ascertained its consistency and compatibility with the other information contained in the management report;

- we conducted interviews to verify that the procedures were correctly applied and to identify any omissions, and we performed detailed tests using sampling techniques, consisting of verifying the calculations made and reconciling the data with the supporting documents. The sample selected represented 100% of the workforce and 95% of the quantitative environmental information.

We have assessed the consistency of the other CSR Information based on our knowledge of the Company.

Finally, we have assessed the appropriateness of the explanations provided, if applicable, for any information fully or partially omitted.

We believe that the sampling techniques and sample sizes that we have selected, based on our professional judgment, allow us to formulate an opinion with a limited level of assurance; a greater level of assurance would have required a more extensive audit. Owing to the use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the possibility that a material misstatement in the CSR Information may not be detected cannot be completely eliminated.

#### *Conclusion*

Based on our work, we did not identify any material misstatements that would cause us to believe that the CSR Information, taken as a whole, is not fairly presented, in accordance with the Guidelines.

Paris, February 16, 2017

**AUDITEURS & CONSEILS ASSOCIÉS**  
Represented by

Ms. Sandrine GIMAT  
Partner, CSR Inspector

Mr. Laurent CAZEBONNE





## **CHAPTER 1**

### **PERSONS RESPONSIBLE**

#### **1.1. PERSON RESPONSIBLE FOR INFORMATION CONTAINED IN THE REGISTRATION DOCUMENT**

Mr. Marc Nocart, Chief Executive Officer of CRH.

#### **1.2. STATEMENT ISSUED BY THE PERSON RESPONSIBLE**

I certify, after having taken all reasonable steps to ensure that this is the case, that the information contained in this registration document is, to the best of my knowledge, accurate and that there have been no omissions which would affect its legal effect.

I certify that, to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the financial position, assets and liabilities and net income of the Company and that the management report included on page 7 gives an accurate overview of the business, income and financial position of the Company, as well as a description of the main risks and uncertainties that it faces.

I have obtained a post-audit report from the statutory auditors in which they indicate that they have examined the information on the financial position and the financial statements as presented in this document and that they have read the entire registration document.

Paris, March 22, 2017

Marc Nocart  
Chief Executive Officer



## CHAPTER 2

### STATUTORY AUDITORS

#### 2.1. STATUTORY AUDITORS

##### 2.1.1. Standing statutory auditors

###### 1) AUDITEURS & CONSEILS ASSOCIÉS SA

NEXIA International

Member of the Paris Regional Institute of Statutory Auditors

Address: 31 rue Henri Rochefort 75017 PARIS

Represented by: Mr. Laurent CAZEBONNE

Dates of appointment: Initially appointed on April 16, 1991, renewed on March 4, 1997, 4 March 2003 and March 17, 2015.

Duration of the current term of office: This six-year term shall expire in 2021, following the ordinary general meeting called to approve the financial statements for the financial year closed on December 31, 2020.

###### 2) KPMG SA

Member of the Versailles Regional Institute of Statutory Auditors

Address: Tour Eqho - 2 avenue Gambetta  
92066 PARIS LA DÉFENSE CEDEX

Represented by: Ms. Sophie SOTIL-FORGUES

Dates of appointment: Initially appointed on April 16, 1991, renewed on March 4, 1997, March 4, 2003, March 3, 2009 and March 17, 2015.

Duration of the current terms of office: This six-year term shall expire in 2021, following the ordinary general meeting called to approve the financial statements for the financial year closed on December 31, 2020.

##### 2.1.2. Alternate statutory auditors

###### 1) PIMPANEAU & ASSOCIÉS SA

Alternate statutory auditor of AUDITEURS & CONSEILS ASSOCIES SA

Member of the Paris Regional Institute of Statutory Auditors

Address: 31 rue Henri Rochefort 75017 PARIS

Represented by: Mr. Olivier JURAMIE

Date of appointment: Appointed on March 17, 2015.

Duration of the current term of office: This six-year term shall expire in 2021, following the ordinary general meeting called to approve the financial statements for the financial year closed on December 31, 2020.

## 2) KPMG AUDIT FS I

Alternate statutory auditor of KPMG SA

Member of the Versailles Regional Institute of Statutory Auditors

Address: Tour Eqho - 2 avenue Gambetta  
92066 PARIS LA DÉFENSE CEDEX

Represented by: Ms. Isabelle GOALEC

Date of appointment: Appointed on March 17, 2015.

Duration of the current term of office: This six-year term shall expire in 2021 following the ordinary general meeting called to approve the financial statements for the financial year closed on December 31, 2020.

### 2.1.3. Fees paid to the statutory auditors and members of their organizations in respect of the financial years closed on December 31, 2016 and December 31, 2015

In € thousands

	Auditeurs & Conseils Associés				KPMG Audit –a department of KPMG SA			
	Amount *		%		Amount *		%	
	31/12/16	31/12/15	31/12/16	31/12/15	31/12/16	31/12/15	31/12/16	31/12/15
<b>Audit</b>								
- Statutory audit, certification, review of individual and consolidated financial statements	30	31	77	80	30	29	94	70
- Certification of the report on labour, environmental and social transparency	7	8	18	20	0	0	0	0
- Audit-related services	0	0	5	0	2	13	6	30
<b>Other services</b>	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>39</b>	<b>39</b>	<b>100</b>	<b>100</b>	<b>32</b>	<b>42</b>	<b>100</b>	<b>100</b>

\* Amounts include all taxes, charges and out-of-pocket expenses.

## 2.2. NOT-REAPPOINTED STATUTORY AUDITORS

Not applicable.

## CHAPTER 3

### RISK FACTORS

(AMF Interpretation No. 2 on the preparation of registration documents)

CRH believes that the risk factors discussed below could potentially affect its ability to meet its obligations on issued bonds. Most of these factors are linked to events that may or may not occur. CRH makes no claim that the risk factors listed below are exhaustive. CRH is not in a position to express an opinion as to the probability of occurrence of these events. Potential investors should also read the other detailed information in the related prospectus and reach their own conclusions prior to making an investment decision.

#### 3.1. RISK FACTORS ASSOCIATED WITH THE ISSUER:

As CRH's sole purpose consists in refinancing home-purchase loans granted by credit institutions, to the best knowledge of the issuer, credit risk and regulatory risk are the most significant risks.

#### CREDIT RISK

##### 3.1.1. Credit risk

An institution's credit risk results from the uncertainty as to the ability or intention of its counterparties to fulfil their obligations towards it. It is the main subject of the stress testing applied to CRH.

CRH's risk exposure relates to only a limited number of credit institutions, all of which are under the direct supervision of the ECB. These exposures correspond mainly to loans guaranteed in connection with refinancing operations and, on an ancillary basis, shareholders' equity investment operations.

The loans corresponding to refinancing operations are represented by mortgage notes, are guaranteed for at least 125% of their nominal amount by a specific pledge of receivables governed by the provisions of Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code, and relate solely to home-purchase loans in France.

In the event of default of an institution, these statutory provisions enable CRH to automatically become the owner of the loan portfolio pledged by that institution, notwithstanding any provisions to the contrary.

In connection with the coming into force of Regulation (EU) No. 575/2013 on January 1, 2014, CRH appointed one of the recognised valuation bodies in order to carry out an external credit assessment of the mortgage notes. As of December 31, 2016, the nominal value of the notes so rated totalled more than 90% of the amounts outstanding, with all ratings corresponding to credit quality step 1.

## a) Breakdown of commitments

CRH's commitments are broken down as follows:

In € thousands

Credit risk exposure	31/12/15		31/12/16	
	Balance sheet	Bad debt rate	Balance sheet	Bad debt rate
Mortgage notes	42 042 325	0 %	39 059 486	0 %
Negotiable debt instruments	104 077	0 %	155 035	0 %
Demand deposits, term deposits	457 848	0 %	406 954	0 %
Other receivables (recharges, etc.)	1 631	0 %	1 508	0 %
<b>TOTAL exposure to credit institutions</b>	<b>42 605 881</b>	<b>0 %</b>	<b>39 622 983</b>	<b>0 %</b>
Exposure to the central bank	1	0 %	122	0 %
Exposure to the public sector	405	0 %	36	0 %
Other exposure	1 906	0 %	3 020	0 %
<b>TOTAL exposure to credit risk</b>	<b>42 608 193</b>	<b>0 %</b>	<b>39 626 161</b>	<b>0 %</b>
Equity holdings, other long-term securities, fixed assets, prepayments and accrued income	141		121	
<b>TOTAL assets</b>	<b>42 608 334</b>		<b>39 626 282</b>	

CRH did not assume any off-balance sheet commitment.

In € thousands

Geographic breakdown of exposure	31/12/15		31/12/16	
	Balance sheet	In %	Balance sheet	In %
France	42 608 193	100	39 626 161	100

A breakdown of outstanding loans between the main borrowing institutions is provided in Section 5.2.2 of Chapter 5, page 67.

A breakdown of mortgage notes, negotiable debt instruments and term deposits by residual maturity is provided in Chapter 11, Note 4 to the financial statements, on page 96.

## b) Transaction selection process

Each borrower must be subject to prior approval by the Board of Directors. Such authorisation may, where applicable, be subject to specific terms and conditions.

Rules concerning the granting of loans have been drawn up by the Board of Directors:

- Lending decisions must take into account the institution's rating (determined by the level of its equity, its profitability, shareholding structure and credit rating) and the characteristics of the loan portfolio due to be refinanced.

- The amount of the loan is limited to a level such that the institution should be able to cover the loan granted without difficulty until its final maturity, assuming no further new lending and an average annual early repayment rate.

- To avoid an excessive concentration of CRH's commitments with a single institution, and despite the effective pledging of a cover pool, the proportion of CRH's total lending that may be made to any one institution is capped at 40% of the total amount outstanding.

- The following are also regularly monitored:
  - CRH's new loans as a percentage of the borrowing institution's annual new borrowing,
  - CRH's loans as a percentage of the total assets of the borrowing institution and of the amount of its shareholders' equity,
  - CRH's loans to the borrowing institution as a percentage of the amounts reported by the latter to the ACPR,
  - the ratio of liabilities covered (including CRH's loans) to the total assets of the borrowing institutions.
- The actual decision as to whether or not to lend to an institution is taken by CRH's Senior Management.

### c) Credit risk mitigation mechanism

The aim of pledging home-purchase loans in France, up to at least 125% of the nominal amount of the mortgage notes, if the loans provided as collateral are fixed-rate loans, and 150% if the loans provided as collateral are variable-rate loans, is to enable CRH to fully protect itself against credit risk.

These loans must themselves be secured by a first residential mortgage or by a charge over real estate, offering an equivalent guarantee, or a guarantee given by a credit institution or insurance company with capital stock in excess of € 12 million which is not included in the consolidation scope of the institution to which the CRH loan is granted.

The criteria for selecting loans provided as collateral are governed by the provisions applicable to SCFs (*Sociétés de Crédit Foncier*: French mortgage loan companies complying with specific regulations), unless more stringent provisions have been defined by CRH. Thus, for each loan, restrictions have been introduced concerning the loan's residual maturity, which must be less than 25 years, and its unit amount, which may not exceed EUR 1 million.

The provisions of Article L. 313-49 of the French Monetary and Financial Code provide for a specific check by the ACPR. At the same time, CRH's Inspection Department carries out its own verifications. If ineligible loans are detected, then the amount of the pledged loans portfolio must be increased accordingly.

(In € billion)

Year	Mortgage notes (balance sheet value)	Amount of cover pool		Over-dimensioning rate	
		Gross	Net *	Gross	Net *
2015	41.4	59,3	54,8	43 %	32 %
2016	38.4	55,4	50,9	44 %	33 %

\* Estimated amount of cover pool excluding non-eligible notes.

### d) Use of credit derivatives

CRH does not use any credit derivatives.

### e) Investment of own funds

CRH's own funds were originally invested in demand deposits with an interest rate close to the daily money market rate. However, an active investment management approach is now adopted, albeit a very conservative one, as shown in the analysis tables below (which exclude accrued interest):

In € thousands

Breakdown per type of investment	31/12/15		31/12/16	
	Balance sheet	%	Balance sheet	%
Demand deposits	8 217	1.46	8 016	1.43
Term deposits	448 681	80.00	398 808	70.98
Negotiable debt instruments	104 000	18.54	155 000	27.59
<b>TOTAL</b>	<b>560 898</b>	<b>100.00</b>	<b>561 824</b>	<b>100.00</b>

Breakdown per counterparty	31/12/15				31/12/16			
	Number	Highest	Lowest	Average	Number	Highest	Lowest	Average
Credit institution	5	25.50%	2.07 %	24.06%	5	25.60%	4.45%	23.16%

In %

Breakdown per external rating as of December 31, 2016											
Standard & Poor's		Moody's						Fitch Ratings			
CT	LT	CT	LT	CT	LT	CT	LT	CT	LT	CT	LT
A-1	A	P-1	Aa3	P-1	A1	P-1	A2	F1	A+	F1	A
100%		25.00%		46.45%		28.55%		45.85%		54.15%	

In € thousands

Initial term of the investments excluding demand deposits and accrued interest	31/12/15	31/12/16
Three months or less	7 370	308
Three to six months	17 811	0
Six months to one year	5 000	0
One to two years	0	0
Two to three years	405 000	195 000
Over three years	117 500	358 500
<b>TOTAL</b>	<b>552 681</b>	<b>553 808</b>

Fixed rate/variable rate breakdown	31/12/15	31/12/16
Fixed rate	10 %	7 %
Variable rate*	90 %	93 %
<b>TOTAL</b>	<b>100 %</b>	<b>100 %</b>

\* EONIA or 3-month EURIBOR only

Average annual yield	2015:	0.60%	2016:	0.27%



## MARKET RISK

### 3.1.2. Interest rate risk

In accordance with CRH's articles of association and internal rules and regulations, CRH's borrowings and loans are perfectly matched in terms of interest rate and term. In addition, CRH requires that portfolios of pledged receivables that may therefore become its property in the event of borrower default also have the same interest rates and maturities as the related loans.

Furthermore, the minimum loan coverage of 125% imposed by CRH on its borrowers shields it to a large extent from any residual interest rate risk.

CRH has no market activities, and its articles of incorporation, amended in August 1999, forbid it to carry out any activity that is not strictly in line with its sole corporate purpose.

CRH's income corresponds to a technical balance between proceeds from the investment of own funds on the money market and general and administrative expenses. Any decrease in money market rates leads directly to a decrease in income and vice versa.

In € thousands

As of 31/12/16	Impact on pre-tax income over the next twelve months
Impact of a 2% increase in interest rates	+8 105
Impact of a 2% decrease in interest rates	-1 093

However, the conditions under which CRH currently operates do not expose it to any interest rate risk as regards its refinancing activities.

In € thousands

Residual term as of 31/12/16	Included in assets: mortgage notes (a)		Included in liabilities: bonds (b)		Net exposure before hedging (c) = (a) - (b)	
	Fixed rate	Variable rate	Fixed rate	Variable rate	Fixed rate	Variable rate
One year or less	7 296 408	0	7 296 408	0	0	0
One to two years	3 955 358	0	3 955 358	0	0	0
Two to five years	11 652 322	0	11 652 322	0	0	0
Over five years	15 220 554	0	15 220 554	0	0	0
<b>TOTAL</b>	<b>38 124 642</b>	<b>0</b>	<b>38 124 642</b>	<b>0</b>	<b>0</b>	<b>0</b>

### 3.1.3. Foreign exchange risk

CRH generally has no activity in foreign currencies. Since 2010, in addition to its issues in euro, CRH issues borrowings in Swiss francs (CHF). This type of transaction does not expose CRH to any foreign exchange risk, since CRH borrows in CHF, lends in CHF and receives, in the cover pool of loans that it grants, loans in CHF.

In € thousands

As of 31/12/16	Included in assets: mortgage notes (a)	Included in liabilities: bonds (b)	Foreign currency commitments (c)	Net position before hedging (d) = (a) – (b) +/- (c)
EUR	36 583 387	36 583 387	0	0
CHF	1 541 255	1 541 255	0	0
<b>TOTAL</b>	<b>38 124 642</b>	<b>38 124 642</b>	<b>0</b>	<b>0</b>

Financial year 2016	Impact on pre-tax income	
	10% increase	10% decrease
CHF	0	0

### 3.1.4. Equity risk

CRH's articles of incorporation prohibit it from buying equities. Similarly, CRH does not buy or sell on the credit derivatives market.

### 3.1.5. Liquidity risk

Under normal circumstances, due to its sole activity and the perfect matching in terms of maturity, interest rate and currency of the mortgage notes on the assets side of its balance sheet and the bonds on the liabilities side, CRH is not exposed to any liquidity risk.

In the event of borrower default on maturity of a loan, the provisions of the Company's internal rules and regulations and its articles of incorporation, which were amended to this effect in 1995 and 1999, enable CRH to call on its stockholders for cash advances equivalent to the amounts required for its operations. Such cash advances may not exceed 5% of the total loans outstanding.

If the amounts necessary for its operations exceed this limit, which would only happen if, in the medium term, one or two of the major French borrowing banks defaulted, then the other shareholder banks would be asked to lend the missing amounts to CRH. Shareholders are, in any event, required to contribute to CRH the equity mandated under applicable banking regulations.

The table providing a breakdown of mortgage notes and bonds by residual maturity, included in Chapter 11, Note 4 to the 2016 financial statements on page 96, illustrates this perfect matching.

CRH, in its capacity as a credit institution, is subject to the LCR reporting requirements vis-à-vis the European Central Bank.

In this regard, the provisions of Article 425-1 of Regulation (EU) No. 575/2013 of June 26, 2013 exempt CRH from the obligation to comply with the 75% cap on cash outflows corresponding to the servicing of its bonds, with cash inflows corresponding to the mortgage notes.

Normally:

- funds corresponding to interest payments on euro-denominated mortgage notes are received on the interest due date of the euro-denominated bonds, with the same maturity and interest rate,
- funds corresponding to interest payments on Swiss franc mortgage notes are received on the business day preceding the interest due date of the Swiss franc bonds, with the same maturity and interest rate,
- funds corresponding to the final maturities of euro and Swiss franc mortgage notes (principal and interest) are received five business days before the due date for repayment of the euro bonds and Swiss franc bonds with the same maturity and interest rate,
- funds received before maturity are deposited with the central bank or used in collateralised resale agreements of French government securities pending maturity,
- in addition, CRH usually maintains readily available liquidity to enable it to meet ad-hoc liquidity requirements, notably intra-day requirements.

Throughout 2016, CRH continued the implementation of the measures that it had taken during financial year 2015 in order to adjust to the level of the negative short-term interest rates following the launch of the quantitative easing (QE) program implemented by the European Central Bank:

- the funds corresponding to the interest maturities of the CHF-denominated mortgage notes are provisionally received on the maturity date of the interest due on the bonds in the same currency and with the same maturity and interest rate;
- 
- the liquidity that was theretofore readily available was invested in the amount of € 50 million in securities eligible for the Eurosystem's refinancing operations.

It is specified that CRH's bond issue agreements do not contain any default provisions, early repayment provisions or covenants.

## **INDUSTRIAL AND ENVIRONMENTAL RISKS**

### **3.1.6. Industrial and environmental risks**

Not applicable.

## LEGAL RISKS

### 3.1.7. Legal risks

#### 3.1.7.1. General legal risks

CRH operates in such a manner that it is not exposed to intellectual property risks or product marketing risks.

The legal risk associated with CRH's operations has in the past been widely audited internally by the risk committee and the rating agencies, and is still subject to regular review by CRH with the assistance of eminent legal experts.

At CRH'S request, specific provisions were added to the French Savings and Financial Security Act (*Loi Épargne et Sécurité Financière*) of June 25, 1999 to eliminate any uncertainty as to CRH's ownership rights over receivables pledged in the event that a borrower files for protection from creditors.

Furthermore, the validity of the surety granted to CRH by borrowing institutions is regularly verified through controls carried out on a test basis by the CRH audit and inspection department.

In order to avoid any conflict of laws, CRH does not accept otherwise eligible loans extended in other European Union countries.

#### 3.1.7. 2. Regulatory risks

As discussed above, the implementation of the new European Capital Requirements Regulation, which came into force on January 1, 2014, has hindered CRH's operations.

Nevertheless, CRH's regulatory status should not affect its ability to meet its obligations on issued bonds:

- Debt servicing is economically ensured by CRH's borrowing banks,
- CRH does not take any margin on its operations, and
- The issued bonds retain their European covered bond status.

## OPERATING RISKS

### 3.1.8. Operating risks

Since its inception in 1985, CRH never suffered any events giving rise to operating risks and has never therefore recognised any operating losses. Its highly specialised activity, which has modest requirements in terms of technical and human resources, enables it to be extremely adaptable to all types of unforeseen circumstances or events. Similarly, CRH benefits from the infrastructure put in place by its counterparties, being mostly major French credit institutions.

In 2009, CRH introduced a new procedure for servicing its debt, using directly the services of the Banque de France and Euroclear. This procedure greatly reduces operating risks by automating the settlement of amounts due to bondholders, thereby enabling CRH to fully focus on monitoring the timely receipt of amounts due from borrowers. In 2016, such procedure migrated to European platform Target2-Securities.

## **INTERNAL CONTROL**

### **3.2. INTERNAL CONTROL: (please refer to page 17 for the report of the Chairman of the Board of Directors on internal control and corporate governance)**

In accordance with the provisions of the ministerial decree of November 3, 2014 related to the internal control of enterprises belonging to the banking sector, the internal control system set up within CRH regularly gives rise to the preparation of the report submitted to the board of directors.

Internal control is also the responsibility of the risk committee and the audit committee. Indeed, the risk committee is responsible for supporting the board of directors in order to help it ascertain the quality of internal control, while the audit committee must verify the reliability of the financial information supplied to shareholders.

The internal control system is tailored to CRH's specific circumstances:

- it is first necessary to highlight the transparency of CRH's transactions, which give rise to the preparation of a prospectus and which are summarised in this registration document;
- CRH's transactions are strictly limited to its corporate purpose;
- such transactions are codified in its internal rules and regulations, which are signed by shareholders and published in the registration document;
- CRH has no foreign operations or subsidiary;
- because it has a small number of employees, responsibility for monitoring the consistency and effectiveness of the internal control system lies with Senior Management.

In addition, CRH's internal rules and regulations require CRH's departments to be audited regularly by the audit and inspection departments of its shareholders or by an audit firm appointed by the audit committee or by the risk committee.



## CHAPTER 4

### INFORMATION ABOUT THE ISSUER

#### 4.1. HISTORY AND DEVELOPMENT OF THE COMPANY - LEGISLATION

##### 4.1.1. Corporate name

Since August 10, 1999, the Company's corporate name has been "C.R.H. – Caisse de Refinancement de l'Habitat." Previously, the corporate name was "Caisse de Refinancement Hypothécaire."

The Company is usually referred to as "CRH," a trademark registered with INPI, the French trademarks and patents office, on February 23, 1999 under no. 99777102, renewed on September 29, 2008.

##### 4.1.2. Registration with the Commerce and Companies Registry

CRH is registered with the Paris Commerce and Companies Registry under number 333 614 980 - A.P.E. Code: 6492Z.

##### 4.1.3. Incorporation date – Term

The Company was formed for a term of 99 years commencing on October 8, 1985.

##### 4.1.4. Registered office – Legal form – Governing law – Other provisions of the articles of incorporation – General information concerning the Company's share capital

###### 4.1.4.1. Registered office

CRH's registered office is located at 35 rue La Boétie, 75008 Paris, France.

Telephone: + 33 (0)1 42 89 49 10 – Fax: + 33 (0)1 42 89 29 67 - Website: <http://www.crh-bonds.com> – e-mail address: [crh@crh-bonds.com](mailto:crh@crh-bonds.com).

###### 4.1.4.2. Legal form

Caisse de Refinancement de l'Habitat (CRH), a French corporation (*société anonyme*), is a specialised credit institution. Upon its formation, CRH was licensed to operate as a specialised financial company (*société financière spécialisée*) by virtue of the decision taken on September 16, 1985, by the French Credit Institutions Committee (*Comité des Établissements de Crédit*). CRH elected not to adopt the new status of financing company (*société de financement*) available to institutions that do not wish to be entirely governed by the regulatory framework for European credit institutions that came into force on January 1, 2014.

CRH is governed by the provisions of Articles L. 225 *et seq.* of the French Commercial Code and Articles L. 511-1. of the French Monetary and Financial Code.

Under the government-led mortgage market reforms, CRH's operations were authorised under Article 13 of Act No. 85-695 of July 11, 1985 in a letter dated September 17, 1985 from the French Ministry of the Economy, Finance and Budget.

CRH's articles of incorporation are in compliance with the European regulations concerning the separation of the offices of Chairman and Chief Executive Officer.

#### **4.1.4.3. Legislation and regulations**

##### **A) The laws and regulations applicable to CRH's transactions are as follows:**

- Article 13 of Act No. 85-695 of July 11, 1985, as supplemented by Article 36 of Act No. 2006-872 of July 13, 2006 (see Appendix 1);

- Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code codifying the provisions of Article 16 of Act No. 69-1263 of December 31, 1969, as amended by Articles 12 and 13 of Act No. 85-695 of July 11, 1985, by Article 113 of Act No. 99-532 of June 25, 1999 and by Article 16 of Ordinance No. 2008-556 of June 13, 2008 (see Appendix 2);

- Article L. 513-3 paragraph I concerning SCF (*Sociétés de Crédit Foncier*: French mortgage loan companies complying with specific regulations) (see Appendix 2);

- Article R. 214-21 of the French Monetary and Financial Code (see Appendix 3);

- Articles R. 313-20 to R. 313-25 of the French Monetary and Financial Code (see Appendix 3);

- the ministerial decree of February 17, 2014 amending the ministerial decree of December 23, 2013 on the application of Article 493 (3) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms (see Appendix 3);

- Regulation No. 99-10 of the French Banking and Financial Regulatory Committee on the valuation of the financed assets to be taken into account in determining the portion of a loan that may be collateralised (see Appendix 4);

- Regulation (EU) No. 575/2013 of the European Parliament and Council of June 26, 2013, hereinafter referred to as CRR;

- Directive 2013/36/EU of the European Parliament and Council of June 26, 2013.

##### **B) CRH's position with regard to banking regulations**

In consideration of the size of its balance sheet, CRH is subject to the direct prudential supervision of the European Central Bank.

Following the Supervisory Review and Evaluation Process (SREP) carried out by the ECB in 2015, the total minimum amount of CET1 phased for CRH was set at 9.75% effective from January 1, 2016. This requirement includes the capital conservation buffer.



The renewal of the SREP exercise over year 2016 led for CRH to the following requirements applicable from January 1, 2017

- The prudential requirement for own funds (10%) is increased by 0.25% of the risk-weighted assets.
- The composition of the own funds making it possible to meet prudential requirements is relaxed with the CET1 requirement being lowered from 9.75% to 7.50%.
- All other things remaining equal, with the increase of the conservation buffer comprised of CET1, the prudential requirement for own funds should be equal to 11.25 % of the risk-weighted assets as of January 1, 2019, including a CET1 ratio equal to 8.75%.
- Such increased requirement for own funds forms part of a general trend scheduled to strengthen financial stability and does not reflect any deterioration of CRH's risk profile.

CRH is not subject to any additional requirement imposed on systematically important financial institution, and its current situation does not induce any restriction or limitation as regards the payment of any dividends, coupons or variable compensation.

French authorities also decided in 2014 to maintain the principle of treating promissory notes held by CRH in the same way as legal covered bonds (Decree of the Minister for the Economy and Finance dated February 17, 2014 published in the official journal of February 26, 2014 and ACPR letter of February 18, 2014), without prejudice to the interpretation that could be made by relevant European banking authorities in their efforts to obtain convergence.

Such assimilation was not challenged by the European Central Bank during the last two SREP exercises in 2015 and 2016.

In order to limit its regulatory capital requirement, CRH has asked for these notes to be rated. Thus, more than 90% of the notes outstanding are rated, and only the notes issued by two institutions were not rated as of December 31, 2016.

All of the notes that CRH asked to be rated received a rating corresponding to credit quality step 1.

As a result, these notes are weighted at 10% in accordance with the provisions of Article 129 of the CRR Regulation.

As regards the treatment of the notes in the calculation of the major risks base:

- since January 1, 2014, the notes issued before December 31, 2013 are excluded from the major risks base in accordance with the aforementioned ministerial decree;

- henceforth, promissory notes will benefit until 2029 from the temporary waiver provided under Article 493-3 (e) of the CRR. When queried by the European Commission, the European Banking Authority recommended, in its report published on October 24, 2016, the survival of such exemption.

Anticipated changes in banking regulations include the recommended amendment to the CRR Directive, initiated by the European Commission, so that the CRR may in the future account for leverage ratio constraints and the NSFR long-term liquidity ratio constraints.

After approval of the final provisions by the European Parliament, such measures will come into effect no earlier than January 1, 2018 and no later than January 1, 2020.

### **C) Prudential recognition waiver for CRH bonds held by European credit institutions**

Article 36 of Act No. 2006-872 of July 13, 2006 awarded preferential status to bearers of CRH bonds. In accordance with the provisions of Article 13 of Act No. 85-695 of July 11, 1985, as amended by said Article 36, the amounts or values received in return for promissory notes held by CRH are now allocated, with preference and under all circumstances, to servicing the debt, i.e. the payment of the interest and principal on its bonds. This legislation also specifies that the provisions of Book VI of the French Commercial Code on distressed companies, as well as the provisions concerning all legal or amicable proceedings filed on the basis of foreign laws, do not constitute an obstacle to the exercise of this preferential claim. This legislation took immediate effect and applies to all bonds issued before and after the Act of July 13, 2006, with the preferential status legally established as a right in the absence of the grant of a State guarantee.

In a letter sent to the Delegate General of the ASF on October 31, 2006, the French Banking Authority indicated that CRH's bonds are subject to a risk-adjusted weighting of 10%, as is the case for covered bonds, and indeed appear comparable to legal covered bonds as defined in Directive 2006/48/EC (Text of the directive, Appendix 6, Part 1, Section 68).

Under the CRR Regulation, all legally covered bonds meeting the requirements of Article 129 CRR are treated equally, provided that their rating corresponds to credit quality step 1. The treatment of CRH bonds is therefore effectively unchanged at present in this regard.

### **D) Prudential recognition waiver for CRH bonds held by European UCITS**

Decree No. 2000-664 granted a waiver to CRH's bonds as provided under Article 4 of Decree No. 89-623 of September 6, 1989, corresponding to the provisions of Article 52.4 of the 1985 European UCITS Directive. This waiver allows a collective investment undertaking to invest up to 25% of its assets in CRH securities (if the value of securities benefiting from this waiver does not exceed 80% of its total assets). These provisions are codified in Article R. 214-21 of the French Monetary and Financial Code (see Appendix 3).

#### **4.1.4.4. Other provisions of the articles of incorporation**

##### **A) Corporate purpose**

CRH's corporate purpose consists in:

- refinancing promissory notes signed or endorsed by the shareholders or credit institutions committed to becoming shareholders according to the procedures set forth in Articles 6 to 9 of the articles of association in order to collateralise the receivables described in Article L. 313-42 of the French Monetary and Financial Code and representing home-purchase loans;

- issuing financial securities with characteristics comparable to the collateralised notes in consideration for the mortgage notes acquired;

- in general, entering into real estate and other transactions related to the purpose described above or any similar or related purpose, or any transactions likely to further such purpose.

Pursuant to Article 13 of Act No. 85-695 of July 11, 1985, CRH refinances, under restrictive conditions, certain home-purchase loans granted to individuals by credit institutions without charging any margin in respect of the said transactions.

Because of the total matching between the financial securities issued by CRH and the mortgage notes refinanced by it, CRH acts as a pass-through entity serving credit institutions. The company's purpose consists in promoting the housing finance sector, without seeking to achieve any profit and on a non-competitive basis.

The company refrains from holding any share interest or pursuing any activity not corresponding to its corporate purpose. In particular, the company refrains from incurring any debt unrelated to the said purpose.

However, CRH may incur debts characterized as own funds by prudential regulations. CRH may also, in case of default of a borrowing institution and subject to the Board of Directors' authorization, incur any debt required in view of prevailing circumstances.

#### **B) Financial year**

The financial year commences on January 1, and ends on December 31.

#### **C) Distribution of the net income provided by the articles of incorporation**

See Article 26 of the articles of incorporation in Appendix 5.

#### **D) Notice of general meetings**

See Article 22 of the articles of incorporation in Appendix 5.

#### **E) Attendance and representation at general meetings**

See Article 23 of the articles of incorporation in Appendix 5.

### **4.1.4.5. General information concerning the Company's share capital**

#### **A) Subscribed share capital**

The combined general meeting of shareholders convened on March 11, 2014 delegated to the Board of Directors the powers necessary in order to increase the share capital in one or more times from € 299,807,237.75 to a maximum amount of € 599,999,995.50 during the next five years.

During its meeting of April 29, 2014, the Board of Directors, after discussing the matter, decided to effect a first capital increase against cash contributions in a maximum amount of € 240,187,500 to be paid up (i) partly by way of set-off with the subordinated loans granted to CRH by the shareholders; and (ii) partly in cash.

On June 17, 2014, the Board of Directors noted the completion of the said capital increase.

Given the number of shares actually subscribed, i.e. 15,750,000 new shares, the subscribed share capital amounts to € 539,994,737.75, subdivided into 35,409,491 shares, with a par value of € 15.25 each.

None of these shares has been pledged.

CRH's shares are not listed on any stock exchange.

#### **B) Authorised share capital not subscribed**

As of December 31, 2016, the authorised share capital not subscribed amounted to € 60,005,257.75.

#### **C) Convertible bonds and other securities giving access to the share capital**

There is no convertible bond or composite investment security that may give, whether immediately or over time, access to CRH's share capital.

#### **D) Changes in capital structure**

Please refer to the five-year financial summary on page 16.

**E) Distribution of the share capital** (Excerpts from Article 6 of the articles of incorporation - see Appendix 5)

The number of shares to be held by each shareholder must be proportionate to the regulatory capital requirement related to the refinancing facilities granted by CRH to the said shareholder.

#### **F) Dividend policy**

The CRH shares are allocated among shareholders in accordance with the rules defined in the above paragraph. Accordingly, the considerations related to the dividend policy are irrelevant.

Dividends paid to each shareholder are summarised in the five-year financial summary on page 16.

The dividend limitation period is five years.

#### **4.1.5. Recent events specific to the issuer with a material impact on the assessment of its solvency**

Subject to the noting in the financial statements closed as of December 31, 2016 of the impact of the adding back of the regulated provision for risks related to medium- and long-term lending operations, no other recent event specific to CRH has had a material impact on the assessment of its solvency since December 31, 2016.

## **4.2. BOND ISSUES**

### **4.2.1. Issuance policy**

CRH refinances credit institutions by issuing bonds. CRH's bond issues are governed by Article 13 of Act No. 85-695 (see Appendix 1).

Since its inception, CRH has applied a policy of "assimilation" of its bonds to establish a large pool of very liquid securities. In general, the banks that place these securities make a market for them.

The largest European loan backed by home-purchase loans granted to individuals is now a CRH loan.

No issue was made in 2015. CRH repaid bonds in the amount of € 2,762 million upon contractual maturities and cancelled € 232 million in bonds that had been delivered to it in connection with the prepayment of mortgage notes. The amount outstanding of the CRH bonds was thus reduced in the amount of € 2,994 million.

CRH annual issuance amounts are summarised below:

Year	Number of issues in the year	Nominal amount (€ million)	
1985 (Q4)	2	551.87	25 Government-guaranteed issues totalling € 5,774.77 million
1986	6	1 506.20	
1987	8	1 783.65	
1988	9	1 933.05	
1988	1	152.45	212 issues without Government guarantees totalling € 84,722.09 million
1989	6	1 184.53	
1990	8	1 219.59	
1991	10	1 829.39	
1992	8	1 387.29	
1993	11	1 585.47	
1994	1	91.47	
1995	2	266.79	
1996	2	525.95	
1997	2	304.90	
1998 <sup>1</sup>	6	2 143.43	
1999 <sup>1</sup>	12	3 055.00	
2000	9	2 553.00	
2001	9	1 384.00	
2002	9	1 798.00	
2003	8	1 802.00	
2004	9	2 560.00	
2005	10	3 050.00	
2006	12	7 655.00	
2007	14	8 325.00	
2008	6	7 400.00	
2009	15	5 050.00	
2010 <sup>2</sup>	17	9 201.01	
2011 <sup>3</sup>	14	12 132.57	
2012 <sup>4</sup>	6	5 530.42	
2013 <sup>5</sup>	5	2 534.83	
2014	0	0	
2015	0	0	
2016	0	0	
<b>TOTAL</b>	<b>237</b>	<b>90 496.86</b>	<b>90 496.86</b>

<sup>1</sup> Including the public exchange offer during the course of the year.  
<sup>2</sup> Including the Swiss franc-denominated bond issue totalling CHF 250 million (EUR 186.01 million) settled on July 21, 2010.  
<sup>3</sup> Including the Swiss franc-denominated bond issues settled on:  
- March 29, 2011: CHF 625 million (EUR 482.36 million)  
- July 12, 2011: CHF 175 million (EUR 150.21 million)  
<sup>4</sup> Including the Swiss franc-denominated bond issues settled on:  
- March 5, 2012: CHF 625 million (EUR 518.20 million)  
- May 23, 2012: CHF 375 million (EUR 312.21 million)  
<sup>5</sup> Including the Swiss franc-denominated bond issues settled on:  
- March 15, 2013: CHF 200 million (EUR 162.50 million)  
- June 26, 2013: CHF 150 million (EUR 122.33 million)

Since CRH's inception, repayments have totalled € 52,294.01 million, bringing the total outstanding nominal amount to € 38,202.85 million.

#### 4.2.2. Bond issues completed during the financial year

As indicated in 4.2.1. above, no bond issues were carried out in 2016.

#### 4.2.3. CRH bond maturities as of December 31, 2016

Bond	Redemption date	ISIN code	Number of securities	Nominal unit value	Outstanding (in million)	Currency
CRH 3.50 % April 2017	25/04/2017	FR0010261495	4 860 000 000	1	4 860	EUR
CRH 1.125 % September 2017	21/09/2017	CH0184777255	40 000	5 000	200	CHF
CRH 4.50 % October 2017	25/10/2017	FR0010591578	2 275 000 000	1	2 275	EUR
CRH 4.00 % April 2018	25/04/2018	FR0010345181	3 975 500 000	1	3 975	EUR
CRH 1.625 % March 2019	05/03/2019	CH0148606079	55 000	5 000	275	CHF
CRH 5.00 % April 2019	08/04/2019	FR0010744904	2 793 000 000	1	2 793	EUR
CRH 1.375 % October 2019	25/10/2019	FR0011443985	710 000	1 000	710	EUR
CRH 3.75 % February 2020	19/02/2020	FR0010857672	2 000 000 000	1	2 000	EUR
CRH 3.50 % June 2020	22/06/2020	FR0010910240	2 100 000 000	1	2 100	EUR
CRH 3.90 % January 2021	18/01/2021	FR0010989889	1 880 750 000	1	1 881	EUR
CRH 2.50 % March 2021	29/03/2021	CH0125062262	105 000	5 000	525	CHF
CRH 3.60 % September 2021	13/09/2021	FR0011108976	1 500 000 000	1	1 500	EUR
CRH 4.00 % January 2022	10/01/2022	FR0011057306	2 091 700 000	1	2 092	EUR
CRH 1.875 % May 2022	23/05/2022	CH0184777271	35 000	5 000	175	CHF
CRH 4.00 % June 2022	17/06/2022	FR0011178946	2 000 000 000	1	2 000	EUR
CRH 3.30 % September 2022	23/09/2022	FR0010945451	2 200 000 000	1	2 200	EUR
CRH 4.30 % February 2023	24/02/2023	FR0011011188	2 900 000 000	1	2 900	EUR
CRH 1.375 % March 2023	15/03/2023	CH0204477290	40 000	5 000	200	CHF
CRH 3.90 % October 2023	20/10/2023	FR0011133008	1 381 325 000	1	1 381	EUR
CRH 2.375 % March 2024	05/03/2024	CH0148606137	70 000	5 000	350	CHF
CRH 3.60 % March 2024	08/03/2024	FR0011213453	2 500 000 000	1	2 500	EUR
CRH 2.40 % January 2025	17/01/2025	FR0011388339	1 500 000 000	1	1 500	EUR
CRH 1.75 % June 2025	26/06/2025	CH0212937244	30 000	5 000	150	CHF
<b>Total</b>					<b>36 667</b>	<b>EUR</b>
					<b>1 875</b>	<b>CHF</b>

Since the outset, substantially all of CRH's bonds have been issued at a fixed rate of interest. In accordance with the articles of incorporation, they are perfectly matched in terms of interest rate and maturity with the CRH loans.

The CRH bonds have been rated Aaa and AAA by Moody's and Fitch Ratings since 1999. These ratings were thus assigned well before the law granted their bearers a preferential claim on the mortgage notes held by CRH.

The CRH bonds meet the requirements of Article 129 of the CRR Regulations and are thus granted the benefit of the exemption set out in Article 52.4 of Directive 2009/65/EC.

Such bonds are regarded as “guaranteed” covered bonds within the meaning of European regulations, and, as such, a 10% risk weighting is assigned under the standardised approach for the calculation of the capital adequacy ratio of the European banking institutions that hold them.

CRH bonds are eligible for refinancing operations with the European Central Bank, which is currently an attractive characteristic for some of their buyers.

#### 4.2.4. Trading volumes

As the amounts of stock exchange trading transactions are not available, trading volume statistics provided by Euroclear France are given below. Such data include only Euroclear France members’ transactions and therefore exclude Euroclear Bank and Clearstream transactions. They correspond to trades, repos and other transfers.

In € million

Bond	First listing date	Isin code	Par value of trades in 2014	Par value of trades in 2015	Par value of trades in 2016
CRH 2.60 % April 2016	17/11/2010	FR0010962670	390.0	266.5	217.6
CRH 3.75 % December 2016	12/12/2008	FR0010697292	2 153.9	4 013.0	3 891.3
CRH 3.50 % April 2017	21/12/2005	FR0010261495	1 351.6	2 254.0	4 787.7
CRH 4.50 % October 2017	10/03/2008	FR0010591578	828.3	629.7	556.8
CRH 4.00 % April 2018	30/06/2006	FR0010345181	272.0	1 287.5	620.0
CRH 5.00 % April 2019	08/04/2009	FR0010744904	589.9	357.9	408.9
CRH 1.375 % October 2019	20/03/2013	FR0011443985	101.0	54.8	133.5
CRH 3.75 % February 2020	19/02/2010	FR0010857672	230.3	295.1	160.6
CRH 3.50 % June 2020	22/06/2010	FR0010910240	329.3	571.8	570.6
CRH 3.90 % January 2021	18/01/2011	FR0010989889	766.6	178.8	209.5
CRH 3.60 % September 2021	13/09/2011	FR0011108976	377.0	364.1	235.1
CRH 4.00 % January 2022	08/06/2011	FR0011057306	213.3	322.4	197.3
CRH 4.00 % June 2022	17/01/2012	FR0011178946	1 484.9	1 287.2	582.2
CRH 3.30 % September 2022	23/09/2010	FR0010945451	460.3	333.9	84.5
CRH 4.30 % February 2023	24/02/2011	FR0011011188	646.4	416.7	205.4
CRH 3.90 % October 2023	20/10/2011	FR0011133008	230.6	321.1	91.1
CRH 3.60 % March 2024	08/03/2012	FR0011213453	560.5	924.8	465.6
CRH 2.40 % January 2025	17/01/2013	FR0011388339	173.9	352.3	156.6
<b>TOTAL</b>			<b>11 159.8</b>	<b>14 231.6</b>	<b>13 574.3</b>

Even though it has become difficult at present to identify within these amounts the amounts pertaining solely to stock market transactions, and while aggregate amounts are not always comparable from one year to the next, these data show that the CRH bonds are among the most liquid on the European covered bond market. This situation is no doubt due to the size of CRH’s lines and to the CRH risk management system.



## CHAPTER 5

### BUSINESS OVERVIEW

#### 5.1. PRINCIPAL ACTIVITIES

##### 5.1.1. Company formation – Description of its business operations

###### 5.1.1.1. Company formation

CRH was established in 1985 as an agency as part of the French government's mortgage market reforms in order **to refinance home-purchase loans granted by credit institutions by issuing bonds guaranteed by the French government.**

###### 5.1.1.2. Operations

Since 1988, the bonds issued by CRH have not been guaranteed by the French government as provided for by the 1985 Act. However, CRH's sole purpose still consists in refinancing home-purchase loans granted by shareholder credit institutions for the purpose of financing assets located in France.

CRH thus brings resources to the French banking system complementing those derived from deposits and issues of covered or non-covered debt.

CRH thus plays a particular role in financing housing in France, by tapping into stable, non-monetary resources at a lower cost.

Act No. 99-532 of June 25, 1999 establishing SCFs (French mortgage loan companies compliant with specific regulations) buttressed the security of CRH and matched its scope of operations and eligibility criteria to those of SCFs. Act No. 99-532 eliminated the mortgage market and thus gave birth to a wider market for refinancing housing loans in which certain secured loans could also be refinanced.

Accordingly, in order to affirm the anchoring of its operations solely in the residential loan refinancing market, in 1999 CRH changed its corporate name to CRH – Caisse de Refinancement de l'Habitat.

The structure of its guarantees, the significance of refinancing needs expressed by its shareholders and the systematic bonds assimilation policy adopted by CRH have allowed it to become an important issuer on the European financial market, with a total amount issued since its founding (equal to the amount of its loans) of € 904 billion, corresponding to 237 transactions. The French Government used CRH as a model when establishing Société de Financement de l'Economie Française (SFEF) on October 17, 2008, to give banking institutions easier access to financial markets.

###### 5.1.1.3. Operating conditions

A) CRH's operations involve specific guarantees.

Appendix 9 (page 171) of this report summarises the various levels of security integrated into CRH's refinancing operations.

The refinancing loans granted by CRH are fully matched by its bond issues, because CRH lends all the capital raised on the financial markets to its shareholders at the same interest rates and maturities.

Principal and interest on such loans are secured by a specific pledge referred to in Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code which secures them up to at least 125% of their nominal value.

The above legal provisions set forth that CRH may automatically become the owner of the pledged portfolio in the event of borrower default, notwithstanding any provisions to the contrary.

CRH has strengthened the reliability of this system by setting stricter internal rules, especially by excluding, from the cover pool pledged to secure the loans, loans with maturities of more than 25 years, loans exceeding one million euro and RMBS.

**B) These guarantees are subject to audits**

1. Since January 1, 1988, the French Banking Authority (now renamed the French Prudential Supervision and Resolution Authority) is charged with monitoring the legal and regulatory compliance of refinancing operations (ministerial decree of the French Minister for the Economy, Finance and Budget of December 15, 1987, subsequently replaced by Article L. 313-49 of the French Monetary and Financial Code).

2. Under currently applicable provisions, borrowers are required to regularly provide lists of the receivables pledged to CRH to enable it to verify that the collateral has in fact been pledged in the agreed amounts.

3. CRH also conducts audits of its borrowers on a regular and as-needed basis to verify the existence, legality and validity of pledged receivables through sampling.

Where receivables are found to be ineligible, the borrowing institution is required to increase the amount of pledged assets to make up for the shortfall, or failing this, to purchase an equivalent amount of the corresponding bonds on the market and to deliver them to CRH by way of repayment.

### **5.1.2. New operations**

CRH's activities are limited by its articles of incorporation and the legislation governing its operations.

### **5.1.3. Principal markets**

CRH's sole activity consists in refinancing home-purchase loans extended by banks in France.

To that end, CRH issues mortgage bonds under Article 13 of Act No. 85-695 of July 11, 1985, with covered bond status as defined in Article 129 of the CRR Regulation. CRH bonds are traded on NYSE Euronext Paris under *Obligations foncières et titres assimilables* (real estate securities and assimilated securities).

## 5.2. REFINANCING

**Trends in the amount of loans granted and outstanding loans eligible for refinancing by CRH, and the home-purchase loan refinancing and real estate situation in France**

### 5.2.1. Change in the amount of extended loans

The table below summarises total lending by CRH over the past three years.

In € billion			
Financial year	2014	2015	2016
Amount of extended loans	0	0	0

### 5.2.2. Change in outstanding trends

The table below shows changes in the nominal value of total CRH outstanding loans since December 31, 2014.

In € million				
Borrowing credit institutions	As of 31/12/2014	As of 31/12/2015	As of 31/12/2016	As of 31/12/2016 (in %)
Crédit Agricole SA	13 081	11 289	10 103	26.5
Banque Fédérative du Crédit Mutuel	10 869	9 421	8 721	22.8
Société Générale	6 677	6 677	6 177	16.2
Crédit Lyonnais	4 778	4 228	4 228	11.0
BNP Paribas	4 184	2 801	2 801	7.3
Caisse Centrale du Crédit Mutuel	2 803	2 533	2 473	6.5
BPCE	3 022	2 801	2 253	5.9
Crédit Mutuel Arkéa	1 364	1 001	1 001	2.6
Crédit du Nord	645	445	445	1.2
GE Money Bank	211	0	0	0
<b>TOTAL</b>	<b>47 634</b>	<b>41 196</b>	<b>38 202</b>	<b>100</b>

As a general rule, changes in these levels reflect changes in the total value of loans granted and repayments made by the borrowers, either at final maturity or by early repayment under the terms of the agreement implemented in 1994.

### 5.2.3. Outstanding amounts eligible for CRH refinancing

As a consequence of legislative amendments enacted in 1999, mortgage market statistics are no longer published.

As a result, CRH has asked its shareholder credit institutions to submit copies of their quarterly SURFI reports (*Système Unifié de Reporting Financier*: Unified System of Financial Reporting) as a basis for estimating their outstanding eligible home-purchase loans.

The table below summarises these outstanding amounts:

As of September 30, 2016

	Total outstanding loans for all credit institutions	Outstanding loans of CRH shareholder credit institutions	
	in € billion(1)	in € billion(2)	% of total
Housing loans	1 226.6	842.6	69
Home purchase loans	983.5	770.1	78

(1) Source: Banque de France, Bulletin No. 208 – Q4 2016 and Webstat statistics.

(2) Source: CRH estimates based on SURFI returns communicated by shareholders – shareholder publications.

Groups holding shares of CRH thus hold 78% of all home-purchase loans.

#### 5.2.4. Refinancing of home-purchase loans extended by monetary financial institutions (other than the Banque de France)

The table below shows a few aggregated data:

As of September 30, 2016

In € billion

Application of funds by Monetary Financial Institutions		Sources of funds of Monetary Financial Institutions	
Home-purchase loans to households	983.5	Regulated sources (not including Livret A and Livret B savings accounts)	630.2
		Covered bonds - of which CRH 40.1	208.8
Other applications	7,455.8	Other sources - of which capital and reserves 579.0 - of which non-regulated deposits 1,159.2	7,600.3
<b>Total applications</b>	<b>8,439.3</b>	<b>Total sources</b>	<b>8,439.3</b>

**Source:**

This document is prepared on the basis of figures published by the Banque de France (Banque de France Bulletin November-December 2016, statistical supplement and Webstat database) and by covered bond issuers on their website.

As a general rule, it is of course difficult to match up specific sources of funds to a given application.

However, it is necessary to note the following:

- banks' regulated sources of funds contribute to a large extent to the financing of their housing loans,

- certain covered bonds refinance housing loans granted in France, but also mortgage loans to industrial and commercial companies, loans to the public sector and local and regional governments or shares in foreign debt securitisation funds and residential mortgage-backed securities (RMBS), whereas CRH refines only home-purchase loans granted in France.

### **5.3. DEVELOPMENT OF OUTSTANDING HOUSING LOANS IN FRANCE**

Total housing loan production for the first nine months of 2016 totalled € 107.8 billion, up 5% as compared with the same period in 2015.

Home-purchase loans outstanding rose by 3.5% between September 2015 and September 2016, at a clip virtually similar to that observed in preceding years (3.5% in 2015 and 2.7% in 2014).

After several years of price decrease, the French market for existing housing units, which is very heterogeneous according to the region concerned, shows signs of a slight recovery, which started mainly in Paris and in the Paris region.

The dynamism of the new housing market is explained by the survival of an attractive tax scheme for rental investments and by new rules governing the grant of supported loans (PAS and PTZ).

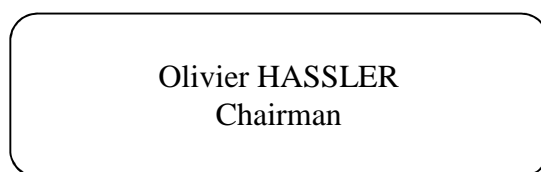
The continuing decrease in interest rates of real estate loans since 2009 generated an increased purchasing power for the new buyers entering the market and a new record level of renegotiations and loan redemptions for borrowers who already owned their housing unit.



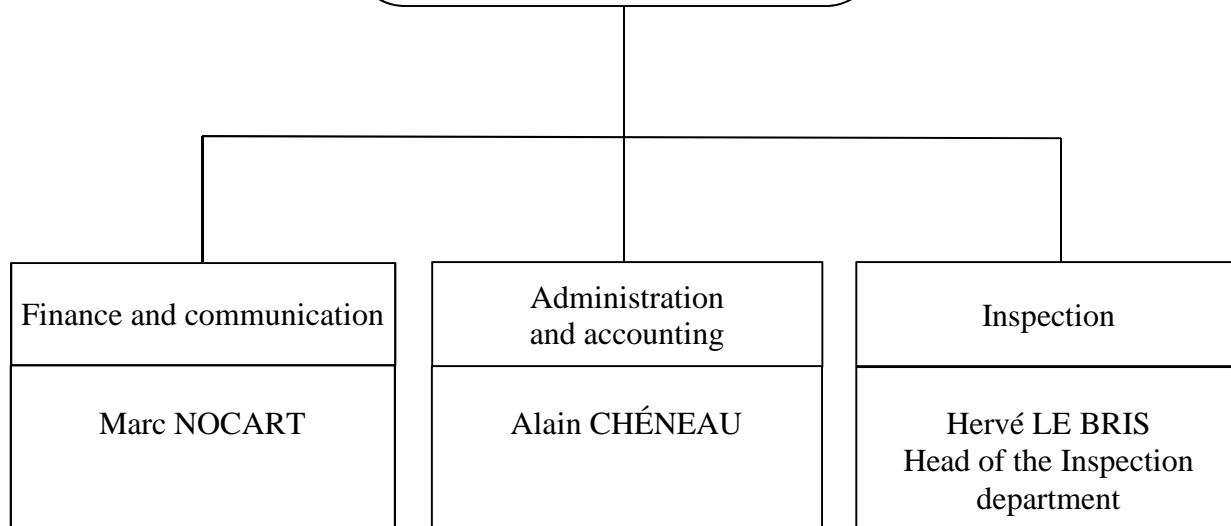
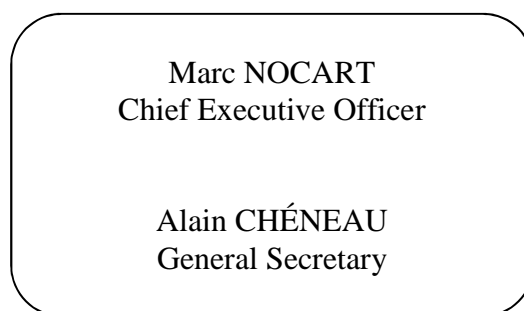
**CHAPTER 6**  
**ORGANISATIONAL STRUCTURE**

**6.1. ORGANISATION OF THE COMPANY**

**Board of Directors\***



**Executive Management**



CRH has no subsidiary and does not form part of any group.

**6.2 (NOT APPLICABLE)**

\* See the composition of the Board of Directors on page 77.





## **CHAPTER 7**

### **TREND INFORMATION**

#### **7.1. MAIN TRENDS THAT AFFECTED THE COMPANY'S BUSINESS OPERATIONS DURING FINANCIAL YEAR 2016**

It should be recalled that CRH does not take any margin on its operations and that any change in refinancing levels therefore has no direct impact on the Company's earnings or financial position.

No refinancing operation was carried out during financial year 2016, as CRH's activity was interrupted in 2013, with the implementation of European banking regulations as of January 1, 2014.

However, major progress was made in regulatory matters. This now makes it possible to contemplate a resumption of the Company's operations.

#### **7.2. MISCELLANEOUS TRENDS AND EVENTS LIKELY TO AFFECT THE COMPANY'S BUSINESS OPERATIONS DURING FINANCIAL YEAR 2017**

Throughout financial year 2017, CRH will continue its efforts aimed at an optimal stabilization of its regulatory framework. In any event, the resumption of operations will also depend on the potential demand for refinancing from shareholders or institutions that agree to become shareholders.



**CHAPTER 8**  
**PROFIT FORECASTS OR ESTIMATES**

This document does not contain any forward-looking data.

**8.1. (NOT APPLICABLE)**

**8.2. (NOT APPLICABLE)**

**8.3. (NOT APPLICABLE)**



## CHAPTER 9

### ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

#### 9.1. INFORMATION CONCERNING THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

##### 9.1.0. Honorary Chairmen

- Mr. Georges PLESCOFF (†)
- Mr. Claude PIERRE-BROSSELETTE
- Mr. Henry RAYMOND

##### 9.1.1. Board of Directors

- **Mr. Olivier HASSLER** Chairman  
Appointment as Chairman renewed on 20/03/2017 for a term of one year  
First appointment as Chairman on 17/03/2015 for a term of one year  
First appointment as Director on 17/03/2015 for a term of 6 years.
- **Mr. Henry RAYMOND** Chairman and Chief Executive Officer (until 31/08/2016)  
Appointment on 13/03/2007  
First appointment as Director on 13/03/2007 for a term of office of 6 years, renewed for 6 years on 28/02/2013.  
Director (since 01/09/2016)
- **Banque Fédérative du Crédit Mutuel** Director  
represented by Mr. Christian ANDER  
Treasury and Refinancing Director  
6 avenue de Provence – 75009 PARIS  
First appointed by co-option of Compagnie Financière de CIC et de l'UE by the Board of Directors during its meeting of 17/10/1995, confirmed on 27/02/1996 as regards CIC, confirmed on 04/03/2008 for 5 years, i.e. the residual term of CIC, resigning Director, term of office renewed for six years on 28/02/2013.
- **BNP Paribas** Director  
represented by Ms. Valérie BRUNERIE  
Head of Medium and Long-term Financing and Securitisation  
3 rue d'Antin – 75002 PARIS  
First appointed on 21/10/1985 by Banque Nationale de Paris  
Appointment renewed for 6 years on 17/03/2015.

- BPCE** Director  
represented by Mr. Roland CHARBONNEL  
Issues and Reporting Director  
50 avenue Pierre Mendès France – 75013 PARIS  
First appointment of Caisse Centrale des Banques Populaires on 21/10/1985,  
Appointment confirmed on 02/03/2010 for 5 years, i.e. the remainder of the term of the resigning Banque Fédérale des Banques Populaires, appointment renewed for 6 years on 17/03/2015.
- Caisse Centrale du Crédit Mutuel** Director  
represented by Ms. Sophie OLIVIER  
Head of the Retail Market Division  
88/90 rue Cardinet – 75017 PARIS  
First appointed on 10/04/1990,  
appointment renewed for six years on 17/03/2015.
- Crédit Agricole SA** Director  
represented by Ms. Nadine FEDON  
Head of Group Funding  
12 place des États Unis – 92127 MONTROUGE CEDEX  
First appointment of Caisse Nationale de Crédit Agricole on 12/05/1987,  
appointment renewed for six years on 17/03/2015.
- Crédit Lyonnais** Director  
represented by Mr. Christian LARRICQ-FOURCADE  
Assets and Liabilities Manager  
10 avenue de Paris – 94800 VILLEJUIF  
First appointment on 19/04/1988,  
appointment renewed for six years on 17/03/2015.
- Société Générale** Director  
represented by Mr. Vincent ROBILLARD  
Group Funding Manager  
17 cours Valmy – 92972 PARIS LA DÉFENSE CEDEX  
First appointed on 21/10/1985,  
appointment renewed for six years on 17/03/2015.

### 9.1.2. Executive Management

- |  |  |                         |
|--|--|-------------------------|
| - Mr. Marc NOCART<br>appointed on 01/09/2016<br>electing address for service at the Company's registered office. |  | Chief Executive Officer |
| - Mr. Alain CHÉNEAU<br>electing address for service at the Company's registered office.                          |  | General Secretary       |

### 9.1.3. Audit Committee

- |                                  |          |                                    |
|----------------------------------|----------|------------------------------------|
| - Mr. Christian LARRICQ-FOURCADE | Chairman | Crédit Lyonnais                    |
| - Mr. Christian ANDER            |          | Banque Fédérative du Crédit Mutuel |
| - Mr. Olivier HASSLER            |          | Chairman of CRH                    |

### 9.1.4. Risk Committee

- |                                  |          |                                    |
|----------------------------------|----------|------------------------------------|
| - Mr. Christian LARRICQ-FOURCADE | Chairman | Crédit Lyonnais                    |
| - Mr. Christian ANDER            |          | Banque Fédérative du Crédit Mutuel |
| - Mr. Olivier HASSLER            |          | Chairman of CRH                    |

### 9.1.5. Compensation Committee

- |                         |  |                                  |
|-------------------------|--|----------------------------------|
| - Ms. Sophie OLIVIER    |  | Caisse Centrale du Crédit Mutuel |
| - Ms. Nadine FEDON      |  | Crédit Agricole SA               |
| - Mr. Vincent ROBILLARD |  | Société Générale                 |

### 9.1.6. Appointments Committee

- |                         |  |                                  |
|-------------------------|--|----------------------------------|
| - Ms. Sophie OLIVIER    |  | Caisse Centrale du Crédit Mutuel |
| - Ms. Nadine FEDON      |  | Crédit Agricole SA               |
| - Mr. Vincent ROBILLARD |  | Société Générale                 |

### 9.1.7. Other positions held by corporate officers in 2016

- |                     |                             |
|---------------------|-----------------------------|
| Mr. Olivier HASSLER | - No other corporate office |
| Mr. Henry RAYMOND   | - No other corporate office |
| Mr. Marc NOCART     | - No other corporate office |

- Mr. Christian ANDER
- Chief Executive Officer of Crédit Mutuel-CIC Home Loan SFH
  - Member of the Supervisory Board of CIC IBERBANCO
  - Member of the Board of Directors of CM-CIC Asset Management
  - Member of the Board of Directors of CM-CIC Bail
- Ms. Valérie BRUNERIE
- Director of Société de Financement de l'Économie Française
  - Director and Chairman and Chief Executive Officer of BNP Paribas Home Loan SFH
  - Director and Deputy Chief Executive Officer of BNP Paribas Public Sector SCF
- Mr. Roland CHARBONNEL
- Director of Société de Financement de l'Économie Française
  - Chairman of the Board of Directors of Banques Populaires Covered Bonds
  - Chief Executive Officer of BPCE – SFH
- Ms. Sophie OLIVIER
- No other corporate office
- Ms. Nadine FEDON
- Director of Société de Financement de l'Économie Française
  - Director and Chief Executive Officer of Crédit Agricole Home Loan SFH
  - Director and Chief Executive Officer of Crédit Agricole Public Sector SCF
  - Director of European DataWarehouse (EDW)
- Mr. Christian LARRICQ-FOURCADE
- No other corporate office



Mr. Vincent ROBILLARD

- Director of Société de Financement de l'Économie Française
- Director and Deputy Chief Executive Officer of Société Générale SCF
- Director and Deputy Chief Executive Officer of Société Générale SFH
- Member of the Supervisory Board of Société Générale LDG
- Vice-Chairman of SGIS

## **9.2. CONFLICTS OF INTEREST AT THE LEVEL OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES**

Article 21 of the CRH articles of incorporation provides for dilution of the voting rights attached to the shares in order to maintain CRH's independence.

To the best of CRH's knowledge, no member of the administrative, management or supervisory bodies has any conflict of interest between duties to the Company and private interests and/or other duties.

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## CHAPTER 10

### MAJOR SHAREHOLDERS

#### 10.1. IDENTIFICATION OF THE SHAREHOLDERS OR GROUPS OF SHAREHOLDERS HOLDING MORE THAN 3% OF THE VOTING RIGHTS

The share capital is reallocated each year before March 31, so as to ensure that each shareholder holds a percentage equal to proportionated of its contribution in the total capital requirement in connection with the facilities granted by CRH. (see Article 6 of the articles of association in Appendix 5). Such allocation is made based on the amounts at December 31, of the previous financial year.

The table below lists the principal shareholders as of December 31, 2016 and changes in ownership structure over the past three years.

Shareholder Groups	As of December 31, 2014				As of December 31, 2015				As of December 31, 2016			
	Number of shares	%	Number of voting rights (1)	%	Number of shares	%	Number of voting rights (1)	%	Number of shares	%	Number of voting rights (1)	%
Crédit Mutuel	11 129 936	31.48	2 020	29.19	13 111 906	37.02	2 636	36.34	13 040 027	36.7	2 565	36.5
Crédit Agricole	13 372 618	37.76	2 086	30.15	12 211 611	34.49	2 033	28.03	12 289 482	34.7	2 058	29.3
Société Générale	5 034 264	14.15	1 153	16.66	5 023 631	14.19	1 153	15.89	5 651 507	16.0	1 149	16.4
BNP Paribas	3 386 746	9.59	956	13.82	2 852 339	8.06	806	11.11	2 214 520	6.3	626	8.9
BPCE	2 338 701	6.61	661	9.55	2 063 686	5.83	583	8.04	2 213 953	6.3	626	8.9
Other shareholders	147 226	0.41	43	0.63	146 318	0.41	43	0.59	2	0.0	2	0
<b>Total</b>	<b>35 409 491</b>	<b>100.00</b>	<b>6 919</b>	<b>100.00</b>	<b>35 409 491</b>	<b>100.00</b>	<b>7 254</b>	<b>100.00</b>	<b>35 409 491</b>	<b>100.00</b>	<b>7 026</b>	<b>100.00</b>

(1) For the calculation of the voting rights, please refer to Article 23 of the articles of incorporation in Appendix 5.

#### 10.2. SHAREHOLDER AGREEMENTS

CRH is not aware of the existence of any shareholder agreement.



## CHAPTER 11

### FINANCIAL INFORMATION ON THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

#### 11.1. HISTORICAL FINANCIAL INFORMATION

##### 11.1.1. Accounting standards

As regards the implementation of International Financial Reporting Standards (IFRS), CRH queried, through its statutory auditors, the French National Association of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes* – CNCC) as to whether CRH would be subject to these standards. The response given on 17 May 2004 by CNCC was submitted to the AMF by CRH and reads as follows:

*With regard to the requirements of Regulation No. 1606/2002 of the European Parliament, only companies raising capital through public offerings and publishing consolidated financial statements are required to prepare these statements in accordance with international accounting standards.* [Translated from French]

The extension of this requirement to the annual financial statements of companies raising capital through public offerings is up to each Member State of the European Union.

At the date of this document, relevant French authorities have not introduced any option or special requirement for companies raising capital through public offerings and not publishing any consolidated financial statements.

The provisions of Ordinance No. 2004-1382 of December 20, 2004 on the adaptation of French legislation to EU provisions in the area of accounting regulations do not include the possibility under EU regulations of authorising or requiring the use of international accounting standards for company financial statements. Therefore, CRH need not publish its annual financial statements in accordance with international accounting standards.

No changes in accounting methods affected the financial statements for the financial year 2016.

The provisions adopted by the French Accounting Standards Authority (*Autorité des Normes Comptables* - ANC) and whose application was mandatory in 2016 did not have a material impact on the financial statements.

##### 11.1.2. Financial statements submitted for approval to the combined general meeting of March, 20 2017

## BALANCE SHEET

In € thousands

ASSETS	Note	31/12/16	31/12/15	31/12/14
<b>CASH, CENTRAL BANKS</b>		<b>122</b>	<b>1</b>	<b>1</b>
<b>LOANS AND ADVANCES TO CREDIT INSTITUTIONS</b>		<b>406 954</b>	<b>457 848</b>	<b>506 312</b>
- Demand deposits		8 016	8 218	57 652
- Term deposits	4	398 808	448 681	447 722
- Accrued interest		130	949	938
<b>BONDS AND OTHER FIXED INCOME SECURITIES</b>		<b>39 214 521</b>	<b>42 146 403</b>	<b>48 574 497</b>
- Investment securities	3-4	38 124 642	41 079 544	47 491 960
- Short-term investments	4	155 000	104 000	60 000
- Accrued interest		934 879	962 859	1 022 537
<b>EQUITY HOLDINGS AND OTHER LONG-TERM SECURITIES</b>		<b>8</b>	<b>8</b>	<b>4</b>
<b>INTANGIBLE FIXED ASSETS</b>		<b>4</b>	<b>1</b>	<b>8</b>
<b>TANGIBLE FIXED ASSETS</b>		<b>22</b>	<b>27</b>	<b>37</b>
- Office furniture		1	1	1
- Fittings		16	18	20
- Miscellaneous equipment		5	7	8
- Office equipment		0	1	8
<b>OTHER ASSETS</b>	5	<b>4 564</b>	<b>3 942</b>	<b>103</b>
<b>PREPAYMENTS AND ACCRUED INCOME</b>		<b>87</b>	<b>105</b>	<b>117</b>
<b>TOTAL</b>		<b>39 626 282</b>	<b>42 608 335</b>	<b>49 081 079</b>

## BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY	Before distribution			In € thousands
	Note	31/12/16	31/12/15	31/12/14
<b>CENTRAL BANKS</b>		<b>120</b>	<b>0</b>	<b>0</b>
- Accrued interest		120	0	0
<b>DEBT SECURITIES</b>		<b>39 059 486</b>	<b>42 042 326</b>	<b>48 514 374</b>
- Bond issues	<b>3-4</b>	38 124 642	41 079 544	47 491 960
- Accrued interest		934 844	962 782	1 022 414
<b>OTHER LIABILITIES</b>	<b>5</b>	<b>1 794</b>	<b>138</b>	<b>168</b>
<b>PREPAYMENTS AND ACCRUED INCOME</b>		<b>302</b>	<b>294</b>	<b>301</b>
<b>PROVISIONS</b>	<b>6</b>	<b>311</b>	<b>253</b>	<b>374</b>
<b>SUBORDINATED DEBT</b>		<b>0</b>	<b>0</b>	<b>877</b>
- Subordinated loans		0	0	0
- Accrued interest		0	0	877
<b>FUNDS FOR GENERAL BANKING RISKS (FRBG)</b>	<b>6-7</b>	<b>1 700</b>	<b>2 812</b>	<b>2 812</b>
<b>SHAREHOLDERS' EQUITY EXCLUDING FUNDS FOR GENERAL BANKING RISKS</b>				
	<b>7</b>	<b>562 569</b>	<b>562 512</b>	<b>562 173</b>
- Subscribed share capital		539 995	539 995	539 995
- Share premium		17 820	17 820	17 820
- Statutory reserves		3 253	3 236	3 208
- Other reserves		1 122	1 122	605
- Retained earnings		322	0	0
- Net income for the year		57	339	545
<b>TOTAL</b>		<b>39 626 282</b>	<b>42 608 335</b>	<b>49 081 079</b>

## OFF-BALANCE SHEET COMMITMENTS

In € thousands

<b>COMMITMENTS RECEIVED</b>	<b>Note</b>	<b>31/12/16</b>	<b>31/12/15</b>	<b>31/12/14</b>
<b>FINANCING COMMITMENTS RECEIVED FROM CREDIT INSTITUTIONS</b>	<b>8</b>	<b>1 910 143</b>	<b>2 059 841</b>	<b>2 381 691</b>
<b>GUARANTEES RECEIVED FROM CREDIT INSTITUTIONS</b>	<b>9</b>	<b>55 416 976</b>	<b>59 348 485</b>	<b>68 594 152</b>



## INCOME STATEMENT

In € thousands

	Note	31/12/16	31/12/15	31/12/14
<b>+ Interest and assimilated income</b>	10	<b>1 543 601</b>	<b>1 738 017</b>	<b>1 925 818</b>
- on transactions with credit institutions				
. demand deposits		-35	-4	59
. term accounts and loans		1 585	3 242	3 863
. securities received under collateralised rev. repos		0	0	0
- on bonds and other fixed-income securities				
. short-term investments		221	383	408
. investment securities		1 541 830	1 734 396	1 921 488
<b>- Interest and assimilated expenses</b>	10	<b>-1 542 384</b>	<b>-1 734 882</b>	<b>-1 922 822</b>
- on transactions with credit institutions				
. subordinated loans		0	0	-877
. advances granted under § 5.3 of CRH's internal rules		0	0	0
- on bonds and other fixed-income securities				
. accrued interest		-1 541 830	-1 734 396	-1 921 488
. issuance and management fees		-554	-486	-457
<b>+/- Translation differences</b>	10	<b>0</b>	<b>0</b>	<b>0</b>
<b>+/- Commissions</b>	10	<b>755</b>	<b>-3</b>	<b>-4</b>
<b>+/- Other income and expenses from banking operations</b>	10	<b>329</b>	<b>232</b>	<b>538</b>
<b>NET BANKING INCOME</b>	10	<b>2 301</b>	<b>3 364</b>	<b>3 530</b>
<b>- General operating expenses</b>	11	<b>-9 568</b>	<b>-7 316</b>	<b>-2 637</b>
- Payroll expenses		-1 430	-1 348	-1 348
- Other administrative expenses				
. taxes other than income tax		-7 537	-5 279	-543
. external services		-601	-689	-746
<b>- Depreciation, amortisation and provision expenses related to intangible and tangible fixed assets</b>	11	<b>-29</b>	<b>-25</b>	<b>-22</b>
<b>+ Other operating income</b>		<b>10 614</b>	<b>7 140</b>	<b>0</b>
<b>GROSS OPERATING INCOME</b>		<b>3 318</b>	<b>3 163</b>	<b>871</b>
<b>+/- Cost of risk</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>OPERATING INCOME</b>		<b>3 318</b>	<b>3 163</b>	<b>871</b>
<b>+/- Gains or losses on fixed assets</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>NET INCOME FROM ORDINARY OPERATIONS</b>		<b>3 318</b>	<b>3 163</b>	<b>871</b>
<b>+/- Non-recurring items</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>- Income tax</b>	13	<b>-4 373</b>	<b>-2 824</b>	<b>-326</b>
<b>+/- Expenses/reversals related to the FRBG and regulated provisions</b>		<b>1 112</b>	<b>0</b>	<b>0</b>
<b>NET INCOME</b>		<b>57</b>	<b>339</b>	<b>545</b>

## STATEMENT OF NET CASH FLOW

in € thousands	As of 31/12/16	As of 31/12/15	As of 31/12/14
<b>Cash flow from operating activities</b>			
<b>Net income before taxes</b>	<b>4 280</b>	<b>3 163</b>	<b>871</b>
Non-cash items:			
Net depreciation and amortisation expenses	29	25	22
Net charge to other provisions	58	-121	156
Net charge to the FRBG	-1 112	0	0
Other non-cash items	1 009	-838	-797
<b>Total non-cash items included in net income and other adjustments</b>	<b>-16</b>	<b>-934</b>	<b>-619</b>
Changes in transactions with credit institutions:			
Increase in term deposits and negotiable debt securities	-446 804	-192 186	-238 489
Term deposits having reached maturity	445 677	147 226	174 807
Changes in non-financial assets and liabilities:			
Other assets	-622	-3 436	67
Other liabilities	161	-29	-82
Taxes paid	-2 729	-3 228	-368
<b>Net change in assets and liabilities from operating activities</b>	<b>-4 317</b>	<b>-51 653</b>	<b>-64 065</b>
<b>Net cash flow used in operating activities (A)</b>	<b>-53</b>	<b>-49 424</b>	<b>-63 813</b>
<b>Cash flow from investing activities</b>			
Acquisitions of tangible fixed assets	0	-2	-10
Acquisitions of intangible and financial fixed assets	-28	-10	-10
<b>Net cash flow used in investing activities (B)</b>	<b>-28</b>	<b>-12</b>	<b>-20</b>
<b>Net cash flow from financing activities</b>			
Capital increase in cash	0	0	62 042
Proceeds from bond issues	0	0	0
Bond repayments	-2 762 240	-6 206 012	-4 095 000
Acquisition of investment securities (mortgage notes)	0	0	0
Investment securities having reached maturity	2 762 240	6 206 012	4 095 000
Proceeds from subordinated bond issues	0	0	0
Repayment of subordinated debt	0	0	-107
Dividends paid	0	0	0
<b>Net cash from financing activities (C)</b>	<b>0</b>	<b>0</b>	<b>61 935</b>
<b>Impact of changes in exchange rates (D)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash flow (A + B + C + D)</b>	<b>-81</b>	<b>-49 436</b>	<b>-1 898</b>
Net cash and cash equivalents at the beginning of the period	8 218	57 654	59 552
Net cash and cash equivalents at the end of the period	8 137	8 218	57 654
<b>NET CHANGE IN CASH POSITION</b>	<b>-81</b>	<b>-49 436</b>	<b>-1 898</b>

## APPENDIX

### ***PRESENTATION OF THE FINANCIAL STATEMENTS, ACCOUNTING POLICIES AND VALUATION METHODS***

#### **NOTE 1 - Presentation of the financial statements**

CRH's annual financial statements are prepared and presented in accordance with the provisions of Regulation No. 2014-07 of the French Accounting Standards Authority (*Autorité des Normes Comptables*– ANC) related to the financial statements of enterprises of the banking sector.

#### **NOTE 2 – Accounting principles and valuation methods**

##### ***A – Foreign exchange transactions***

CRH's foreign exchange transactions are recognised in accordance with Regulation No. 2014-07 referred to above. Therefore, as an exception to the provisions of Article L. 123-22, paragraph 1 of the French Commercial Code, the accounting documents related to the recording of foreign exchange transactions are prepared in each of the currencies concerned.

CRH does not take any foreign exchange positions.

CRH carries out refinancing transactions using mortgage notes in Swiss francs (CHF) guaranteed by home-purchase loans in CHF, by issuing bonds in CHF for the same amount.

These transactions are perfectly matched, since the translation differences on the mortgage notes are recognised in a symmetrical manner in respect of the differences recognised on the bonds.

##### ***B – Issued bonds***

Bonds issued are recorded at their issue price in an account entitled “Debt securities”. When the issue price differs from the redemption price, the difference is amortised using the actuarial method.

Actuarial amortisation is non-straight-line amortisation computed using the effective interest rate. The effective interest rate is the discount rate used to ensure that the book value of a financial instrument and the discounted cash flow generated until its maturity are the same.

Yearly actuarial amortisation is equal to the difference between the cash flow of the period, calculated on the basis of the nominal rate, and the actuarial cash flow computed by applying the effective interest rate to the actuarial amortised price obtained at the end of the previous computation period.

As regards bonds issued in CHF, on each closing date:

- the bonds' issue prices, adjusted for actuarial amortisation of the issue premiums, are translated using the CHF historical exchange rate on the settlement date of each issue.

- accrued interest payable on these bonds is translated at the CHF spot rate and recognised in the income statement.

- amounts due (interest, repayment) are recognised at the rate prevailing on each of these settlements. A technical currency gain or loss is then recognised in the income statement.

Each bond issue has its own costs. Bond issuance costs are split between new issue costs (issuance fees, AMF fees, listing costs, advertising costs) and costs pertaining to the management of outstanding bonds (financial services, securities services, annual listing fee paid to NYSE Euronext, rating).

Regardless of their nature, all such expenses are recharged to borrowers. New issue costs are charged to borrowers in proportion to their share in each new issue, with payment due immediately. Other expenses are charged annually in proportion to the borrowers' interest in each outstanding issue.

### ***C – Securities transactions***

The term “Securities transactions” applies to securities, French Treasury notes and other negotiable debt instruments, interbank market instruments, and in general all debt represented by securities admitted to trading on a market.

Securities are classified in the annual financial statements according to the fixed or variable nature of the related income, whereas the accounting classification is based on the purpose for which the securities were acquired or placed.

The securities portfolio held by CRH is mainly comprised of fixed-income securities: the mortgage notes subscribed by the shareholders. CRH may incidentally hold negotiable debt instruments corresponding to the investment of cash for periods generally not exceeding two years.

Mortgage notes are recorded as investment securities. Indeed under Regulation No. 2014-07 referred to above, they are intended to be held to maturity and are financed through matching and earmarked bond issues. Maturities and interest rates for the notes and the bonds are identical, and thus the acquisition price of mortgage notes on the assets side of the balance sheet is equal to the issue value of the bonds on the liabilities side.

When the acquisition price differs from the redemption price, the difference is amortised using the actuarial method under exactly the same terms and conditions as for the bonds.

As regards mortgage notes in CHF, on each closing date:

- the notes' acquisition price, adjusted for actuarial amortisation, is valued on the basis of the CHF's historical exchange rate as of the date of the acquisition

- accrued interest receivables on such notes is valued on the basis of the CHF spot rate and recognised in the income statement

- amounts due (interest, repayment) are recognised on the basis of the exchange rate prevailing on the day of each of the payments. A technical foreign currency gain or loss is then recognised in the income statement.

Disposals of investment securities are limited to early redemptions of mortgage notes, by delivery of matching bonds by the stockholders involved, or by the acquisition of the matching bonds by CRH as part of a public exchange offer. In the case of public exchange offers, as a consideration for such disposals, CRH acquires new mortgage notes matching the related bonds offered. These disposals have no impact on CRH's earnings.

Negotiable debt instruments are recognized as short-term investments.

#### ***D – Loans and advances to credit institutions***

Loans and advances to credit institutions include all loans and advances held in respect of banking operations, with the exception of those represented by a security. Loans and advances to credit institutions are stated on the balance sheet at their face value or acquisition cost in the case of loans and advances purchased, plus any accrued interest not yet due and net of provisions recognised in respect of credit risk.

CRH has not recognised any provisions in respect of credit risk.

#### ***E – Funds for general banking risks***

In accordance with applicable regulations, amounts have been allocated to these funds in earlier financial years, by means of a regulated provision for risks related to medium and long-term lending operations, in order to cover the general risks associated with CRH's lending operations.

The decision to maintain such provision on the balance sheet was challenged by French tax authorities at the beginning of 2017 prior to the final closing of the financial statements for financial year 2016.

As a consequence, as of December 31, 2016:

- The regulated provision for risks related to medium and long-term lending operations was fully reversed.

In accordance with Regulation No. 2014-07 issued by the French Accounting Standards Authority in relation to the financial statements of enterprises belonging to the banking sector, an amount of € 1.7 million was allocated to the funds for general banking risks having regard to the particular risks inherent in the company's banking operations.

#### ***F – Equity holdings and other long-term securities***

In accordance with the provisions of Article L. 312-4 of the French Monetary and Financial Code, CRH is a member of the Deposit Guarantee Fund. The corresponding membership certificate is recognised in equity holdings and other long-term securities.

#### ***G – Fixed assets***

Under the accounting regulations for fixed assets (CRC Regulations No. 2002-10 and 2003-12), fixed assets are recognised on the balance sheet at their historical acquisition cost. Depreciation and amortisation schedules are calculated on the basis of the rates approved by the tax authorities.

Intangible fixed assets consist of software amortised on a straight-line basis over 12 months.

Tangible fixed assets are depreciated on a straight-line or declining-balance basis, depending on their expected useful life:

- office furniture	10 years	straight-line
- fittings	5 to 15 years	straight-line
- office equipment	5 to 10 years	straight-line and declining balance for tax purposes
- IT equipment	3 years	declining balance for tax purposes

#### ***H – Other assets and liabilities***

Other assets may consist of payments on account of tax, deductible VAT, security deposits, costs and taxes to be recovered, salary advances to staff and interim dividends.

Other liabilities may consist of amounts due to tax, social security and other welfare bodies, VAT collected, trade payables, remuneration due to staff, dividends due to shareholders, bonds and other fixed-income securities issued by the institution, amortised and not yet repaid, and coupons in respect of securities issued by the institution and which are due but still remain to be paid.

#### ***I- Retirement benefits***

The benefits to which CRH employees are entitled upon retirement are paid by the French social security system, with a complementary portion paid by third-party bodies managing the distribution of contributions made.

The employer's share of such contributions is expensed each year as incurred. In addition, CRH makes a lump-sum payment to retiring employees in an amount determined by the number of years spent with the Company.

Each year, CRH's actuarial liability pursuant to these policies, calculated in accordance with the provisions of the French collective agreement for finance companies, is recalculated.

## NOTES TO THE BALANCE SHEET

### NOTE 3 - Mortgage notes and bond issues

Mortgage notes are the instruments representing the securities issued by CRH, corresponding to the loans that it has granted, while its borrowings are in the form of bond issues.

Related items, on the asset and liability sides of the balance sheet, show a perfect match between borrowing and lending.

In € thousands

	As of 31/12/16		As of 31/12/15		As of 31/12/14	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>SECURITIES TRANSACTIONS</b>						
- Bonds and other fixed-income securities						
. mortgage notes (*)	38 124 642		41 079 544		47 491 960	
. accrued interest not yet due on mortgage notes	934 844		962 782		1 022 414	
- Debt securities						
. bonds (*)		38 124 642		41 079 544		47 491 960
. accrued interest not yet due on bonds		934 844		962 782		1 022 414
<b>TOTAL</b>	<b>39 059 486</b>	<b>39 059 486</b>	<b>42 042 326</b>	<b>42 042 326</b>	<b>48 514 374</b>	<b>48 514 374</b>

(\*) including amounts in nominal value:

In € thousands

	As of 31/12/16		As of 31/12/15		As of 31/12/14	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>SECURITIES TRANSACTIONS</b>						
- Bonds and other fixed-income securities						
. mortgage notes	36 667 275		39 449 000		45 700 000	
- Debt securities						
. bonds		36 667 275		39 449 000		45 700 000
<b>TOTAL</b>	<b>36 667 275</b>	<b>36 667 275</b>	<b>39 449 000</b>	<b>39 449 000</b>	<b>45 700 000</b>	<b>45 700 000</b>

In CHF thousands

	As of 31/12/16		As of 31/12/15		As of 31/12/14	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>SECURITIES TRANSACTIONS</b>						
- Bonds and other fixed-income securities						
. mortgage notes	1 875 000		2 150 000		2 400 000	
- Debt securities						
. bonds		1 875 000		2 150 000		2 400 000
<b>TOTAL</b>	<b>1 875 000</b>	<b>1 875 000</b>	<b>2 150 000</b>	<b>2 150 000</b>	<b>2 400 000</b>	<b>2 400 000</b>

Note: Mortgage notes are not listed securities.

#### NOTE 4 – Breakdown of receivables and debt by residual maturity

In € thousands

RECEIVABLES	As of 31/12/16	As of 31/12/15	As of 31/12/14
<b>Credit institutions: term deposits</b>			
- less than 3 months	40 309	47 370	7 069
- 3 months to 1 year	45 000	248 811	75 653
- 1 to 5 years	313 500	152 500	365 000
<b>TOTAL</b>	<b>398 809</b>	<b>448 681</b>	<b>447 722</b>
<b>Negotiable debt instruments</b>			
- less than 3 months	0	0	30 000
- 3 months to 1 year	30 000	14 000	0
- 1 to 5 years	125 000	90 000	30 000
<b>TOTAL</b>	<b>155 000</b>	<b>104 000</b>	<b>60 000</b>
<b>Mortgage notes</b>			
- less than 3 months	0	212 241	0
- 3 months to 1 year	7 296 408	2 546 126	6 215 573
- 1 to 5 years	15 607 680	19 274 929	18 141 727
- more than 5 years	15 220 554	19 046 248	23 134 660
<b>TOTAL</b>	<b>38 124 642</b>	<b>41 079 544</b>	<b>47 491 960</b>

Remark: none of these receivables is eligible for refinancing from the European system of central banks

In € thousands

DEBT	As of 31/12/16	As of 31/12/15	As of 31/12/14
<b>Bonds</b>			
- less than 3 months	0	212 241	0
- 3 months to 1 year	7 296 408	2 546 126	6 215 573
- 1 to 5 years	15 607 680	19 274 929	18 141 727
- more than 5 years	15 220 554	19 046 248	23 134 660
<b>TOTAL</b>	<b>38 124 642</b>	<b>41 079 544</b>	<b>47 491 960</b>



## NOTE 5 – Other assets, other liabilities, prepayments and accrual accounts

In € thousands

ASSETS	As of 31/12/16	As of 31/12/15	As of 31/12/14
<b>Miscellaneous debtors</b>	<b>4 564</b>	<b>3 942</b>	<b>103</b>
Government – income tax	0	404	42
Government – CVAE	15	1	0
Government – Deductible VAT	21	0	0
Expenses recharged to borrowers	1 508	1 631	0
Guarantee deposits with the French Deposit Guarantee and Resolution Fund	16	16	20
Guarantee deposit with the Single Resolution Fund	2 966	1 851	0
Other guarantee deposits and miscellaneous	38	39	39
Other	0	0	2
<b>Other prepayments</b>	<b>87</b>	<b>105</b>	<b>117</b>
<b>TOTAL</b>	<b>4 651</b>	<b>4 047</b>	<b>220</b>

In € thousands

LIABILITIES	As of 31/12/16	As of 31/12/15	As of 31/12/14
<b>Miscellaneous creditors</b>	<b>1 794</b>	<b>138</b>	<b>168</b>
Government – income tax	1 494	0	0
Government – VAT to be refunded	173	0	10
Social security and payroll taxes	89	95	142
Trade payables	33	40	10
Miscellaneous creditors	5	3	6
<b>Accrued expenses</b>	<b>302</b>	<b>294</b>	<b>301</b>
Personnel and related expenses	214		174
Other	88	193	127
<b>TOTAL</b>	<b>2 096</b>	<b>432</b>	<b>469</b>

## NOTE 6 – Provisions and funds for general banking risks

In € thousands

	Balance as of 31/12/14	+ Expenses - Reversals	Balance as of 31/12/15	+ Expenses - Reversals	Balance as of 31/12/16
Provision for retirement benefits (Note 18)	234	19	253	-92	161
Provision for ECB supervision fee since November 4, 2014	140	-140	0	0	0
Provision for tax regularisation (Note 13)	0	0	0	150	150
Funds for general banking risks (Note 7)	0	0	0	1 700	1 700
<b>TOTAL</b>	<b>374</b>	<b>-121</b>	<b>253</b>	<b>1 758</b>	<b>2 011</b>

## NOTE 7 - Common Equity Tier I capital instruments

In € thousands

	Balance as of 31/12/14	+ Increase - Decrease	Balance as of 31/12/15	+ Increase - Decrease	Balance as of 31/12/16
Subscribed share capital	539 995	0	539 995	0	539 995
Share premium	17 820	0	17 820	0	17 820
Statutory reserve	3 208	28	3 236	17	3 253
Other reserves	605	517	1 122	0	1 122
Retained earnings	0	0	0	322	322
Funds for general banking risks	2 812	0	2 812	-2 812	0
<b>TOTAL</b>	<b>564 440</b>	<b>545</b>	<b>564 985</b>	<b>-2 473</b>	<b>562 512</b>

Changes in the Common Equity Tier 1 capital are explained by the following factors:

- the appropriation of the 2014 and 2015 net income.

- The full reversal of the regulated provision for risks related to medium- and long-term lending operations, in the amount of € 2,812,000. The decision to maintain the said provision was challenged by tax authorities at the beginning of 2017 prior to the final closing of the financial statements for financial year 2016.

Henceforth, in order to ensure the stability of the Common Equity Tier 1 capital, the funds for general banking risks are no longer included in CET1. Changes from one financial year to the next are shown in note 6.

CRH's share capital is fully subscribed. The Company's share has a par value of EUR 15.25. A total of 35,409,491 shares has been issued.

## ***NOTES TO THE OFF-BALANCE SHEET ITEMS***

### **NOTE 8 – Financing commitments received from credit institutions**

Pursuant to the articles of incorporation, credit institution shareholders are obligated to provide the cash advances required for CRH's operations up to the limit of 5% of total outstanding loans. This requirement is defined in CRH's internal rules and regulations, approved by the Shareholders' Meeting of February 27, 1996.

As of December 31, 2016, such received commitments totalled € 1,910,142,594.66.

### **NOTE 9 – Guarantees received from credit institutions**

The principal and interest on each mortgage note are secured by a pledged portfolio of receivables representing secured home-purchase loans, a first residential mortgage or charge over real estate, offering an equivalent guarantee, or a guarantee given by a credit institution, a financing company or insurance company which is not included in the consolidation scope of the credit institution issuing the note.

As of December 31, 2016, the estimated amount of the portfolio of receivables pledged to CRH amounted to € 55,416,975,785.95.

## NOTES TO THE INCOME STATEMENT

### NOTE 10 – Net banking income

#### A - Analysis of net banking income from bond issuance and lending operations

It should be noted that CRH lends at the same interest rates and maturities at which it borrows on the financial market. It therefore does not charge a margin on its lending activities.

To facilitate analysis of its net income, it is useful to group income and expenses from lending activities and borrowing activities in order to observe their equivalence

In € thousands

	As of 31/12/16		As of 31/12/15		As of 31/12/14	
	Expenses	Revenues	Expenses	Revenues	Expenses	Revenues
<b>Interest</b>						
Bonds issued	1 541 830		1 734 396		1 921 488	
Mortgage notes		1 541 830		1 734 396		1 921 488
<b>Translation differences *</b>						
Bonds issued	43 977		49 536		1 012	
Mortgage notes		43 977		49 536		1 012
<b>Issuance and management fees</b>						
Bonds issued	554		486		457	
Mortgage notes		554		486		457
<b>TOTAL</b>	<b>1 586 361</b>	<b>1 586 361</b>	<b>1 784 418</b>	<b>1 784 418</b>	<b>1 922 957</b>	<b>1 922 957</b>

\* Translation differences correspond to a technical balance between currency gains and losses recognised on the contractual due dates of transactions in CHF.

For the first time in 2016, the fees paid to rating agencies, in the amount of € 104,000 not including VAT were recharged to the borrowing institutions.

These flows have no impact on CRH's financial performance.

#### B – Other income and expenses pertaining to banking operations

For financial year 2016, other income from banking operations included interest earned on shareholders' equity invested on the money market in demand deposits, term deposits and negotiable debt instruments which are fixed rate with a term of generally less than one year or adjustable rate with a maturity of three years or less. This income fluctuates from year to year in close correlation with the average level of market interest rates. This income therefore represents a rate of return of 0.27% on average capital invested during 2016 (0.60% in 2015 and 0.79% in 2014).

In € thousands

	As of 31/12/16	As of 31/12/15	As of 31/12/14
Interest on cash management transactions	1 325	2 988	3 847
Proceeds of negotiable debt instruments	221	383	408
Interest on securities received under collateralised reserve repos	0	-40	-75
Interest from the investment of the advances paid under § 5.3 of CRH's internal rules and regulations	-225	-210	0
Fees on securities transactions	760	0	0
Other income	0	0	160
<b>A - Total other income from banking operations</b>	<b>2 081</b>	<b>3 121</b>	<b>4 340</b>
Interest on subordinated loans	0	0	877
Interest on advances under § 5.3 of CRH's internal rules and regulations	-225	-250	-75
Other interest and expenses	4	6	7
Fees on securities transactions	1	1	1
<b>B - Total other expenses from banking operations</b>	<b>-220</b>	<b>-243</b>	<b>810</b>
<b>NET BANKING INCOME</b>	<b>2 301</b>	<b>3 364</b>	<b>3 530</b>

In 2016, management fees borne by the borrowers were introduced in order to compensate for the decrease in financial revenues.

Other income corresponds to CRH's remuneration under the terms of the agreement signed with the Société de Financement de l'Economie Française (SFEF) for monitoring and controlling the servicing of its debt and management of its guarantees. The relevant services were terminated on December 31, 2014.

## NOTE 11 – Other general operating income and expenses

### A – Operating expenses recharged to borrowers

Since 2015, under the new European regulatory provisions, CRH has been obliged to pay two contributions:

- the European Central Bank's (ECB) supervision contribution,
- the contribution to the Single Resolution Fund (FRU).

Already in 2015, in order to enable CRH to meet these new expenses, which very materially increase its operating expenses, while the profitability of its investments is impaired by the very low level of interest rates received on the money market, these contributions have been recharged to borrowers by neutralising the impact of the non-deductibility from corporate income tax of the contribution to the FRU, in accordance with the provisions of the internal rules and regulations and the collateralisation agreements.

In 2016, there were added to such recharges:

- the supervision contribution paid to the Prudential Supervision and Resolution Authority (ACPR),
- the contribution to the Single Resolution Mechanism (MRU).

The same mechanism would be applied to the fee due to the Financial Markets' Authority (AMF) in respect of bond issues.

In € thousands

	As of 31/12/16		As of 31/12/15		As of 31/12/14	
	Expenses	Income	Expenses	Income	Expenses	Income
<b>Taxes other than income tax (excerpt)</b>						
FRU contribution	6 316		4 319		0	
ECB contribution	743		661		0	
ACPR contribution	255		0		0	
MRU contribution	142		0		0	
<b>Other operating income</b>		10 614		7 140		0

### ***B – Other operating expenses***

Not including recharged expenses, CRH's total administrative expenses, after depreciation and amortization, amounted to:

- € 2.1 million as of December 31, 2016,
- € 2.4 million as of December 31, 2015 (*pro forma* € 2.1 million),
- € 2.7 million as of December 31, 2014 (*pro forma* € 2.1 million).

Total administrative expenses represented 0.0053% of average outstanding loans to shareholders in the year ended December 31, 2016 (0.0051% in the year ended December 31, 2015 and 0.0052% in the year ended December 31, 2014).

The main components are shown in the table below:

In € thousands

	As of 31/12/16	As of 31/12/15	As of 31/12/14
Wages and salaries	943	812	820
Retirement expenses (1)	13	112	109
Other social security charges	331	299	293
Payroll taxes and similar expenses	143	125	126
<b>Total payroll expenses</b>	<b>1 430</b>	<b>1 348</b>	<b>1 348</b>
<b>Taxes other than income tax (excerpt)</b>	<b>81</b>	<b>299</b>	<b>543</b>
Rental and leasing	234	238	231
Other external services and miscellaneous administrative expenses	367	451	515
<b>Total other administrative expenses</b>	<b>601</b>	<b>689</b>	<b>746</b>
Amortisation of intangible fixed assets	24	13	7
Amortisation of tangible fixed assets	5	12	15
<b>Total amortisation and depreciation expenses</b>	<b>29</b>	<b>25</b>	<b>22</b>

(1) Not including reversals and the provision for retirement benefits as of December 31, 2016 in the amount of € 92,000.

## NOTE 12 - Fees paid to the statutory auditors

The total amount of the fees paid to the statutory auditors as recognised as of December 31, 2016 is equal to € 75,734.98 and is broken down as follows:

In €

	<b>Auditeurs &amp; Conseils Associés</b>	<b>KPMG</b>
2016 statutory audit fees	30 300.00	30 300.00
2016 CSR certification fees	7 000.00	0.00
Balance of 2015 statutory audit fees	308.58	26.40
Balance due in respect of other services related to the 2015 statutory audit of the financial statements	2 400.00	600.00
Other services related to the 2016 statutory audit of the financial statements	2 400.00	2 400.00
<b>Total</b>	<b>42 408.58</b>	<b>33 326.40</b>

## NOTE 13 – Income tax

The tax due on the 2016 income amounts to € 4,112,690. If the said tax only covered ordinary operations, its amount would be materially increased:

- Adding back of the amount of the FRU contribution (€ 6,316,640.70), which is non-deductible, and the corresponding recharge (note 11 A).

- Full reversal of the regulated provision for risks related to medium- and long-term lending operations, i.e. € 2,812,000. The decision to maintain such provision on the balance sheet was challenged by French tax authorities at the beginning of 2017 prior to the final closing of the financial statements for financial year 2016.

To this amount, it is necessary to add the social contribution (€ 110,540).

A tax regularisation provision amounting to € 149,709 was also set aside in order to cover the additional income tax calculated on the basis of the 2014 rates and any interest for late payment.

## OTHER INFORMATION

### NOTE 14 - Executive compensation

In €

Table recapitulating the compensation paid to executive officers				
	2016		2015	
	Amounts due	Amounts paid	Amounts due	Amounts paid
<b>Olivier HASSLER (since April 1, 2015)</b>				
Fixed compensation	25 000	25 000	18 748	18 748
Variable compensation				
Exceptional compensation				
Directors' fees				
Fringe benefits				
<b>TOTAL</b>	<b>25 000</b>	<b>25 000</b>	<b>18 748</b>	<b>18 748</b>
<b>Henry RAYMOND (until August 31, 2016)</b>				
Fixed compensation	182 083	182 083	218 500	218 500
Variable compensation				
Exceptional compensation	62 000	62 000	31 000	31 000
Directors' fees				
Fringe benefits				
<b>TOTAL</b>	<b>244 083</b>	<b>244 083</b>	<b>249 500</b>	<b>249 500</b>
<b>Marc NOCART (since May 2, 2016)</b>				
Fixed compensation	126 667	126 667		
Variable compensation				
Exceptional compensation				
Directors' fees				
Fringe benefits	1 239	1 239		
<b>TOTAL</b>	<b>127 906</b>	<b>127 906</b>	<b>0</b>	<b>0</b>

The other corporate officers do not receive any compensation from the Company.

### NOTE 15 – List of related-party transactions

CRH did not enter into any transactions within the meaning of Article R. 123-199-1 of the French Commercial Code with any related parties whatsoever during financial year 2016.

### NOTE 16 - Staff

CRH had, on average, eight employees in 2016.



**NOTE 17 - Provision for lump-sum retirement benefits**

Provisions set aside to cover lump-sum retirement benefits as required by French law amounted to €161,000 and covered the full amount of CRH's liability as assessed as of December 31, 2016.

CRH does not have any other retirement commitments.



## ADDITIONAL INFORMATION

### Leverage ratio

European regulations introduced among prudential indicators a leverage ratio equal to the amount of CET1 capital divided by the total exposure of the institution concerned. Data started being collected according to the regulatory format in 2014, and institutions are obliged to publish their leverage ratio since January 1, 2015.

Also, the European Commission, in its project for the reform of the CRR presented on November 23, 2016, proposed the implementation of the recommendations issued by the EBA in its report on the introduction and calibration of the leverage ratio, published on August 3, 2016.

In general, this results in a binding leverage ratio obligation set at 3%. However, the draft prepared by the European Commission provides for possible exceptions, according to the controlling criteria listed by the EBA, applicable to certain types of exposures, listed in a new Article 429a 1.

In particular, Article 429a 1. (e) of the draft refers to “exposures arising from passing-through promotional loans to other institutions granting the promotional loan”.

As an item of information only, CRH’s leverage ratio as of December 31, 2016 was equal to 1.42% under the Basle III target vision.

### Capital adequacy ratio

The capital adequacy ratio, calculated in accordance with the provisions of Regulation (EU) No. 575/2013 of June 26, 2013, was 12.40% as of December 31, 2016. In the absence of additional capital, the Common Equity Tier 1 (CET 1) capital adequacy ratio was thus equal to 12.40%.

In €

Own funds disclosure Implementing regulation (EU) No. 1423/2013			Reference to the relevant Article of EU Regulation No. 575/2013
<b>Common Equity Tier I capital (CET1): instruments and reserves</b>			
1	Capital instruments and related share premium accounts	557 815 273	26(1), 27, 28, 29
	of which: ordinary shares	557 815 273	EAB list, 26 (3)
	of which: type-2 instruments	0	EAB list, 26 (3)
	of which: type-3 instruments	0	EAB list, 26 (3)
2	Retained earnings	321 599	26(1 )(c)
3	Accumulated other comprehensive income (and other reserves)	4 374 801	26 (1)
3a	Funds for general banking risks	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	63 456	84

5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)
<b>6</b>	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>562 575 129</b>	<b>Total of lines 1 to 5a.</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
7	Additional value adjustments (negative amount)	0	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-4 000	36 (1) (b), 37
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	0	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	0	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) à (3), 79
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (b)
25	of which: deferred tax assets arising from temporary differences	0	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	0	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	36 (1) (j)
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-4 000</b>	<b>Total of lines 17 to 20a, 21, 22 and 25a to 27</b>
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>562 571 129</b>	<b>Line 6 minus line 28</b>
<b>Additional Tier 1 (AT1) capital: instruments</b>		<b>0</b>	
<b>Tier 2 (T2) capital: instruments and provisions</b>		<b>0</b>	

<b>Total capital (TC = CET1 + AT1 + T2)</b>		<b>562 571 129</b>	
<b>Total weighted assets</b>		<b>4 537 169 088</b>	
<b>Capital ratios and buffers</b>			
<b>61</b>	<b>Common Equity Tier 1 (as a percentage of risk exposure amount)</b>	<b>12,40%</b>	<b>92 (2) (a)</b>
<b>62</b>	<b>Tier 1 (as a percentage of risk exposure amount)</b>	<b>12,40%</b>	<b>92 (2) (b)</b>
<b>63</b>	<b>Total capital (as a percentage of risk exposure amount)</b>	<b>12,40%</b>	<b>92 (2) (c)</b>
64	Institution-specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic buffer, plus the systemically important institution buffer, expressed as a percentage of risk exposure amount)	9,75%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2,50%	
66	of which: countercyclical buffer requirement	0,00%	
67	of which: systemic risk buffer requirement	0,00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0,00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	12,40%	CRD 128
Amounts below thresholds for deduction (before weighting)		0	
Cap applicable for the integration of the credit risk adjustments into the T2 according to the standard approach		56 714 614	62 (c)
Equity instruments subject to gradual exclusion (applicable between January 1, 2014 and January 1, 2022 only)		0	

## LCR Liquidity ratio

The conditions under which CRH normally operates are such that no liabilities are uncovered. The provisions of Article 425-1 of Regulation (EU) No. 575/2013 of June 26, 2013 give CRH exemption from the 75% cap on cash outflows corresponding to the servicing of its bonds, with cash inflows corresponding to the mortgage notes.

## NSFR liquidity ratio

Pursuant to CRH's articles of incorporation and internal rules, its borrowings and loans are fully interdependent (identical rates, terms and currencies).

Following the publication by the European Banking Authority (EBA) of its report dated December 15, 2015, the European Commission, in its draft for the reform of the CRR submitted on November 23, 2016, proposed to transpose the Basle requirements on interdependent assets and liabilities for the calculation of the NSFR so as to avoid the application of different ASF (available stable funding) coefficients and RSF (required stable funding) coefficients as regards borrowings and loans maturing within six months.

## Major risks

The amendments to the articles of incorporation and internal rules unanimously approved by the shareholders during the extraordinary general meeting held on March 8, 2016 allow, pursuant to Article 493-3 (e) of the CRR and Article 2-1 (c) of the ministerial decree of December 23, 2013, to fully exempt until January 1, 2029 the mortgage notes held by CRH from the rules on major risks.

## Disclosures in respect of encumbered assets at December 31, 2016 (Decree of December 19, 2014 related to the disclosure of information concerning encumbered assets)

### Template A – Assets

In € thousands

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
<b>010</b>	<b>Assets of the reporting institution</b>	<b>40 497 974</b>		<b>567 395</b>	
030	Equity instruments	0	0	8	8
040	Debt securities	40 497 974	40 903 862	104 549	104 549
120	Other assets	0		462 838	

### Template B – Collateral received

In € thousands

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	<b>Collateral received by the reporting institution</b>	<b>0</b>	<b>58 098 782</b>
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other collateral received	0	58 098 782
240	<b>Own debt securities issued, other than own covered bonds or ABS</b>	<b>0</b>	<b>0</b>

### Template C – Encumbered assets/collateral received and associated liabilities

In € thousands

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued, other than covered bonds and encumbered ABS
		010	030
010	<b>Carrying amount of selected financial liabilities</b>	<b>40 497 974</b>	<b>58 098 782</b>

## **D – Information on the importance of charges on assets**

### **1- Summary of CRH's functioning mode**

CRH operates within the specific framework of Act No. 85-695 of July 11, 1985 (see Appendix 1).

In accordance with its sole corporate purpose, CRH borrows on a long-term basis by issuing on the market covered bonds to refinance banks at the same interest rates, with the same maturities and in the same currencies.

The refinancing loans that CRH grants to the banks and the bonds that it issues on the financial market are perfectly matched (see Appendix 6, internal rules and regulations).

When CRH borrows 100 in nominal value, it grants a refinancing loan with a nominal value of 100 and demands as collateral a loan portfolio with a minimum nominal value of 125 (see Appendix 6, Internal rules and regulations).

The loans corresponding to the refinancing facilities are represented by mortgage notes.

In accordance with the provisions of Articles L. 313-42 to L 313-48 of the French Monetary and Financial Code (*Code monétaire et financier*) (see Appendix 2), the refinanced bank pledges a portfolio of home-purchase loans meeting the conditions of eligibility (see Appendix 7) to cover the loans granted to it by CRH.

In the event of the refinanced bank defaulting, CRH may automatically become the owner of the portfolio pledged by the said bank, notwithstanding any provisions to the contrary.

Finally, pursuant to the provisions of Article 13 of the Act of July 11, 1985 referred to above, the amounts or values received in return for the above promissory notes are allocated, in priority and under all circumstances, to servicing the debt, i.e. the payment of the interest and principal in respect of the issued bonds.

### **Information on encumbered assets (Article 3(4) of the aforementioned decree)**

Disclosed data correspond to the median of the values observed over a quarterly period during the preceding twelve months.

The only assets qualified as encumbered assets within the meaning of Article 2 of the said decree are the mortgage notes matching the CRH bonds and the related accrued interest.

**a)** Since the amounts or values received in return for these notes are, in priority, legally allocated to servicing the interest and repayments of principal in respect of CRH's matching covered bonds, the notes are encumbered to CRH's bondholders which are CRH's only creditors with the possible exception of the government, its staff, the social security bodies and CRH's suppliers, to which CRH may owe small amounts.

This allocation to the servicing of the said debt constitutes the only charge on the notes.

In addition, CRH does not use derivatives.

- b) This allocation has remained unchanged since CRH's formation.
- c) CRH is not part of a group.
- d) There is no excess collateral for the bondholders. Nevertheless, in the event of a borrowing bank defaulting, the bonds benefit indirectly from the overcollateralization of the pledged portfolio which becomes the property of CRH.

Moreover, the shareholder banks are required, if necessary, to provide CRH with lines of credit or regulatory capital (Article 10 of the articles of incorporation and Article 8 of the Internal rules and regulations).

These provisions also indirectly benefit the covered bondholders.

- e) The priority allocation to the servicing of CRH's covered bond debt is stipulated by the Act of July 11, 1985 referred to above.

The collateral received by CRH to cover the mortgage notes is stipulated by the provisions of Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code (*Code monétaire et financier*) and of CRH's internal rules and regulations also referred to above.

The other assets that could be used to service the debt are the investments of shareholders' equity and the income thereon.

## **11.2. CONSOLIDATED FINANCIAL STATEMENTS**

CRH has no subsidiaries and therefore is not required to prepare consolidated financial statements.

## **11.3. AUDIT OF HISTORICAL ANNUAL FINANCIAL INFORMATION**

The general report of the statutory auditors on the financial statements for the year ended December 31, 2016 is included in the Reports section on page 31 of this registration document.

The general report of the statutory auditors on the financial statements for the year ended December 31, 2015 is included in the Reports section on page 49 of this registration document.

The general report of the statutory auditors on the financial statements for the year ended December 31, 2014 is included in the Reports section on page 33 of the 2014 registration document.

## **11.4. AGE OF LATEST FINANCIAL INFORMATION**

The financial statements dated December 31, 2016 are the most recent to have been audited.

## **11.5. INTERIM AND OTHER FINANCIAL INFORMATION**

CRH has not released any quarterly or semi-annual data after the December 31, 2016 financial statements.



## **11.6. LEGAL AND ARBITRATION PROCEEDINGS**

As of the filing date of this document, tax authorities have given notice of the adding back of a regulated provision for risks related to medium- and long-term lending operations. There are no pending legal, governmental, regulatory, tax or arbitration proceedings that are likely to have a material impact on CRH's financial position or profitability.

## **11.7. SIGNIFICANT CHANGES IN THE ISSUER'S FINANCIAL POSITION**

After taking into account the fact that tax authorities have given notice of the adding back of a regulated provision for risks related to medium- and long-term lending operations, there are no exceptional events or litigation that have had, in the recent past, or that are likely to have in the future, a material impact on the financial position, activity or earnings of CRH that have not been reflected in the financial statements for the year ended December 31, 2016.



## **CHAPTER 12**

### **MATERIAL CONTRACTS**

As of the filing date of this document, the Company had not entered into any contracts other than those signed as part of normal operations and that could grant a member of the Company a right or obligation that could have a material impact on CRH's ability to comply with its commitments to its bondholders.



## **CHAPTER 13**

### **THIRD-PARTY INFORMATION AND STATEMENTS BY EXPERTS AND DECLARATIONS OF ANY INTEREST**

This document contains no testimony or disclosure from third parties or experts.

**13.1. (NOT APPLICABLE)**

**13.2. (NOT APPLICABLE)**



## CHAPTER 14

### DOCUMENTS AVAILABLE TO THE PUBLIC

All prospectuses and registration documents (which contain the Company's articles of incorporation) may be consulted on the CRH website:

**<http://www.crh-bonds.com>**

These documents may be obtained free of charge and without obligation by requesting them from CRH:

**by telephone: + 33 (0)1 42 89 49 10**

**by fax: + 33 (0)1 42 89 29 67**

**by e-mail:**

**[crh@crh-bonds.com](mailto:crh@crh-bonds.com)**

**or by post to the following address:**

**CRH**

**Caisse de Refinancement de l'Habitat**

**35 rue La Boétie**

**75008 Paris**

The incorporation documents may be perused in paper form at the Company's registered office.





**ARTICLE 13 OF ACT NO. 85-695**  
**of July 11, 1985**  
**Complemented by Article 36 of Act no. 2006-872 of July 13, 2006**  
**(*Journal officiel* of July 16, 2006)**

**I.** - Superseded

**II.** - **The guarantee of the State may be accorded** to bonds issued by holders of promissory notes representing loans granted to finance real estate transactions, guaranteed by a mortgage or by a senior real estate lien, so long as these loans represent a maximum share established by decree or that the amount of the contracts constituting the loans set aside to guarantee the payment of these promissory notes at maturity is greater than the amount of these same notes in a minimum proportion established by decree.

The promissory notes cited in the preceding paragraph are created under conditions established in compliance with the provisions of Article 16 of the aforementioned Act no. 69-1263 of December 31, 1969\*.

**III.** - The bonds cited in Paragraph II above may be issued by a company or by an economic interest grouping (*groupement d'intérêt économique*) that has been granted special approval by order of the Minister for the Economy, Finance and the Budget.

**IV.** - **When the guarantee of the State is not accorded**, the sums or amounts generated by the promissory notes mentioned above are allocated, as a matter of priority and under all circumstances, to the payment of the interest and principal on these borrowings. They are carried in a specially designated account that is opened by the holder of the promissory notes and from which the creditors of the latter, other than the holders of the bonds cited in Paragraph II, may not pursue the payment of their receivables.

**V.** - The provisions of Book VI of the French Commercial Code, or those governing all legal or equivalent amicable proceedings engaged on the basis of foreign laws, do not constitute an obstacle to the application of Paragraph IV.

\*These dispositions are codified in Article L. 313-42 to L. 313-49 of the French Monetary and Financial Code (*Code Monétaire et Financier*).



**AMENDMENT No. 275 SUBMITTED BY  
THE FRENCH GOVERNMENT ON JANUARY 13, 2006**

**ADDITIONAL ARTICLE  
Insert the following Article following Article 5 quinquies**

The following two paragraphs have been added to Article 13 of Act no. 85-695 of July 11, 1985 on various economic and financial provisions:

« IV. - When the guarantee of the State is not granted, the sums or amounts generated by the promissory notes mentioned above are allocated first, as a matter of priority and under all circumstances, to the payment of the interest and principal on these borrowings. They are carried in a specially designated account that is opened by the holder of the promissory notes and which the creditors of the latter, other than the holders of the bonds cited in Paragraph II, may not attach to obtain payment of their receivables. »

« V. - The provisions of Book VI of the French Commercial Code, or those governing all legal or equivalent amicable proceedings filed on the basis of foreign laws, do not constitute an obstacle to the application of Paragraph IV. »

**OVERVIEW**

Caisse de refinancement de l'habitat (CRH) is a market credit institution that plays a specific role in funding residential housing in France. Its sole purpose is to fund the housing loans extended by credit institution stockholders by issuing bonds. With nearly EUR 30 billion in loans extended and currently EUR 17 billion in loans outstanding, CRH is leading player on the French residential mortgage market.

When mortgage companies were created in 1999, the laws and regulations governing its transactions were in part brought into line with those governing mortgage companies. However, CRH's obligations are not governed by the same oversight regulations as property bonds.

CRH's bonds are very safe (the promissory notes issued by it must be secured up to 125% by the pledging of a portfolio of secured housing loans).

Like property bonds, they have been rated Aaa by the rating agencies. However, unlike property bonds, the bondholder has no direct legal lien over the portfolio of funded loans even though such a lien is recognized from a business point of view.

The aim of the amended is to enact such a lien order to bring the oversight treatment of CRH's bonds into line with that of property bonds.

Improved oversight treatment for CRH's obligations will not result in any cost for the French government and will lead to reducing the cost of housing in France. In fact, all of CRH's operations, which involve substantial amounts, are devoted to funding residential housing loans.



## FRENCH MONETARY AND FINANCIAL CODE

## LEGISLATIVE PART

Codifying the provisions of Article 16 of the Act of December 31, 1969 as amended by Act no. 85-695 of July 11, 1985 and Act No. 99-532 of June 25, 1999,  
by decree No. 2008-556 of June 13, 2008  
by decree No. 2010-76 of June 21, 2010  
and by decree No. 2013-544 of June 27, 2013

## Paragraph 3

## Refinancing of mortgages and other secured loans

## Article L. 313-42

The provisions of the present paragraph apply to the promissory notes issued by credit institutions or *société de financement* to refinance long-term receivables used to finance real property located in France or another European Economic Area Member state which are guaranteed by:

- a first-ranking mortgage or a charge over real property which provides a guarantee at least equal thereto;

- or a guarantee granted by a credit institution or a *société de financement* or an insurance company which is not included in the consolidation described in Article L. 233-16 of the Commercial Code which the credit institution issuing the promissory note is subject to.

The units or debt instruments of securitisation funds are treated in the same way as the receivables referred to above if at least 90% of the fund's assets consist of receivables of the same type, with the exception of specific units or debt instruments issued to cover the risk of insolvency of the debtors.

With effect from January 1, 2002, receivables represented by promissory notes must comply with the conditions laid down in I of Article L. 513-3 pursuant to terms determined by a Conseil d'Etat decree. The said decree specifies the circumstances in which the quota may be exceeded if the amount of the said receivables exceeds that of the promissory notes that they guarantee.

## Article L. 313-43

Since the contracts constitute the said loans and their guarantees, amendments made to the contracts to provide the lender with additional guarantees, and instruments signed by the borrower to ensure compliance with his obligations, if such instruments exist, must be made available to the bearer of the promissory note by the credit institution, if the bearer so requests, in a capital amount equal to the capital amount of the promissory note.

The credit institution provides safekeeping for the contracts and instruments made available to the bearers of the promissory notes by maintaining a nominal list of the bearers of all receivables corresponding to the aforementioned contracts and instruments, making a reference therein to Articles L. 313-42 to L. 313-49, and providing an updated indication of their amount.

#### **Article L. 313-44**

I. Barring the application of Article L. 313-46, the credit institution recovers, pro tanto, free disposal of the receivables referred to in Article L. 313-43 as and when they become due or redeemable, or when it so chooses. It is required, while the promissory note remains in circulation, to replace the contracts and bills it recovers free disposal of, without discontinuity, with other debt instruments having a capital amount equal to those made available to the bearer of the promissory note as provided for in Article L. 313-43.

II. Debt instruments made available to the bearer of the promissory note pursuant to I are automatically substituted, through real subrogation, for the debt instruments which the credit institution recovers free disposal of. Such substitution preserves the rights of the bearer of the promissory note and entails the effects set forth in Article L. 313-45, even if the signing of the new debt instruments made available to that bearer is subsequent to the signing of the promissory note.

#### **Article L. 313-45**

Making receivables and bills available to the bearer of the promissory note automatically entails creation of a pledge in favor of the successive bearers.

The bearer of the promissory note's right encompasses all receivables deriving for the benefit of the credit institution from the contracts and bills which have been made available to that bearer pursuant to the present paragraph, without any other formality. It also encompasses all interest and ancillary charges, as well as any guarantees associated with those advances, even if they derive from deeds distinct from the contracts or bills.

The bearer of the promissory note exercises that right preferentially in relation to the credit institution and, in the event of a single receivable being shared between several bearers of promissory notes, those bearers enjoy equality of rank.

While the receivables and bills remain available to the bearer of the promissory note, the credit institution cannot transfer those receivables or bills in any form whatsoever.

#### **Article L. 313-46**

If the amount of the promissory note or the interest attached to it are not paid when due, and regardless of the remedies he might exercise against the credit institution, the bearer of the promissory note may obtain, upon request and in return for the said note, submission of the nominal list of the holders referred to in Article L. 313-43 and also, if applicable, of the instruments made available to him pursuant to the present paragraph. Such submission transfers title of the receivables to him without any other formality, and with the interest, advantages and guarantees attaching thereto, within the limits of the rights he holds on account of the promissory note he held.

### **Article L. 313-47**

For deletion of registrations, no documentary proof is required to support the statements in the act of discharge which establishes that the instruments have been made available or handed over if the said statements are certified as accurate in that act. The beneficiaries of such availability or delivery are not considered to be interested parties within the meaning of Article 2240 of the Civil Code if the act of discharge does not refer to the transaction concluded in their favor.

### **Article L. 313-48**

In order to guarantee payment when due of the amount of the promissory note referred to in Article L. 313-42, or the amount of the interest attached to that note, the bearer of that note may ask the credit institution to make contracts available to it which constitute long-term receivables, along with their guarantees, to be added to those already made available by virtue of Article L. 313-43, for an agreed amount, given that those contracts may give rise to the creation of promissory notes having the characteristics of those referred to in Article L. 313-42.

The contracts thus made available to the bearer to guarantee a note referred to in Article L. 313-42 are indicated to that bearer at the same time as the availability of the contracts, pursuant to the procedure described in Articles L. 313-43 and L. 313-44.

The effects of that availability by way of guarantee are described in Articles L. 313-45 to L. 313-47.

Articles L. 313-44 to L. 313-46 are applicable notwithstanding any provision to the contrary, including those of Book VI of the French Commercial Code. These provisions apply to capitalisations effected before June 29, 1999 pursuant to the provisions of the present paragraph.

### **Article L. 313-49**

The French Banking Authority and resolution is responsible for ensuring that the credit institutions and *the société de financement* comply with the provisions of Articles L. 313-42 to L. 313-48.

### **Article L. 313-49-1**

A Conseil d'Etat decree determines the conditions under which the subsection is applicable to the *société de financement*.





**FRENCH MONETARY AND FINANCIAL CODE**

**LEGISLATIVE PART**

**SECTION 2 CHAPTER III**

**SOCIETES DE CREDIT FONCIER**

**Art. L. 513-3 - excerpt - (created by the ordonnance n° 2013-544 of June 27, 2013).**

I. - Guaranteed loans are loans associated with:

1. First-ranking mortgage or a charge over real property conferring an equivalent guarantee, at least;

2. Or, within limits and under conditions determined in a Conseil d'Etat decree, a minimum personal contribution from the borrower and compliance with a fixed portion of the value of the property financed and subject to the guaranteed loan being used solely to finance real property, a guarantee from a credit institution or from a *société de financement* or an insurance company which is not included in the consolidation described in Article L. 233-16 of the Commercial Code relating to real-property credit companies.



## FRENCH MONETARY AND FINANCIAL CODE

## REGULATORY PART

**Article R. 214-21 created by Decree no. 2011-922 of August 1, 2011 modified by the decree n° 2013-687 of July 27, 2013 (excerpt)**

I. – By way of an exception to the 5% limit set in the first paragraph of I, an undertaking for collective investment in transferable securities:

1° May invest 35% of its assets in eligible financial securities and money market instruments of the type referred to under paragraphs 1 and 2 of Article L. 214-20 issued or guaranteed by a single issuer, provided these securities or instruments are issued or guaranteed by a member state of the European Union, or an other state that is party to the agreement on the European Economic Space, by its public regional authorities, by a third-country or by a public international organisation provided one or more member states of the European Union or states that are party to the agreement on the European Economic Space are members thereof, or provided the instruments have been issued by the Caisse d'Amortissement de la Dette Sociale, France's Social Security Debt Repayment Fund.

2° May invest up to 25% of its assets in bonds issued by a single entity, and provided they are real property bonds issued by real property credit companies in application of paragraph 2 of Article L. 513-2, or bonds issued by a credit institution that has its registered office in a member state of the European Union or a state that is party to the agreement on the European Economic Space and that is the subject of specific public supervision designed to protect the holders of such bonds. In particular, the funds generated by the issue of the bonds must be invested in assets that can cover the resulting commitments for the entire duration of the bonds, and must be earmarked first and foremost for the repayment of capital and the payment of accrued interest in the event of default by the issuer.

The exception provided in the above second paragraph shall apply to bonds issued by a credit institution whose sole aim is to refinance promissory notes complying with the provisions of Articles L. 313-42 to L. 313-49, issued to refinance long-term receivables used to finance real property, provided the bonds' characteristics are identical to those of the promissory notes.



**FRENCH MONETARY AND FINANCIAL CODE**

**REGULATORY PART**

**Modified by decree 2007-745 of May 9, 2007  
The decree 2011-922 of August 1, 2011,  
by the ordonnance n° 2013-544 of June 27, 2013  
and by decree n° 2014-1315 of November 3, 2014**

**Article R. 313-20**

- I In application of the provisions of this Article, the portion of a secured receivable, within the meaning of Article L. 313-42, that may be funded may not exceed the lesser of the two following values:
1. The remaining principal balance of the receivable;
  2. The product of the financing percentage defined in section II multiplied by the value of the asset that is financed or provided as collateral.
- II The financing percentage cited in I.2. is equal to:
1. 60% of the value of the asset financed (in the case of secured receivables) or of the asset provided as collateral on mortgage loans;
  2. 80% of the value of the asset, in the case of loans provided by a company to natural persons holding promissory notes issued by that company, when these loans are used to finance the construction or acquisition of housing, or to finance both the acquisition of a buildable lot and the cost of building the housing.  
All work performed to create or transform an inhabitable area by enlarging or renovating it for the purpose of building a residence is considered to be equivalent to the construction of housing.
- III Assets that are financed or provided as collateral corresponding to funded receivables are evaluated by the issuers of promissory notes using the methods provided for by order of the minister of finance.

**Article R. 313-21**

The percentage cited in Article R. 313-20 Paragraph II.2. is increased to:

1. 90% of the value of the asset when the value of the funded receivables is at least 25% more than the value of the promissory notes they guarantee;
2. 100% of the value of the asset provided as collateral, in the case of the social housing ownership loans guaranteed by the Fonds de Garantie à l'Accession Sociale cited in Article L. 312-1 of the French Construction and Housing Code, or by any person or entity taking its place, or in the case of covered loans, for that portion exceeding the percentage established, by a guarantee meeting the conditions established in Article L. 313-42 of the present code, or by the guarantee of one or more public-law corporations cited in Article L. 513-4 of the present code.

### **Article R. 313-22**

A real estate guarantee, which provides a guarantee equivalent to a senior mortgage, within the meaning of Article L. 313-42, is one that confers upon a creditor, regardless of the legal position of the debtor, the right to force the sale of the building covered by this guarantee regardless of who may be occupying it, and to receive payment from the proceeds of the sale with seniority over other creditors.

### **Article R. 313-23**

Repealed.

### **Article R. 313-24**

For the application of Article L. 513-3 Paragraph I.2, eligible secured receivables are defined as those for which a credit institution, a *société de financement* or an insurance company with capital of at least EUR 12 million has provided a binding guarantee.

The total value of secured receivables funded may not exceed 35% of the total receivables extended to the institution holding the promissory notes issued in application of Articles L. 313-42 to L. 313-48.

### **Article R. 313-25**

The issuance agreement for bonds issued by a credit institution whose sole aim is to refinance promissory notes complying with the provisions of Article L. 313-42 to L. 313-49 must explicitly state:

- 1°The purpose of the funding;
- 2°The exclusive purpose of the issuing credit institution;
- 3°The dispensation provided for in Article R. 214-21 Paragraph IV.2;
- 4°The preferential claim enjoyed by the issuing credit institution, under the terms of the provisions of Articles L. 313-42 to L. 313-49.

**EXCERPT FROM FRENCH BANKING  
AND FINANCIAL REGULATORY COMMITTEE**

**REGULATION N°. 99-10  
RELATIVE TO FRENCH *SOCIETES DE CREDIT FONCIER*  
AND TO *SOCIETES DE FINANCEMENT DE L'HABITAT***

**as amended by Regulation n°. 2001-02 of June 26, 2001  
and Regulation n°. 2002-02 of July 15, 2002  
and by Orders of the Minister of the Economy, Finance and Industry  
of May 7, 2007, of February 23, 2011, of May 26, 2014 and of November 3, 2014**

**Chapter I – Valuation of real estate assets**

**Article 1**

Real estate financed by loans eligible as assets of mortgage companies (*sociétés de crédit foncier*) or contributed as collateral for such loans within the meaning of articles L. 513-3 and L. 513-29 of the French Monetary and Financial Code (made by the Decree of February 23, 2011) shall be valued on a conservative basis excluding any amount of a speculative nature.

**Article 2**

The valuation shall be based on the real estate's long-term and permanent characteristics, usual and local market conditions, the current use of the asset and other uses to which it may be put. Such mortgage value shall be determined in writing, in a clear and transparent way, and shall not exceed the market value.

Notwithstanding the above, the valuation may be based on the total cost of the initial transaction when this cost is less than EUR 600,000 or when the sum of the remaining principal balances of the loans financed by the mortgage company or by the housing financing society and secured by the real estate asset valued have a remaining unit principal less than EUR 480,000 determined at the time of said acquisition or their pledge (made by the Decree of February 23, 2011).

**Article 3**

After their acquisition or their pledge, the valuation of real estate assets shall be reviewed as part of the risk measurement system governing mortgage companies and *sociétés de crédit foncier* under the decree of November 3, 2014 relating to internal control of the bank sector companies, payment services and investment services subject to control by the Prudential Control Authority and Resolution:

a) This review shall be performed once a year using a statistical method for residential real estate;

b) This review shall be performed once a year using a statistical method for commercial real estate whose all of the loans owned by the mortgage company and secured by the valued real estate asset have a remaining unit principal less than 30% of the initial principal loaned or under EUR 480,000;

c) This review shall be performed individually every three year for commercial real estate whose purchase price or whose last estimated value is under EUR 600,000 and when all of the loans owned by the mortgage company and secured by the valued real estate asset have a remaining unit principal over EUR 480,000. The value of said real estate assets between two individual reviews shall be reviewed yearly using a statistical method.

d) This review shall be performed individually once a year for commercial real estate whose purchase price or whose last estimated value is over EUR 600,000 and when all of the loans owned by the mortgage company and secured by the valued real estate asset have a remaining unit principal over EUR 480,000 (made by the Decree of February 23, 2011).

#### **Article 4**

The appraisal of real estate assets shall be performed by an independent expert within the meaning of Article 168 of the Order of February 20, 2007 on the Stockholders' equity requirements of credit institutions and investment firms (made by the Decree of May 7, 2007).



**CRH - CAISSE DE REFINANCEMENT DE L'HABITAT**

**ARTICLES OF INCORPORATION AND BY-LAWS**

**TITLE I LEGAL FORM – PURPOSE – COMPANY NAME  
REGISTERED OFFICE – PERIOD OF DURATION**

**Article 1 - LEGAL FORM**

The company is organised in the legal form of a société anonyme. The company shall be governed by applicable legal and statutory provisions and by these articles of incorporation and the internal rules and regulations attached hereto.

**Article 2 - PURPOSE**

The company's purpose is as follows:

- refinancing, for the benefit of the shareholders or credit institutions that have agreed to become shareholders in accordance with the terms set forth in Articles 6 to 9 below, promissory notes issued or endorsed by such shareholders or institutions in order to collateralise claims referred to in Article L. 313-42 of the French Monetary and Financial Code, corresponding to housing loans,
- issuing, as a consideration therefor, financial securities whose characteristics are similar to those of the collateralised notes, and
- more generally, carrying out any transactions, whether pertaining to movable or immovable property, as are related to the above purpose or to any similar or analogous purposes or are likely to further the attainment thereof.

Pursuant to the provisions of Article 13 of Act No. 85-695 of July 11, 1985, the Company provides, under restricted conditions, refinancing facilities in relation to certain home-purchase loans granted to individuals by credit institutions, without charging any spread as regards these transactions.

Because the financial securities issued by CRH perfectly match the promissory notes refinanced by it, CRH acts as a pass-through entity serving credit institutions. The company's purpose consists in promoting the housing finance sector, without seeking to achieve any profit, and on a non-competitive basis.

The company shall not hold any share interest or pursue any activity not corresponding to its corporate purpose. In particular, the company shall not incur any debt unrelated to the said purpose.

However, the company may incur debt having the character of shareholders' equity within the meaning of prudential regulations. Also, in case of default of a borrower institution, the company may, subject to the board of directors' consent, incur any debt necessary in view of the circumstances.

### **Article 3 - COMPANY NAME**

The name of the company shall be C.R.H. - Caisse de Refinancement de l'Habitat.

### **Article 4 - REGISTERED OFFICE**

The registered office of the company is located at 35, rue de la Boétie. PARIS 75008. In the event that the Board of Directors changes the registered office in accordance with the provisions of the law, the new registered office shall automatically replace the former office in this Article.

### **Article 5 - PERIOD OF DURATION**

The company shall exist for 99 years as from the date of its registration with the Trade and Companies Registry, except in the event of earlier dissolution or extension of the term.

## **TITLE II – SHARE CAPITAL - SHARES**

### **Article 6 - SHARE CAPITAL**

The share capital is in the amount of FIVE HUNDRED THIRTY-NINE MILLION NINE HUNDRED NINETY-FOUR THOUSAND SEVEN HUNDRED THIRTY-SEVEN EUROS and SEVENTY-FIVE CENTS.

The share capital is subdivided into THIRTY-FIVE MILLION FOUR HUNDRED NINE THOUSAND FOUR HUNDRED NINETY-ONE SHARES OF EUR 15.25 each.

The number of shares held by each shareholder shall be proportionate to the capital requirement corresponding to the refinancing facilities granted by the company to the said shareholder.

### **Article 7 - SHARE CAPITAL INCREASE**

The share capital may be increased, by any means and in compliance with any procedures provided for by law, by a decision made by the extraordinary general meeting of shareholders.

The extraordinary general meeting may delegate to the board of directors any authority in order to determine the terms of any share capital increase decided by the general meeting and may also delegate to the board of directors the authority to decide on any capital increase.

### **Article 8 - SHARE CAPITAL DECREASE**

When the amount of the company's capital is in excess of regulatory requirements, the board of directors reviews the possibility of redistributing to shareholders any excess capital and decides where applicable the terms of such redistribution.

Any share capital decrease may be authorised or decided by the extraordinary general meeting, under the conditions provided for by law and subject to the approval of prudential authorities.

The extraordinary general meeting may delegate to the board of directors any authority in order to determine the terms of any share capital decrease decided by the general meeting and may also delegate to the board of directors the authority to decide on any capital decrease.

## **Article 9 - FORM AND TRANSFER OF THE SHARES – PROMISE OF TRANSFER**

Shares are imperatively in the registered form. Shares are registered in an account in accordance with the terms and conditions provided by applicable laws and regulations.

Shares are freely transferable and conveyable. Share transfers are made vis-à-vis third parties by way of a transfer order signed by the transferor or its agent.

So that each shareholder can hold a number of shares proportionate to the regulatory capital requirements related to the amount outstanding of the refinancing facilities granted to it by the company, each shareholder agrees to acquire or sell the necessary number of shares from or to the present or future shareholders (or shareholder) designated by the company.

If, in order to comply with the said proportion as regards one or more shareholders, one or more share transfers are required, each shareholder shall transfer or acquire, at the company's request, the number of shares required in order to comply with the said proportion. Any fractional shares shall be allocated according to the largest remainder method.

When any change in the proportion of shares to be held by each shareholder results from changes in the amount outstanding of the loans refinanced by the company, such acquisitions or transfers shall be completed at least once per year, within thirty days from approval of the company's annual financial statements by the general meeting and whenever the board of directors so decides.

When the change results in whole or in part from an increase in the weighting of the amounts outstanding in the calculation of the regulatory capital requirements, in particular in case of deterioration of the financial rating of the promissory notes issued by one or more shareholders or any change in the rules related to the prudential ratios applicable to the company, the acquisitions or transfers are completed within forty-five days from the date of such change.

The acquisitions or transfers are completed on the basis of a unit share price equal to the amount resulting from the division:

- of the net book value of the company determined on the basis of its shareholders' equity (without including the FRBG) shown in the most recent financial statements of the company: (i) either as of December 31, of the preceding year, in the company's registration statement; or (ii) as of June 30, of the preceding year, in the financial statements drawn up by the board of directors and subject to a limited review by the statutory auditors. Such net book value takes into account possible allocations or contributions made between the reference date and the date of the acquisition or transfer.

- by the number of shares comprising the share capital as of the reference date referred to in the above paragraph.

The total price for each transfer is paid at the latest on the date of registration of the transfer, with the transferee being personally responsible for the payment of any such transfer duties as may be due.

In the event of any cancellation of shares authorised by the extraordinary general meeting of shareholders in order to reduce the share capital, the board of directors may decide to procure the acquisition of shares of the company by the company itself.

#### **Article 10 - RIGHTS AND OBLIGATIONS ATTACHING TO THE SHARES**

For the purposes of determining the ownership of the corporate assets, the sharing of profits and the liquidating dividends, each share shall give an equal right to a fraction corresponding to the proportion of the share capital that it represents.

Whenever it is necessary to own several shares in order to exercise any right, any individual shares or any shares whose number is lower than the required number shall not give any right to their owner vis-à-vis the company, and the shareholders concerned shall, in such event, be responsible for grouping the necessary number of shares.

Title to a share entails automatically its owner's acceptance of the company's articles of incorporation and the decisions made by the general meeting.

#### **Article 11 - PAYMENT ON THE SHARES**

Any amounts remaining to be paid in cash in relation to the shares shall be called by the board of directors in accordance with the terms determined by it.

#### **Article 12 - OBLIGATIONS INCUMBENT ON THE SHAREHOLDERS**

Each shareholder must pay to the company any amounts necessary in order to provide the company with the shareholders' equity determined by the ordinary general meeting in compliance with banking regulations. Such contributions correspond:

- either to the subscription or purchase of shares of the company, as discussed in Articles 6 to 9; or

- to the grant of loans to the company or to the acquisition of debt instruments issued by the company and having the character of equity within the meaning of prudential regulations. Such loans and instruments are hereinafter referred to as additional equity.

Such contributions are allocated for each shareholder and for each of the above categories, on a pro rata basis of the regulatory capital requirements related to the amount outstanding of the mortgage notes that the company has refinanced or endorsed in favour of such shareholder.

When it is decided to call additional equity from the shareholders, subject to the powers expressly reserved for general meetings of shareholders and within the limit of the corporate purpose, the board of directors determines the characteristics, amount and terms of such calls.

The board of directors may also decide to convert the additional shareholders' equity into capital, whether in whole or in part. Such decision is implemented in accordance with the articles of incorporation, prudential regulations and provisions of law. Where applicable, such decision is implemented after being approved by prudential authorities.

In addition, each shareholder must provide the company, as cash advances, with the amounts necessary for its functioning within the limits and subject to the conditions determined by the board of directors, within the limit of 5% of total nominal amounts outstanding.

Such advances shall be allocated among shareholders on a pro rata basis of the refinanced amounts.

Any shareholder failing to pay the required amounts on the scheduled dates shall, automatically and without any prior notice, owe the company an indemnity under the terms set forth by the ordinary general meeting.

### **TITLE III – ADMINISTRATION AND AUDIT OF THE COMPANY**

#### **Article 13 - BOARD OF DIRECTORS**

The company is administered by a board of directors comprised of no less than three members and no more than twelve members.

Directors are not required to hold at least one share of the company.

The directors' term of office is six years. Directors may be re-elected at all times.

As a departure from the above provisions, the number of directors who are over seventy years of age may not exceed one third of the number of directors comprising the board of directors. The board of directors notes whether the above limit is exceeded during the meeting deciding to give notice of the ordinary general meeting. The board then appoints, among those of its members who are over seventy years of age, the member(s) who shall remain in office.

If any office becomes vacant because of death, crossing of the age limit or resignation of one or more directors, the board of directors may, between two general meetings, appoint directors provisionally.

#### **Article 14 - NOTICE OF MEETINGS OF THE BOARD OF DIRECTORS – DELIBERATIONS OF THE BOARD OF DIRECTORS**

The board of directors meets whenever the interests of the company so require, upon being convened by its chairman. Directors are given notice of the meetings of the board of directors by all means and even orally.

If the board of directors has not met for more than two months, at least one third of its members may ask the chairman to give notice of a meeting in relation to a specific agenda.

The chief executive officer may also ask the chairman to give notice of a meeting of the board of directors in relation to a specific agenda.

Deliberations are made subject to the quorum and majority requirements mandated by law; in case of equality of votes, the chairman has a casting vote.

Minutes are prepared and copies or excerpts of the deliberations of the board of directors are issued and certified in accordance with provisions of law.

Except when the board of directors meets in order to draw up the annual financial statements, review the annual management report or appoint or remove the chairman or the chief executive officer, or determine their remuneration, directors are also deemed present for the calculation of the quorum and majority when they participate in the meeting by videoconference or telecommunication.

These means must allow for the directors' identification and must guarantee their actual participation. Such means must transmit at least the voice of the participants and must comply with technical requirements allowing for the continuous and simultaneous transmission of the deliberations.

The minutes must record any technical incident that perturbed the proceedings of the meeting, whether such incident affects a means of telecommunication or videoconference.

### **Article 15 - POWERS OF THE BOARD OF DIRECTORS**

The board of directors determines the policies of the company and oversees their implementation. Subject to the powers expressly reserved for shareholder meetings and within the limit of the corporate purpose, the board of directors reviews any matter related to the sound management of the company and adopts deliberations pertaining to the matters concerning the company.

The board of directors carries out any such checks and inspections as it deems necessary.

The board of directors receives from the chairman or chief executive officer of the company any and all documents and information necessary for the performance of its mandate.

### **Article 16 - OBSERVERS**

The general meeting may appoint one or more observers selected among those shareholders who are not directors. The general meeting determines their remuneration.

The term of office of the observers is six years. Such term of office expires at the end of the ordinary general meeting reviewing the financial statements for the last financial year during the year in which their term of office expires.

Observers may be re-elected without any limitation; they may be removed at any time by a decision of the general meeting.

In case of death or resignation of one or more observers, the board of directors may co-opt the successor, with such provisional appointment being subject to ratification by the next general meeting.

Observers are responsible for the strict enforcement of the articles of incorporation. They attend meetings of the board of directors without any voting right. They review the lists of assets and liabilities and the annual financial statements and submit in this respect their observations to the general meeting whenever they see fit.

## **Article 17 - CHAIRMAN OF THE BOARD**

The board of directors elects a chairman among those of its members who are natural persons, for a period determined by it, which may not exceed the term of the chairman's office as a director. The chairman organises and leads the work of the board of directors, and reports thereon to the general meeting. The chairman ensures the proper functioning of the bodies of the company and ensures in particular that the directors are in a position to discharge their duties.

The remuneration of the chairman is determined freely by the board of directors, upon a recommendation made by the remuneration committee.

The chairman may be re-elected at any time subject to the provisions of the sub-paragraph below.

The chairman's term of office must expire at the latest at the end of the ordinary general meeting following the date on which he reaches the age of sixty-eight. However, the board of directors may, in one or more times, effect an appointment or renewal beyond the above age limit, under the conditions provided for by applicable laws and regulations.

If the chairman dies or is temporarily unable to act, the board of directors may appoint a director in order to act as chairman.

In case of temporary inability to act, such appointment is made for a limited time and is renewable. In case of death, such appointment is valid until the election of the new chairman.

The board of directors also appoints a secretary and determines his term of office. The secretary need not be selected among the directors; if the secretary is not a director, he shall not have any voting right or advisory capacity within the board.

The chairman and the secretary form the bureau of the board of directors.

## **Article 18 – SENIOR MANAGEMENT**

The senior management of the company is carried out by a natural person, other than the chairman of the board of directors, who is appointed by the board of directors and has the title of chief executive officer. The chief executive officer may be a director.

The chief executive officer has the broadest powers to act in all circumstances in the name of the company. The chief executive officer exercises the said powers within the limit of the corporate purpose and subject to the powers expressly reserved by law for general meetings and for the board of directors.

The chief executive officer represents the company in its relationships with third parties. The company is bound even by those actions of the chief executive officer that do not pertain to the corporate purpose, unless the company proves that the third party concerned knew that the said action exceeded the corporate purpose or could not be unaware of the same in view of the circumstances, provided that the mere publication of the articles of incorporation shall not be deemed to amount to such evidence.

The board of directors may limit the powers of the chief executive officer, but such limitation is unenforceable against third parties.

The chief executive officer may delegate part of his powers, whether temporarily or permanently, to as many agents as he shall see fit, with or without the power to subdelegate.

The chief executive officer's remuneration is determined freely by the board of directors, upon a recommendation of the remuneration committee.

The chief executive officer is asked to attend meetings of the board of directors, even if he is not a director.

The chief executive officer may be removed at any time by the board. Any removal decided without cause may give rise to the payment of damages.

When the chief executive officer is a director, he may not be appointed for a period exceeding his term of office as a director.

The chief executive officer's term of office expires at the latest at the end of the general meeting held in order to review the financial statements of the financial year during which the chief executive officer reaches the age of sixty-five. However, the board of directors may, in one or more times, extend such limit under the conditions set forth by applicable laws and regulations.

#### **Article 19 - DEPUTY CHIEF EXECUTIVE OFFICERS**

Upon a recommendation made by the chief executive officer, the board of directors may appoint, within the limits set forth by law, one or more natural persons responsible for supporting the chief executive officer, and bearing the title of deputy chief executive officer.

In agreement with the chief executive officer, the board of directors determines the scope and term of the powers granted to the deputy chief executive officers. However, the deputy chief executive officers have, vis-à-vis third parties, the same powers as the chief executive officer.

When the chief executive officer ceases discharging his duties or is unable to discharge his duties, the deputy chief executive officers remain in office, unless otherwise decided by the board until the appointment of the new chief executive officer.

The remuneration of the deputy chief executive officers is determined freely by the board of directors, upon a recommendation from the remuneration committee.

Even where the deputy chief executive officers are not members of the board of directors, they are asked to attend meetings of the board of directors.

Deputy chief executive officers may be removed at any time by the board of directors upon a recommendation from the chief executive officer. Any removal decided without cause may give rise to the payment of damages.

When a deputy chief executive officer is also a director, his term of office as a deputy chief executive officer may not exceed that of his office as a director.

The deputy chief executive officers' terms of office expire at the latest at the end of the general meeting held in order to review the financial statements of the financial year during which they reach the age of sixty-five. However, the board of directors may, in one or more times, extend such limit under the conditions set forth by applicable laws and regulations.



## **Article 20 - GOVERNMENT'S REPRESENTATIVE**

The State may appoint a representative in order to attend the meetings of the board of directors.

The Government's representative is not a director. The Government's representative ensures that the company complies with its corporate purpose.

The Government's representative has no voting right. In case of disagreement with any decision that he deems contrary to the company's corporate purpose, a reference to his position is noted in the minutes of the relevant meeting.

## **Article 21 – STATUTORY AUDITORS**

The company is audited by one or more statutory auditors in accordance with the terms and conditions set forth by law.

One or more alternate statutory auditors, who are to replace the standing statutory auditor(s) in case of death, inability to act or refusal to act, are appointed by the ordinary general meeting.

## **TITLE IV- SHAREHOLDER MEETINGS**

### **Article 22 - GENERAL MEETINGS**

Notice of the general meetings is given in accordance with provisions of law.

Meetings are held at the registered office or at any other place specified in the notice.

The right to participate in general meetings is conditional on the registration of the shares in the accounts maintained by the company, at least five days before the date of the general meeting.

General meetings are chaired by the chairman of the board of directors or, in his absence, by a director especially appointed to that end by the board. In default, the general meeting itself appoints its chairman.

The two members of the general meeting who are present and hold the largest number of votes are appointed as scrutineers, if they accept such appointment.

The bureau appoints the secretary, who is not required to be a shareholder.

An attendance sheet is maintained in accordance with provisions of law.

The copies or excerpts of the minutes of general meetings are duly certified in accordance with provisions of law.

## **Article 23 - ATTENDANCE OF AND REPRESENTATION AT GENERAL MEETINGS**

Any shareholder is entitled to participate in general meetings.

Subject to the application of the legal provisions to general meetings assimilated with constitutive general meetings, each member of the general meeting has the following number of votes:

- any shareholder owning a number of shares ranging between one share and 10% of the number of shares representing the share capital shall have one vote for each fraction of 0.01% of its fraction of the share capital.

- any shareholder owning a number of shares ranging between 10% and 20% of the number of shares representing the share capital shall have a number of votes equal to 1,000 plus one vote for each fraction of 0.10% owned by it in excess of 10% of the share capital.

- any shareholder owning a number of shares in excess of 20% of the number of shares representing the share capital shall have a number of votes equal to 1,100 plus one vote for each fraction of 1% owned by it in excess of 20% of the share capital.

- where applicable, the number of votes so determined shall be rounded up to the immediately higher whole number.

Any shareholder may be represented at general meetings by another shareholder.

Those natural persons who are permanent representatives of legal persons on the board of directors shall participate in general meetings, whether or not they are personally shareholders.

## **Article 24 - POWERS OF GENERAL MEETINGS**

Ordinary and extraordinary general meetings deciding in accordance with the applicable quorum and majority rules exercise the powers devolved to them by provisions of law.

## **TITLE V - FINANCIAL YEAR – PROFITS**

### **Article 25 - FINANCIAL YEAR**

The financial year commences on January 1, and ends on 31 December 31.

As an exception, the first financial year of the company commenced on September 23, 1985 and ended on December 31, 1985.

### **Article 26 - PROFITS AND LOSSES – DIVIDEND PAYMENTS**

Earnings available for distribution, as defined by law, are earmarked by the general meeting which decides to post them to one or more reserve accounts, of which it determines the allocation or use, to carry them over or to distribute them. In case of distribution, the general meeting may grant the right to make an election between the payment of a dividend in cash or in shares under the conditions set forth by law.

In addition, the general meeting may decide to distribute amounts deducted from available reserves, by specifying expressly the reserve items from which the deductions are made.

However, dividends are deducted on a priority basis from the net income available for distribution of the financial year.

Save in case of a capital decrease, no amount may be distributed to shareholders when the shareholders' equity is or would become, following such decrease, lower than the amount of the minimum share capital mandated by legal or regulatory provisions.

Losses, if any, are carried over in order to be applied against profits of subsequent years until they are fully covered.

## **TITLE VI – INTERNAL RULES AND REGULATIONS**

### **Article 27 - INTERNAL RULES AND REGULATIONS**

Internal rules and regulations, approved by the board of directors, set forth the provisions governing the operations of the company and certain commitments of its shareholders. The internal rules and regulations supplement and clarify the articles of incorporation. The internal rules and regulations are signed by the shareholders and any institutions that are to become shareholders.

## **TITLE VII – DISSOLUTION - LIQUIDATION**

### **Article 28 - LIQUIDATION OF THE COMPANY**

At the end of the term of the company or upon its dissolution, the general meeting determines the liquidation mode and appoints one or more liquidators whose powers it determines and who discharge their duties in accordance with provisions of law.



**CRH - CAISSE DE REFINANCEMENT DE L'HABITAT****INTERNAL RULES AND REGULATIONS**

These internal rules and regulations supplement and explain the articles of incorporation and clarify the provisions governing the operations of CRH and certain commitments assumed by the shareholders. These internal rules and regulations apply to any present or future collateralisation and are deemed an amendment to any earlier agreements.

*These internal rules and regulations may be amended in order to be adapted to changes in prudential regulations*

- 1. OPERATIONS OF CRH**
- 2. APPROVAL OF BORROWERS**
- 3. RISK COMMITTEE'S POWERS IN RELATION TO REFINANCING**
- 4. BOND ISSUES**
- 5. COLLATERALISATION**
- 6. COLLATERALISATION GUARANTEE**
- 7. BORROWER'S DEFAULT**
- 8. COMMITMENTS ASSUMED BY SHAREHOLDERS**
- 9. SUPERVISION OF THE CRH'S FUNCTIONING**
- 10. EXPRESS APPROVAL OF THE INTERNAL RULES AND REGULATIONS BY THE SHAREHOLDERS**

**1. OPERATIONS OF CRH**

**1.1** In accordance with its articles of incorporation, CRH's operations consist solely in the refinancing of the home-purchase loans granted by those credit institutions that are its shareholders and by any institution that has agreed to become its shareholder and is approved by it.

**1.2.** CRH issues financial securities (hereinafter referred to as "bonds") having characteristics identical to the characteristics of the notes collateralised for the purposes of the said refinancing. CRH thus acts as a pass-through entity.

**1.3.** The commitments incurred by borrower credit institutions with CRH and the commitment assumed by CRH upon the issuance of loans on the financial market are therefore fully matched.

**1.4.** CRH's refinancing operations are governed by the provisions of Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code.

## **2. APPROVAL OF BORROWERS**

**2.1.** To be eligible for CRH refinancing, a borrower must:

- be a credit institution;
- undertake to become a CRH stockholder;
- undertake to comply with legislation and official regulations applicable to the operations of CRH, the Articles of Incorporation and By-laws of CRH and these internal rules, in particular as regards the right of CRH to inspect the borrower's loan portfolio;
- be approved by CRH and, to this end, submit documentation with all business and financial information necessary to determine whether such approval is appropriate.

CRH may request any additional information and technical assessments it considers necessary for this purpose.

**2.2.** After obtaining the opinion of the risk committee, CRH's board of directors decides to approve the borrower and determines the financial terms of the refinancing facilities.

In accordance with banking regulations, the maximum amount of the risk related to a borrower may at any time be re-examined by the board of directors.

**2.3.** Before any refinancing is granted:

- the borrower must sign the internal rules and a subordinated loan agreement concerning the equity contribution referred to in Article 8.1 below;
- the borrower must undertake to provide CRH on a regular basis or at the request of CRH;
  - with all documents necessary to monitor its business and earnings, in particular in the housing-loan sector;
  - where applicable, this is to include information concerning housing-loan assets sold or transferred, whether or not the borrower continues to administer these loans;
  - where applicable, it shall also include the amount of any mortgage notes issued in favor of any party other than CRH;
- the CRH inspection department may examine the borrower's loan portfolio.

### **3. RISK COMMITTEE'S POWERS IN RELATION TO REFINANCING**

The risk committee issues opinions concerning in particular the terms applicable to:

- the borrowers' approval and refinancing,
- the eligibility of the receivables,
- the guarantee of the promissory notes,
- the hedging of CRH's direct and indirect risks related to the refinancing facilities,
- the determination of the respective market shares of each of the approved institutions, serving where applicable for the grant of the refinancing facilities.

### **4. BOND ISSUANCE**

**4.1.** The credit institutions inform CRH of their refinancing requirements periodically.

After receiving and examining all applications. CRH informs the institutions of its decision, prepares an issuance program, and submits a lending agreement setting forth the terms and conditions of refinancing for signature by the institutions.

**4.2.** CRH may operate on French and foreign financial markets by issuing bonds.

CRH may entrust one or more credit institutions with the placement of the loans issued by it or may personally carry out such placement. CRH determines the placement's characteristics according to the market's situation.

**4.3.** The amount raised by CRH in connection with any loan is allocated among the borrower institutions as follows:

a) If the amount actually raised by CRH is equal to the total amount of the refinancing requests expressed and accepted by CRH, then such requests shall be fully served.

b) If the amount actually raised by CRH is lower than the total amount of the refinancing requests expressed and accepted, then a theoretical allocation of the amount actually raised by CRH is calculated for each institution on a pro rata basis of the market shares of the institutions concerned.

Any applications covering amounts lower than or equal to the amount of the theoretical allocation of the institutions shall be fully served.

Unallocated amounts shall be used for those institutions that have not been served in full within the limit of their application, on a pro rata basis of their market share on the French home-purchase loan market.

Such market shares are determined by the chief executive officer after seeking the opinion of the risk committee and consulting each institution concerned on the basis of the latest figures sent by the institutions to ACPR and to CRH. Such determination is made after the general meeting of shareholders deciding on the annual financial statements of CRH. Such determination may be revised at any time in case of approval of a new institution.

**4.4** Immediately upon receipt of the proceeds of the loan, CRH pays to each borrower its ratable fraction, after deducting the expenses and fees related to the transaction and the amount of any requisite additional shareholders' equity referred to in Article 12 of the articles of incorporation.

## **5. COLLATERALISATION**

### **5.1 Issuance of mortgage notes**

In accordance with the provisions of Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code and the collateralisation agreement, borrowers are required to issue in favour of CRH mortgage notes representing their participation in the borrowing. Such notes shall be prepared in accordance with the provisions of the French Commercial Code and applicable standards in accordance with a template defined by CRH. Borrowers irrevocably agree to pay any interest, fees, incidental amounts and all present and future tax expenses related to such collateralisation on a pro rata basis of their participation and agree to comply with the commitments stated on the recto and verso of such notes.

The said notes are acquired by CRH upon disbursement of the funds.

The notes are denominated in the same currency and bear interest at the same rates and dates as the relevant loan's bonds and are repayable under the same terms.

### **5.2. Early repayment of notes**

Borrowing institutions may repay notes in full or in part before maturity only with CRH's consent and subject to the conditions determined by CRH, after signing an early repayment agreement. In such event, the institution concerned delivers the related bonds to CRH as repayment.

CRH may suspend this right at any time.

### **5.3. Procedure for perfecting the safety of the repayment maturities.**

Also, in connection with a procedure aimed at perfecting the safety of the repayment maturities of the bond loans already issued to date or to be issued, the borrowers expressly accept the provisions below:

Five business days prior to the repayment date of any bond loan issued by CRH, each borrower is required to grant CRH an advance in an amount equal to that of the principal of the note to be repaid, plus the amount of the note related to the associated interest.

The corresponding funds are invested on the money market until the repayment maturity through reverse repurchase agreements covering Treasury notes. The said funds may also be deposited with the Central Bank.

Such advance is repaid on the maturity date, where applicable by way of set-off with the amounts due by the borrower in respect of the repayment of the principal of the note to be repaid, plus the amount of the note related to the associated interest.

The proceeds from the investment of such advance on the money market are then paid to the borrowers. Where applicable any negative interest is borne by the borrowers.

In case of foreign currency transactions, such advance may be called in euro.



#### **5.4. Collateralisation by an endorsing agent**

One or more borrowers may, under an agency agreement, ask an institution duly approved by CRH, to subscribe in their name and on their behalf, a single mortgage note representing loans that they intend to collateralise.

The agent endorses the note representing the capital and the notes representing the interest that it subscribes on behalf of its principals. The agent agrees to replace the said principals in case of default and assumes in such event all commitments made by them. In addition, the agent communicates to CRH a copy of the agency agreement executed by it.

Each principal agrees to comply with the commitments related to the collateralisation procedure on a pro rata basis of its share in the subscribed note. The principals may agree that they are jointly and severally liable for compliance with all of the said commitments.

The agent is not required to hold the receivables. However, the agent guarantees that the inspections planned by CRH may be carried out at its premises if CRH so requests.

The agent is also responsible for obtaining from its principals any and all documents enabling it to seek from notaries and courts, if necessary, the issuance of the enforcement copies corresponding to the receivables. The agency agreement that was executed with the agent must provide for the option to transfer such right to CRH.

Also, such agency agreement must specify that the principal has been informed of these internal rules and regulations, accepts the terms thereof and agrees to comply with the same.

The agent signs these internal rules and regulations in its capacity as the agent and also in its own name.

### **6. COLLATERALISATION GUARANTEE**

#### **6.1 Pledge of a securities portfolio**

The service of the interest and the repayment of the mortgage notes must be guaranteed, at the latest upon the issuance of the notes, by a pledge of receivables in accordance with the provisions of Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code (the “availability”).

The creation of the pledge results from the preparation by the borrower, for each note, of a nominative list of receivables according to a template prepared by CRH, in conformance with the aforementioned provisions.

The characteristics of the receivables so made available and where applicable any specific terms governing the guarantee of the collateralised loans are determined by the board of directors of CRH in compliance with applicable provisions and are detailed in a document entitled “loans’ eligibility criteria for the operations of CRH”. Any subsequent changes to the said document are accepted in advance by the borrowers.

The receivables portfolio so made available must at any time have an average life equal to the residual duration of the guaranteed capital note and an average interest rate that is no less than

the rate applicable to the said note. Its amount must at all times be equal to at least 125% of the nominal amount of the guaranteed note. However, in cases where certain rules are not complied with, and in particular any rate or term consistency rules, CRH may ask that such minimum amount be increased.

The borrower agrees to be personally responsible for the timely payment of any amounts due by debtors in relation to the said receivables.

It is expressly agreed that any amount to be made available to CRH by the borrower shall be earmarked for the guarantee of any note subscribed or to be subsequently subscribed by the borrower in favour of CRH.

## **6.2. Constraints related to the pledge**

In accordance with the provisions of the aforementioned law, the borrower may not transfer, in any form whatsoever, in particular through any transfer of title or by way of any guarantee, the receivables so made available. In particular, the borrower may not assign the receivables to a French or foreign securitisation fund.

The borrower recovers the right to dispose freely of the pledged receivables solely where the same are repaid, payable, non-performing, disputed or doubtful. The borrower is then required to replace such receivables by eligible receivables in the same amount.

Is deemed non-performing or disputed, any receivable in respect of which any amount is overdue, if such arrears arise because of legal or political obstacles beyond the debtor's control, or because of any challenge.

Is deemed doubtful, any receivable in respect of which any amount is overdue for any reason not referred to above.

The borrower agrees to withdraw from the receivables made available any and all receivables invalidated upon any inspection and more generally to exclude any receivable not meeting the criteria of eligibility for CRH's operations.

The borrower retains a list of the receivables so made available and sends each month a copy thereof to CRH.

## **6.3 Inspections carried out at borrowers' premises**

CRH inspects the receivables pledged in order to guarantee the notes, at the premises of borrower institutions or institutions liable to borrow.

CRH inspects in particular the following:

- physical existence of the receivables,
- full title of the borrower institution to the receivables,
- in accordance with provisions of law, lack of any commitment, in particular in connection with any pledges or transfers,
  
- conformance with the eligibility criteria.

To that end, CRH may seek from the inspected institutions the issuance of any necessary certificates from their statutory auditors.

When invalid receivables are identified, and in particular receivables referred to in paragraph 6.2. of these internal rules and regulations, the borrower institution must pledge in favour of CRH an additional portfolio of valid receivables in order to compensate for the identified insufficiency.

#### **6.4. Insufficient collateral**

Should the amount of the loans provided as collateral for notes be insufficient. The institution concerned must immediately remedy this by pledging additional eligible loans to CRH. Failing this, the borrower undertakes to restore collateral to an adequate level through the immediate purchase of bonds in a sufficient amount from the pool corresponding to the note concerned and to deliver these bonds to CRH by way of repayment.

CRH may agree to the deferral of such transactions.

Borrowers undertake to inform CRH promptly as soon as they are aware that such a situation may arise.

#### **6.5. Information system**

The borrower undertakes to inform CRH eventually, of any draft amendment likely to affect filters being used to select pledged loans.

### **7. BORROWER DEFAULT**

In the case of a borrower default on payment of the advance referred to in Article 5.3 above prior to a repayment date or interest payment date the following provisions apply:

#### **7.1. Call for cash advances**

CRH management calls on each stockholder to supply the cash advances referred to in Article 8.3 below for the purpose of meeting commitments to bondholders at the due date despite the default.

#### **7.2. Lapse of maturity dates on notes**

When a borrower defaults on payment of interest or principal at a due date, the maturity date on all notes issued by the borrower in favor of CRH lapses and all such notes become ipso facto immediately due.

#### **7.3. Transfer of title**

Immediately upon noting any default, and after calling the cash advances and referring the matter to the risk committee, CRH reviews in particular the following:

a) the advisability and, where applicable, the terms of the transfer to CRH of title to the pledged receivables pursuant to the provisions of Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code, after the borrower has been given notice of the default,

b) the advisability of entrusting the defaulting institution with the management of the receivables portfolio in accordance with the agreement attached as a schedule hereto and under terms approved by Prudential Authorities.

CRH then carries out or procures a detailed audit of the said portfolio in order to check its overall characteristics and specifically to determine the amounts and dates of the flows to be anticipated.

#### **7.4. Management of risks resulting from the substitution of loans for defaulting mortgage notes**

The revenue flows generated by the loans are to enable CRH to pay interest and principal on bonds related to the defaulting notes. However, the dates and amounts of revenue flows may not exactly match those of payments.

In view of this, CRH may, once the loan portfolio has been fully assessed seek additional refinancing to ensure a precise match between revenues and payments.

CRH may also retire its bond debt by selling the loan portfolio and buying back bonds in the same amount on market terms, then cancelling these bonds.

#### **7.5. Management of interest rate risk**

When a borrower defaults, the interest rate risk that may result is the object of particular attention. CRH may use derivative products to cover this risk but to the extent possible must give preference to the purchase or sale of fixed-income securities or loans eligible for its refinancing operations.

Should CRH decide to sell the loans to fund the purchase of bonds as described in 7.4 above, preparations for this will include the adoption of precisely defined measures to limit interest-rate risk. This may involve in particular entrusting a credit institution with an ad hoc mandate.

#### **7.6. Settlement between defaulting borrowers and CRH**

The final settlement with a defaulting borrower should release CRH in full from all debts and commitments entered into on behalf of the borrower, with no charge of any kind remaining as a result of the default.

The final settlement is in principle made after the latest maturity date initially set for the borrower's notes.

Payments due from the defaulting borrower include in particular:

- the amount of interest, repayments and tax paid or to be paid by CRH on behalf of the borrower since its default, including interest on the cash advances from other stockholders referred to in section 8.3 below;

- the full amount paid out by CRH (including expense and interest) in connection with the bond repurchases referred to under 7.4 above;

- all legal and other expenses borne by CRH as a result of the default.

## **8. COMMITMENTS ASSUMED BY SHAREHOLDERS**

In addition to the obligations resulting from the law, regulations and contractual agreements governing their operations, each stockholder must fulfil the following commitments.

### **8.1. Capital endowment**

Each shareholder is required to pay to CRH the amounts necessary to endow it with the capital resources required by banking regulations in accordance with the terms set forth in the articles of incorporation.

### **8.2. Allocation of the share capital**

Each shareholder agrees to transfer or acquire the requisite number of shares so as to ensure total proportionality between the allocation of the capital and the allocation of the regulatory capital requirements related to the amounts outstanding, in accordance with the terms set forth by the articles of incorporation.

### **8.3. Cash advances**

In accordance with the articles of incorporation, each CRH shareholder is required to provide CRH, as a cash advance, with the funds necessary to its functioning, within the limit of 5% of the total amount outstanding of the refinanced sums.

a) By virtue of an express delegation granted by the board of directors, CRH's senior management calls such cash advances on its own initiative and by any means, whenever necessary, in a sufficient amount.

b) In the event of a shareholder default in relation to the service of its debt vis-à-vis CRH, the cash advances made by the other shareholders must allow for the timely payment by CRH of all amounts due on its behalf, in particular to bondholders and to the Treasury.

If necessary, such advances are maintained until settlement of the accounts between such defaulting shareholder and CRH.

c) Advances are apportioned among shareholders on a pro rata basis of their amounts refinanced in nominal value as of December 31, of the preceding financial year or as of any later date determined by the board of directors.

d) The board of directors determines, in due time, the remuneration of the advances in view of circumstances and market conditions.

e) So that CRH may receive such advances on first demand, each shareholder sends to CRH a specific and constantly updated data sheet indicating the names, street and email addresses, telephone and fax numbers of no less than two employees authorised to receive from CRH's senior management calls for the payment of cash advances.

f) Any shareholder failing to pay the necessary amounts on the scheduled dates owes the company automatically and without any prior notice an indemnity determined by the ordinary general meeting.

#### **8.4. Management agreement**

Each stockholder accepts, by operation of law, the terms of the management agreement referred to in Article 7.3 above.

#### **8.5. Compliance with Articles of Incorporation and By-laws**

Each stockholder is required, by sole virtue of its status, to comply with the company's Articles of Incorporation and By-laws and the resolutions adopted by Regular Stockholders' Meetings.

### **9. SUPERVISION OF CRH'S FUNCTIONING**

In accordance with banking regulations, an internal control structure is set up within CRH under the responsibility of senior management.

Also, the functioning of CRH is audited by the inspection units of the various shareholder institutions or, upon a decision made by the board of directors, by an audit firm registered on the list of statutory auditors.

### **10. STOCKHOLDER APPROVAL OF INTERNAL RULES AND REGULATIONS**

CRH stockholders expressly undertake to comply with these internal rules, as evidenced by their signatures below.

## CONDITIONS OF ELIGIBILITY

### REMINDER

The sole business of Caisse de Refinancement de l'Habitat is the funding of housing loans extended by banks. CRH provides funding to the banks by acquiring and holding the promissory notes they issue. These notes have the same characteristics as the bonds CRH issues to fund them, and are guaranteed by a specific pledge of the loans made by the banks.

These criteria can be further amended to be fully compliant with the new European regulation.

### INTRODUCTORY REMARK

The following provisions comprise the body of laws and regulations applicable to CRH's operations. Some of these rules are also likely to be amended, repealed or replaced in the coming months due to the introduction of the new European regulatory framework:

- Article 13 of Law no. 85-695 of July 11, 1985, along with Article 36 of Law no. 2006-872 of July 13, 2006;

- Articles L. 313-42 through L. 313-49 of the Monetary and Financial Code codifying the provisions of Article 16 of Act no. 69-1263 of December 31, 1969 as amended by Articles 12 and 13 of Act no. 85-695 of July 11, 1985 and by Article 113 of Act no. 99-532 of June 25, 1999, by Article 16 of Decree n° 2008-556 of June 13, 2008 and by Article 18 of Decree n° 2010-76 of January 21, 2010;

- Article L. 513-3 paragraph I relative to French Sociétés de Crédit Foncier;

- Article L. 312-3-1 of *code de la consommation* regarding some loans in foreign currency.

- Articles R. 313-20 to R. 313-25 of the Monetary and Financial Code codifying the provisions of decree no. 2000-664 of July 17, 2000 as amended by decree no. 2003-144 of February 19, 2003 and by decree no. 2007-745 of May 9, 2007 and by decree no. 2014-1315 of November 3, 2014;

- French Banking and Finance Regulatory Committee Regulation no. 99-10 as amended by Regulation no°. 2002-02 and the decrees of May 7, 2007 and of February 23, 2011 on the valuation of financed assets to be used to determine the portion of a loan that may be collateralized;

- Regulation (EU) n° 575/2013 of the European parliament and Council of June 26, 2013 hereinafter referred to as CRR;

- Directive 2013/36/EU of the European parliament and Council of June 26, 2013;

- The company By-laws of CRH;

- This document, summarizing all of the general provisions related to the raising of capital, which details and supplements the above rules. In compliance with the By-laws of CRH, these provisions have been approved by the Board of Directors.

## CONDITIONS OF ELIGIBILITY OF LOANS

The conditions of eligibility of the loans in which CRH result of the provision of article 129 of European regulation “CRR” of June 26, 2013 regarding covered bonds and the capabilities appropriate for the CRH.

### 1 - BENEFICIARIES

Beneficiaries must be either natural persons or *société civile immobilière* real estate partnerships whose stockholders are natural persons if the latter do not engage in property development activities.

### 2 - USE

The loans are intended to be used to finance the construction or acquisition of **Housing** or in the financing of both the acquisition of a buildable property and the cost of the work for providing **Housing**. All work performed to create or transform a habitable area, by extending or renovating it, is considered to be construction.

Thus, all loans intended to be used to finance professional or commercial facilities are excluded. In the case of a mixed-use operation (financing of both housing and professional or commercial facilities), the financing of the housing part may be eligible only that part is broken out in a separate loan, mortgage registration and valuation.

### 3 - GUARANTEES

The loans financed must be guaranteed:

1) either by a senior mortgage or a PPD (*privilège de prêteur de deniers*) type surety on the asset financed;

2) or by a joint and several guarantee from an eligible protection provider according to the article 129-e of the European regulation “CRR”.

The borrower must ensure that the property securities matches the criteria of the regulation above.

### 4 - AMOUNT

The outstanding principal balance of the eligible loan must not exceed EUR 1 million.



## **5 – MATURITY**

The initial term of the eligible loan is greater than 1 year.

The term to maturity of the eligible loan must not exceed 25 years.

## **6 – PORTION OF AN ELIGIBLE LOAN THAT MAY BE FUNDED**

The portion of an eligible loan that may be funded may not exceed the lower of the following two amounts:

- the remaining principal balance of the loan;
- 90% of the value of the asset financed or provided as collateral (or 100% in the case of *Prêts à l'Accession Sociale* social housing loans guaranteed by Fonds de Garantie à l'Accession Sociale or any other substitute fund. body. entity or person).

When several loans coexist (especially *prêts d'épargne logement* and zero-interest rate-type regulated housing loans), the portion eligible for CRH financing is calculated by taking the sum of the remaining principal balances of all of the loans.

## **7 - VALUATION OF THE ASSET FINANCED**

All buildings financed by eligible loans are the subject of a prudent evaluation that excludes all speculative aspects. It is carried out by the borrowing bank.

This valuation must be performed by an independent expert, i.e. a person who is not part of the lending decision-making process and who possesses the qualifications, competence and experience necessary to perform such a valuation.

The valuation is performed taking into account the building's long-term characteristics, normal and local market conditions, the current use made of the asset and all other uses that might be made. This mortgage value must be explained plainly and transparently in writing, and may not be greater than the asset's market value.

By dispensation, the valuation may be based on the total cost of the initial operation when this cost is less than EUR 600.000 or when the sum of the remaining principal balances of the loans guaranteed by the asset financed is less than EUR 480.000.

The valuation of the buildings is re-examined as part of the risk measurement system required of borrowing credit institutions by the decree of November 3, 2014 relating to internal control of the bank sector companies, payment services and investment services subject to control by the Prudential Control Authority and Resolution. This examination is performed annually using statistical methods.

The methods used to value buildings and the periodic re-examination of their value must be made available to both the ACPR and CRH who may request their modification.

The borrower has procedures describing their lending policy and the nature of the goods financed and enabling them to ensure that the property taken as collateral is adequately insured against the risk of damage.

## 8 - SPECIFIC CONDITIONS FOR GUARANTEED LOANS

Total guaranteed loans may not exceed 35% of the total amount pledged by a borrowing institution in favor of CRH.

The loan-to-income ratio has to respect at most 33 % when the loan has been granted. This ratio corresponds to the portion of the borrower's gross income which covers the loan reimbursement including interest.

On the same date, no mortgage can be taken on the financed household asset.

Both the credit institution and the protection provider shall carry out a creditworthiness assessment of the borrower.

## 9 - SPECIFIC PROVISIONS

Until such time as it matures, the funding provided must be secured by the pledging of a portfolio of eligible loans in an amount equal to at least 125% of the total amount of funding. When these loans are has fixed rate and at least equal in 150% of the total amount of funding when these loans are for revisable rate.

CRH may, however, require this minimum to be increased in situations where certain rules are not followed, especially rules regarding the congruence of interest rates.

The borrower may not transmit the pledged claims through any means. Consequently it cannot sell them, notably to an FCC debt securitization fund or to a *société de crédit foncier* mortgage debt company.

The borrower is able to dispose freely solely of those claims that are reimbursed due for payment, capitalized, disputed or doubtful. The borrower is then expected to replace them with the same amount of eligible claims.

All claims experiencing delinquent payments are considered to be capitalized or disputed if the delinquent payments result from legal or political obstacles independent of the will of the debtor or of any challenge.

All claims experiencing delinquent payments for a reason other than those mentioned above are considered to be doubtful.

It should be specified that a claim is considered to be experiencing delinquent payments once the delinquency represents two payments or more.

The portfolio of pledged loans must have an average life span equal to the term to maturity of the funding, and an average interest rate that is greater than or equal to that of the funding.

CRH may require controlled institutions to provide any useful opinions issued by their independent auditors.

When invalid claims are discovered, especially those defined in Article 6.2. of the present By-laws, the borrowing institution must pledge an additional portfolio of valid claims in favor of CRH to compensate for the observed shortfall.

Regarding the loans in Swiss francs, the borrower should insure that the beneficiaries of these loans have mainly their income or hold assets in Swiss francs at the loan's signatory date.

## **OTHER REMARKS**

It may be observed that *prêts d'épargne logement* and similar regulated housing loans are eligible under the same terms and conditions as the other loans.

By law, loans are considered eligible if they are used to finance a real estate asset located within the European Economic Space or in the overseas territories of the French Republic. At present, however, regarding the above regulation, the only operations authorized are those financing real estate assets in Metropolitan France and its overseas departments and territories.

## **SUPPORTING DOCUMENTS TO BE MAINTAINED BY THE BORROWING INSTITUTIONS**

Caisse de Refinancement de l'Habitat verifies the materiality of each claim and its compliance with the criteria established in this document. It audits the following characteristics of each loan:

- purpose and location of the asset financed,
- beneficiary,
- guarantees,
- amount authorized,
- remaining principal balance,
- clauses describing repayment methods,
- date of final maturity and payment dates for interest and principal,
- nominal interest rates and conditions for revision,
- total cost of the operation financed, cost of works,
- valuation of the asset financed,
- portion of loan eligible for funding,
- outstanding payments,
- loan/income ratio for guaranteed loans,
- for Swiss franc loans, presence of incomes or a patrimony in the same currency.

Institutions are thus required to maintain the following supporting documents in order to present them to CRH:

### **1- GUARANTEES**

- executory document, notices of registration and required documents for mortgage loans;
- guarantee document for guaranteed loans;
- loan offer and amendments.

## **2- VALUATION OF THE ASSET**

- sale document, agreement of sale, VEFA-type reservation contract on future construction, notice of donation, notarized certificate, construction contract or any documents useful for establishing the total cost of the operation or the value of the asset financed;
- summary of expenses engaged and sums released;
- supporting documentation for the valuation of the asset financed, when so required by regulations (total value of the operation greater than or equal to EUR 600,000);
- in the event that a loan is acquired, all documents establishing the purpose and the value of the asset financed by the original loan and ensuring that such loan satisfies all conditions of eligibility.

## **3- CUSTOMER DATA**

- current delinquent payment status report for each loan;
- amortization tables of the loans used to finance the operation;
- analysis sheet, detailed financing projections;
- articles of incorporation of the SCI;
- loan to income ratio when the loan is granted;
- proof of income or assets for the loans in Swiss francs.

## **GLOSSARY**

**Collateral:** Pledging of a portfolio of eligible claims in favor of CRH in accordance with the provisions of Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code to cover the amount lent by CRH to the borrowing credit institution.

**Congruence of term:** Provision of the CRH's By-laws requiring that the average term of the portfolio of claims pledged in its favor be at all times at least equal to the term to maturity of the mortgage note.

**Congruence of interest rates:** Provision of the CRH's By-laws requiring that the average interest rate of the portfolio of claims pledged in its favor be, at all times, greater than or equal to the interest rate on the mortgage note.

**Eligible claim:** Housing loans compliant with the conditions of eligibility established by the provisions of Articles L. 313-42 et seq. of the French Monetary and Financial Code.

**Guaranteed bonds (or Regulated European Covered Bonds):** Bonds that meet the criteria established by European regulation (EU) no 575/20133 CRR (article 129).

**Invalid claim:** Loans that are not compliant with the conditions of eligibility cited above.

**Mortgage market:** A market created in 1966 that, in accordance with the provisions of Articles L. 313-42 to L. 313-49 of the French Monetary and Financial Code, allows credit institutions to fund certain housing loans. CRH was substituted for the mortgage market which is no longer restricted to the funding of residential mortgages (under certain conditions).

**Mortgage note:** Security (promissory note) issued by a borrowing credit institution representing CRH's claim on the latter. The principal and interest of each note is guaranteed by the pledging of a portfolio of eligible claims. This is essentially a trade bill.

**Oversizing:** Minimum level of coverage of fundings by the portfolio of claims pledged in favor of CRH. This minimum level is at least equal to 125% (provisions of decree no. 2000-664 of July 17, 2000).

**Portion of an eligible loan that may be funded:** may not exceed the lower of the two following amounts: the remaining principal balance of the loan or 90% of the value of the asset financed or provided as collateral (or 100% in the case of *Prêts à l'Accession Sociale* social housing loans guaranteed by Fonds de Garantie à l'Accession Sociale or any other substitute fund. body. entity or person).

This value is estimated in accordance with the provisions of French Banking and Financial Regulatory Committee Regulation no. 99-10.

**Subordinated loans:** Sums loaned to CRH by its borrowers, pro-rated upon their outstanding loans and accounted for as Stockholders' equity.



SUMMARY PRESENTATION OF CRH




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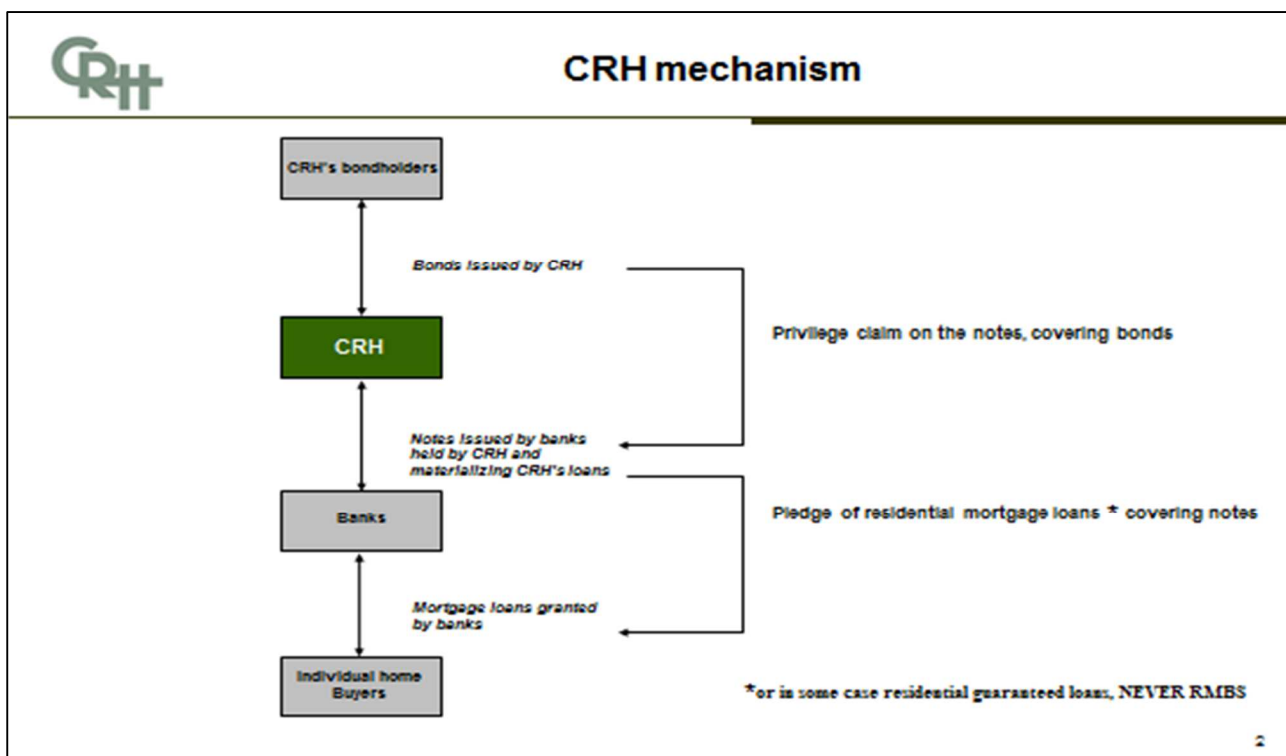
## CRH – Caisse de Refinancement de l’Habitat

### Aaa Moody’s / AAA Fitch

CRH was created in 1985 by the French Government with State explicit guarantee as a central agency in order to issue bonds in the specific legal framework of art 13 of law 85-685 of July 1985 for refinancing residential mortgage home loans granted by the French banking system.  
 Today, instead of State guarantee, the French law grants to CRH’s bondholders a very strong privilege on CRH’s secured loans to banks.  
 No other agency of this kind had been set up until the creation of Société de Financement de l’Economie Française (SFEF) in October 2008.

Presentation January 2007

<http://www.crh-bonds.com> 1





## CRH at glance

- CRH is a Specialized Credit Institution. Its equity belongs to French Banks
  - CRH's only function is to fund **French residential home loans** granted by banks by issuing mortgage bonds in the special legal framework of law n° 85-695 of July 1985. CRH doesn't charge any fee or deals.
  - CRH's loans to banks have the same characteristics as those of CRH's bonds. CRH's debt is served by French banks and CRH's balance sheet duration is zero
  - Refinanced loans remain on the borrowing banks' balance sheet, but are pledged as collateral for covering CRH's loans to banks with a **minimum of 25% over-collateralisation**. In the event of a borrowing bank default, provisions of French law give CRH the **full ownership** of these loans, without any formality, **notwithstanding any provision to the contrary**
  - Loans in its cover-pool have to be compliant with *sociétés de crédit foncier's* criteria but have to be also compliant with CRH's additional criteria. CRH implemented **internal rules strengthening the credit quality for CRH's bonds**
  - CRH debt is rated **Aaa by Moody's and AAA by Fitch Ratings**
  - CRH has a total outstanding debt over EUR 38,2 \* bn with several highly liquid bonds (as of December 31<sup>st</sup>, 2016)
  - CRH was appointed to control debt's service and collateral's administration of Société de Financement de l'Economie Française (SFEF) from 1<sup>st</sup> January 2010 to 31 December 2014
  - Because of the size of its balance sheet, CRH operates under the supervision of E.C.B. since November 4<sup>th</sup> 2014
- \* in nominal value

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## Breakdown of CRH's Equity (December 2016)

	%
Crédit Mutuel CIC	36,7
Crédit Agricole SA - Crédit Lyonnais	34,7
Société Générale	16,0
BNP Paribas	6,3
BPCE	6,3
	<hr/>
	100.0

- Every borrower is committed to become a shareholder of CRH with a part in CRH's equity equal linked the borrowings amount
- Furthermore, every borrower is committed to supply back up lines to CRH if CRH calls them and regulatory equity if CRH needs
- These shareholders-borrowers' global market share is roughly 80% of the French Mortgage Market

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## CRH Economic Balance sheet (December 2016)

Assets	€bn	Liabilities	€bn
Promissory notes	38,2	CRH mortgage bonds	38,2
Interests and other assets	0,8	Interests and other liabilities	0,8
Deposits and CD	0,6	CRH equity	0,6
<b>TOTAL</b>	<b>39,6</b>	<b>TOTAL</b>	<b>39,6</b>

Because of the perfect matching between CRH bonds and promissory notes, CRH's balance sheet duration is zero. CRH's debt service is done by the French Banking System. CRH is an actual "Pass-through"

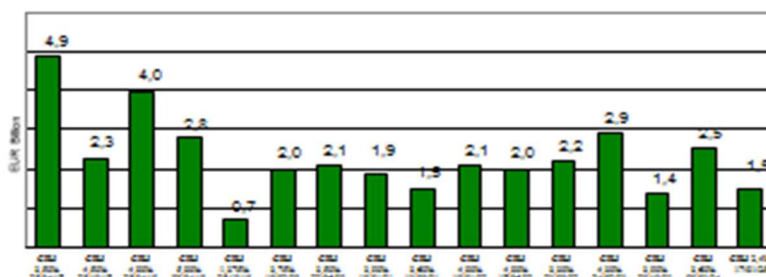
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## CRH Bonds – Key Points

(December 2016)

Euro CRH's curve – 16 Euro bonds, from 2017 to 2025, totalling € 36,7 bn



Term	Value (EUR Bn)	Status
CRH 2.50% 25.06.17	4.9	To be refinanced
CRH 4.50% 25.10.17	2.3	Refinanced
CRH 4.00% 25.06.18	4.0	Refinanced
CRH 5.00% 08.06.19	2.8	Refinanced
CRH 1.275% 25.10.19	0.7	Refinanced
CRH 2.75% 19.06.20	2.0	Refinanced
CRH 2.50% 22.06.20	2.1	Refinanced
CRH 2.90% 18.01.21	1.9	Refinanced
CRH 2.60% 12.09.21	1.3	Refinanced
CRH 4.00% 10.01.22	2.1	Refinanced
CRH 4.00% 17.06.22	2.0	Refinanced
CRH 2.20% 22.09.22	2.2	Refinanced
CRH 4.20% 26.02.23	2.9	Refinanced
CRH 2.90% 20.10.23	1.4	Refinanced
CRH 2.60% 08.02.24	4.3	Refinanced
CRH 2.0% 17.01.25	1.5	Refinanced
<b>TOTAL EUR BONDS</b>	<b>36.7</b>	
<b>TOTAL CHF 2017-2022</b>		
<b>BY EURO EQUIVALENT</b>	<b>1.7 (1)</b>	
<b>TOTAL EURO EQUIVALENT</b>	<b>38.2</b>	

Today:

- Compliant with "Capital Requirement Directive 2" - 10% Risk weighted by European credit institutions
- Eligible for open-market operations of the European Central Bank European Investors and European Covered Bond Council complement
- Benefit from the exception referred to Article 52.4 of the Directive on UCITS

(1) in nominal value

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## To sum up

CRH is very different from other credit institutions:

- CRH's only function is to fund French home loans to individuals granted by banks
- CRH's loans and borrowings have exactly same characteristics (rate, duration, currency)
- CRH's debt service, from an economic point of view, is done by French Banking System
- CRH's loans to banks are covered by the pledge of a portfolio compound with home loans to individuals. These loans are kept by borrowing banks in their assets
- In the event of a borrowing bank default, CRH becomes fully owner of that portfolio "notwithstanding any provision to the contrary" and "without any formality" because of provisions of French law.
- CRH doesn't charge any fee on deals
- CRH's equity belongs to borrowing banks (mainly: Crédit Agricole, Crédit Mutuel, Société Générale, BNPP, BPCE)
- Borrowing banks are committed to supply back up lines to CRH if CRH calls them
- Borrowing banks are committed to supply regulatory equity to CRH if CRH needs
- CRH never had losses write-downs or difficulties since its creation even in core phases of crisis
- Paradoxicaly, CRR regulation is impeding CRH' activity

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## Contact & Disclaimer

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# CRH mechanism

