Consolidated Financial Statements

promontoria mmb

2017

Contents

I. Consolidated income statement[1]

In thousands of euros	Notes	2017	2016
Interest and similar income	7.1	116 927	-
Interest and similar expense	7.1	(8 216)	-
Fee income	7.2	17 110	-
Fee expense	7.2	(21 514)	-
Net gains and losses on financial instruments at fair value through other comprehensive income	6.1	225	-
Net gains and losses from the derecognition of financial assets at amortised cost	7.3	(1 437)	-
Income from other activities	7.4	20 613	-
Expenses from other activities	7.4	(741)	-
Net banking income		**122 968**	**-**
Operating expenses	7.5	(100 535)	(16)
Amortisation, depreciation and impairment of tangible and intangible fixed assets	7.6	(2 741)	-
Gross operating income		**19 692**	**(16)**
Cost of risk	7.7	(11 748)	-
Operating income		**7 945**	**(16)**
Net income/expense from other assets	7.8	(15 416)	-
Bargain purchase gain	1.1	621 750	-
Earnings before tax		**614 280**	**(16)**
Income tax	7.9	(12 507)	-
Consolidated net income		**601 772**	**(16)**
Net income, Group share		601 352	(16)
Non-controlling interests		421	-

[1] Promontoria MMB did not engaged in any activity until 28 March 2017 as described in the major events of the financial year in Note 1.

II. Statement of net income and unrealised or deferred gains and losses

In thousands of euros	Notes	2017	2016
Net income		**601 772**	**(16)**
Unrealised or deferred gains and losses that will be reclassified subsequently into income		**3 538**	**-**
Revaluation of financial assets at fair value through other comprehensive income	6.2	163	-
Revaluation of hedging derivatives instruments of recyclables items	6.1	5 233	-
Tax related		(1 858)	-
Unrealised or deferred gains and losses that will not be reclassified subsequently into income		**1 900**	**-**
Actuarial gains and losses on defined benefit plans	6.9	2 561	-
Tax related		(662)	-
Total unrealised or deferred gains and losses		**5 438**	**-**
Net income and unrealised or deferred gains and losses		**607 210**	**(16)**
Group share		606 790	(16)
Non-controlling interests		421	-

III. Consolidated statement of financial position

In thousands of euros	Notes	12.31.2017	12.31.2016
Cash, due from central banks		13 948	-
Hedging derivatives	6.1	2 656	-
Financial assets at fair value through other comprehensive income	6.2	72 653	-
Loans and receivables due from banks and credit institutions at amortised cost	6.3	386 233	-
Loans and receivables due from customers at amortised cost	6.3	3 576 043	-
Current tax assets	6.5	6 760	-
Deferred tax asset	6.5	53 633	-
Others assets	6.7	58 107	0
Non-current assets held for sale	6.6	383 840	-
Property, plant and equipment	6.8	3 599	-
Intangibles asset	6.8	3 001	-
Total assets		**4 560 471**	**0**

In thousands of euros	Notes	12.31.2017	12.31.2016
Hedging derivatives	6.1	4 620	-
Debt securities issued	6.4	2 690 115	-
Due to bank and credit institutions	6.4	6 997	-
Due to customers	6.4	1 034 836	-
Current tax liabilities	6.5	2 907	-
Deferred tax liabilities	6.5	8 532	-
Other liabilities	6.6	129 863	16
Provisions	6.9	74 180	-
Total liabilities		**3 952 050**	**16**
Shareholders' equity, Group share		**607 944**	**(16)**
Share capital and retained earnings		984	0
Reserves		170	-
Unrealised or deferred capital gains and losses		5 438	-
Net income		601 352	(16)
Non-controlling interests		**477**	- -
Total equity		**608 421**	**(16)**
Total laibilities and equity		**4 560 471**	**0**

IV. Consolidated statement of changes in equity

In thousands of euros	Share capiral	Retained earnings	Unrealised or deferred gains and losses	Consolidated reserves	Net income, Group share	**Shareholders' equity, Group share**	Non-controlling interests	**Total consolidated equity**
Shareholders' equity at 1 January 2017	**0**	**(16)**	**-**	**-**	**-**	**(16)**	**-**	**(16)**
Increase in share capital	1 000					**1 000**		**1 000**
Effect of acquisitions and disposals on non-controlling interests						**-**	56	**56**
Sub-total of changes linked to relations with shareholders	**1 000**	**(16)**	**-**	**-**	**-**	**984**	**56**	**1 041**
Unrealised or deferred gains and losses			5 438			**5 438**		**5 438**
Net income					601 352	**601 352**	421	**601 772**
Other changes				170		**170**		**170**
Sub-total	**-**	**-**	**5 438**	**170**	**601 352**	**606 959**	**421**	**607 380**
Shareholders' equity at 31 December 2017	**1 000**	**(16)**	**5 438**	**170**	**601 352**	**607 944**	**477**	**608 421**

** Increase of the Promontoria MMB's capital by a par amount of 999 999 euro, by the issue of 99 999 900 ordinary shares each with a par value of one eurocent (€0.01), maintaining the preferential subscription rights of the Sole Partner*

V. Cash flow statement

In thousands of euros	2017
Net income before tax	**614 280**
Non-monetary items included in pre-tax net income and other adjustments	**(640 203)**
Net depreciation/amortisation expense on property, plant and equipment and intangible assets	2 741
Net addition to provisions	(5 144)
Net loss/(gain) on investing activities	(116)
Net loss/(gain) on financing activities	741
Bargain purchase gain	(621 750)
Other changes	(16 675)
Net increase/decrease in cash related to operating assets and liabilities	**411 951**
Net increase in transactions with credit institutions	(674)
Net increase in transactions with customers	419 622
Net decrease in non-financial assets and liabilities	(3 725)
Taxes paid	(3 272)
Net cash inflow (outflow) related to operating activities (A)	**386 028**
Net cash inflow (outflow) related to acquisition and disposal of financial assets	(71 596)
Net cash inflow (outflow) related to tangible and intangible fixed assets	(2 594)
Net cash inflow (outflow) related to investment activities (B)	**(74 190)**
Cash flow from/to shareholders	-
Other net cash flows arising from financing activities	(334 604)
Net cash inflow (outflow) related to financing activities (C)	**(334 604)**
Net inflow (outflow) in cash and cash equivalents (A + B+ C)	**(22 766)**
Cash and cash equivalents at the start of the year	**-**
Cash and cash equivalents from investing activities (see Note 1)	**422 946**
Cash, due from central banks (assets)	35 346
Current accounts with banks	388 806
Demand deposits and current accounts with banks	(1 207)
Cash and cash equivalents at the end of the year	**400 180**
Cash, due from central banks (assets)	13 948
Current accounts with banks	386 233
Net inflow (outflow) in cash and cash equivalents	**(22 766)**

VI. Notes to the financial statements

1. Major events for the financial year and group structure

At the date of the present report, PROMONTORIA MMB is a subsidiary of the company Promontoria Holding 101 B.V. (Netherlands), affiliated to the investment funds managed by Cerberus Capital Management.

Founded in 1992, Cerberus Capital Management is a private equity fund that manages around 30 billion dollars of assets, invested in three complementary strategies: global credit solutions (non-performing loans, corporate loans and debts, mortgages and other assets, and direct loans); private equity and real estate. Its registered offices are in New York, and a network of subsidiaries and branches extends from the US, to Europe and Asia.

1.1. Purchase of the GE Money Bank Group - GE Money Outre-Mer

a. Purchase of the GE Money Bank Group - GE Money Outre-Mer, specialized in consumer finance activities in continental France and overseas departments and territories

As part of General Electric (”GE”) exit strategy from the financing businesses operated under “GE Capital”, with the exception of its industrial business lines vertical, a Share Purchase Agreement was signed on 27 September 2016 between GE Capital SAS (“GEC SAS”) and the company Promontoria France Holding (Promontoria MMB as of 28 March 2017) for the sale of GE Money Bank (excluding its mortgage credit subsidiary GE SCF) and the GE Money Outre-Mer entities.

On 28 March 2017, Promontoria MMB acquired a majority holding in several entities belonging to GE Capital SAS for a total amount of €127 million:

- 99.99% of the capital of My Money Bank
- 98.92% of the capital of SOREFI
- 95.64% of the capital of SOMAFI-SOGUAFI
- 100% of the capital of SOCALFI

These acquisitions grew the group balance sheet at the acquisition date by 4 577 million euros.

This contribution is essentially made up of the following items:

- In assets, customer overdrafts with other banking institutions in the sum of €389 million, customer loans and receivables for €3 939 million (mainly short-term loans to individuals), a portfolio of revolving credits classified in non-current assets held for sale for €85 million and deferred tax assets for €63 million;
- under liabilities, customers borrowings of €693 million in the form of long-term or demand deposits, liabilities represented by securities for €3 030 million, €80 million in provisions mainly for employee benefit plans, other liabilities representing €125 million (in particular miscellaneous accruals and accounts payable) and acquired Group capital and reserves for €623 million.

Group badwill resulting from this operation is €622 million, which has been directly accounted for in profit or loss under “Bargain purchase gain”. The internal analyses conducted in accordance with requirements of IFRS 3, in particular by reassessing all the identifiable assets acquired and liabilities assumed, have led us to conclude that this acquisition meets the definition of a “bargain purchase”.

The profit on this acquisition is mainly due to the current lower profitability of the acquired platforms versus that observed for comparable market players, and the estimated restructuring costs required to bring these activities to the expected profitability level, leading the assignor to grant a price reduction to reflect the negative goodwill thus observed.

Income from ordinary activities and gains or losses on all the entities acquired since the acquisition date correspond in substance to the total associated income and expense presented in the consolidated profit and loss account at 31 December 2017.

In accordance with IFRS 3, accounting for a business combination should be completed within the measurement period which is 12 months after the acquisition date. As this period ended on March 28th 2018, the €622 million badwill recognised in the 2017 Group consolidated financial statements is the final amount.

b. Subsidiarisation by retrocession of overseas entities under My Money Bank

On 28 March 2017, immediately after the change of control took effect, the Company transferred to My Money Bank (formerly GE Money Bank) all the shares in Somafi-Soguafi, SOREFI and GE Financement Pacifique (now SOCALFI), under the terms of sales contracts concluded between the Company and My Money Bank.

c. Corporate changes and amendments to the articles of association

On 28 March 2017, the date of change of control, the following changes took effect by decision of the Sole Partner:

- Increase of the Company's capital by a par amount of 999 999 euro;
- Appointment of Mr. Eric Shehadeh as Chairman of the company replacing Promontoria Holding 101 B.V, resigning;
- Appointment of Mr. Thomas Schneegans as Director-General;
- Amendment of the corporate purpose of the Company to reflect the change in the Company's activity;
- Changes to the methods of governance of the Company and creation of a board of directors;
- Change of the Company name from "Promontoria France Holding" to "Promontoria MMB";
- Transfer of the registered offices and of the Company's main establishment to Tour Europlaza, 20 Avenue André Prothin, 92 063 Paris-la-Défense.

d. Other operations subsequent to the application for change of control

Transformation of companies constituted in the form of "partnerships limited by shares" into joint stock companies (sociétés anonymes) with a board of directors (GE Money Bank, SOREFI, SOMAFI-SOGUAFI); and resulting increase of their company capital to offset the loss of corporate rights of the general partners;

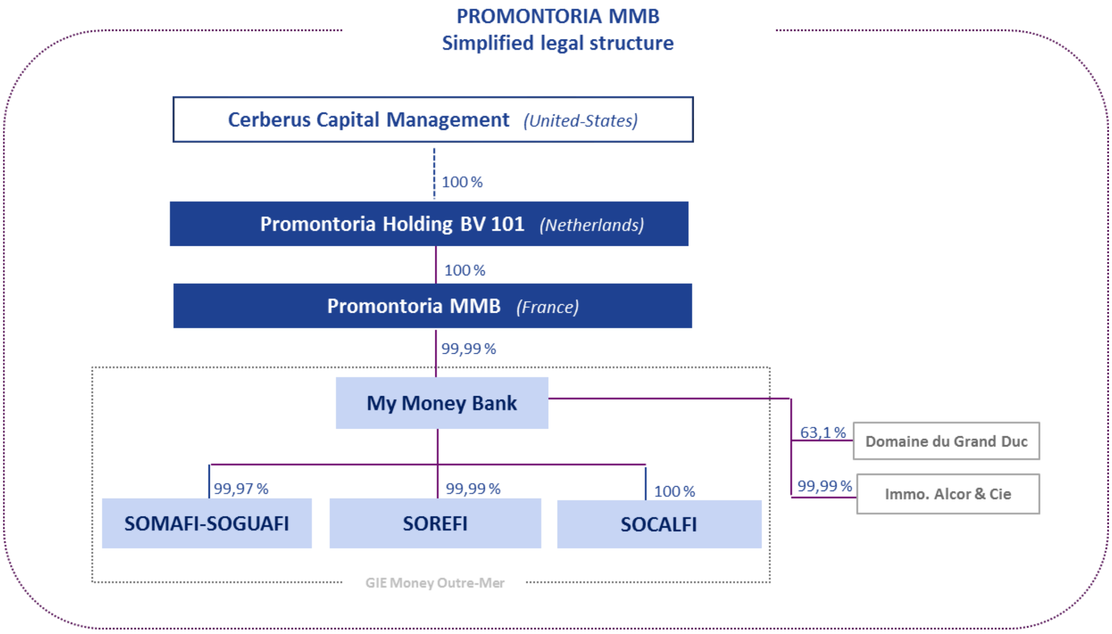
Introduction of new governance, confirmation of the executive directors, appointment of new board members.

Name change for the companies GE Money Bank (now My Money Bank) and GE Financement Pacifique (now SOCALFI).

1.2. Promontoria MMB Group organisation chart

Since 28 March 2017 the Company has been the direct or indirect parent entity, with the status of a financial holding company, of the companies represented in the simplified organisation chart at 31 December 2017 below.

The ownership percentages shown below result from all the operations mentioned above.



The consolidation perimeter also includes 7 securitisation vehicles.

2. Accounting standards applied

2.1. Accounting standard applicable

In application of the European Regulation 1606/2002 of 19 July 2002 on the application of international accounting standards, the Promontoria MMB Group has established its consolidated accounts as at 31 December 2017 in accordance with International Financial Reporting Standards (IFRS) as endorsed in the European Union and applicable at this date[2]. These are the first financial statements presented by the Group under IFRS.

This body of standards includes the IFRSs themselves, the International Accounting Standards (IAS), and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

The Consolidated financials were approved by the board of directors on April 11th 2018 and will be submitted for shareholder approval on the general assembly scheduled for the 30th of May 2018.

[2]The complete body of standards endorsed within the European Union can be consulted on the European Commission website at http://ec.europa.eu/finance/company-reporting/ifrs-financial-statements/index_fr.htm.

Presentation of financial statements

The parent company, Promontoria MMB SAS, was created in June 2016 and did not engaged in any activity until 28 March 2017, when it acquired all the entities listed in Note 1.1.
The consolidated accounts are published in euro. The amounts presented in the financial statements are expressed in thousand euro, except where stated otherwise.

2.2. Standards given early application by the Group at 31 December 2017

The Promontoria MMB Group has opted for early application of all the provisions of IFRS 9 – Financial instruments to its financial statements at 31 December 2017, given the opportunity to take this option provided by the adoption of the European Regulation 2016/2067 of 22 November 2016.

IFRS 9 – *Financial instruments* replaces the existing IAS 39 *Financial instruments: Recognition and measurement* and sets out new rules for the classification and measurement of financial assets and liabilities, and new methodologies for the impairment of financial assets on the basis of credit risk and for the treatment of hedging operations, with the exception of macro-hedges, for which a separate draft standard is currently under consideration by the IASB.

Promontoria MMB has not applied the amendment published by the IASB on 12 October 2017 on symmetrical prepayment clauses to its financial statements at 31 December 2017. This amendment is of mandatory application on 1 January 2019, but early application is authorised on 1 January 2018 subject to endorsement by the European Commission. The potential impacts of this amendment for the Group have assessed as insignificant.

Classification and measurement.

In accordance with IFRS 9, financial assets will be classified in three categories on initial recognition, on the basis of the characteristics of their contractual cash flows and of the business model in which these financial instruments are held: amortised cost, fair value through profit or loss, or fair value through equity (recyclable or not recyclable).

Determination of the characteristics of contractual cash flows: the SPPI criterion

Contractual cash flows must be analysed to determine whether or not they constitute a financial asset comparable to a basic lending arrangement. A financial asset will respect this condition if its contractual cash flows represent only the repayment of the principal and interest on the principal amounts outstanding (the SPPI criterion, or Solely Payment of Principal and Interest).

In a basic lending contract, interest payments essentially represent consideration for the time value of money and the credit (or counterparty) risk associated with the principal, and other components generally admitted as forming part of this type of contract: liquidity risk, administration expenses, trading margin.

Any cash flows which do not solely reflect these provisions (for example, by introducing exposure to risks or a volatility of flows unrelated to a basic lending operation, such as indexation to a share price or a market index, or the introduction of a leverage effect), or which would distort the way in which they should be measured (for example, inconsistency between the yield obtained and the associated time value of money) make it impossible to conclude that the contract passes the SPPI test.

The financial assets recognised in the Group mainly consist of debt consolidation loans, consumer loans, car loans, loans to private individuals and equipment financing for enterprises. These are fixed or variable-rate loans presenting no particular structuring nor distortion in the time value of money. The diagnostic work conducted in the group has therefore concluded that the SPPI criterion is respected for all the financial assets concerned by application of IFRS 9 and meeting the definition of a debt instrument (loan, receivable or debt security).

The business model

The business model refers to the way in which an entity manages a portfolio of assets in order to collect cash flows. It reflects the way in which a group of financial assets is managed as a whole to achieve a given economic objective and is therefore not determined contract by contract but at a higher level of aggregation.

The economic model applied must be assessed by exercising judgment and taking account of the historical information available which helps to understand how cash flows have been generated in the past, as well as any other relevant information such as:

- how the performance of the financial assets is evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model and, in particular, the way in which those risks are managed;
- how managers in charge of assets held within a given business model are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- the frequency, volume and reasons for sales in a portfolio held within a given business model and expectations about future sales activity.

IFRS 9 defines three business models:

- "*hold to collect*", where the objective is to hold the contractual assets until maturity in order to collect the contractual cash flows. Despite the stated aim of holding the assets, the standard provides for some exceptions that are not inconsistent with this business model, where sales occur under the following circumstances:
    - sales due to an increase in the assets' credit risk;
    - sales taking place shortly before the maturity of the financial assets, for an amount approximating to the residual contractual cash flows;
    - sales for other reasons (such as sales made to manage credit concentration risk) if they are infrequent, or insignificant in value;
- "*hold to collect and sell*", a mixed business model in which the objective is achieved both by collecting contractual cash flows and by selling financial assets.
- "*other business models*", corresponding to neither of the two preceding models. These models include trading activities in which cash flows are realised through sales. The collection of contractual cash flows is incidental to achieving the business model's objective.

The analyses conducted in the Promontoria MMB Group have grouped the financial assets into portfolios segmented by three criteria: the maturity of the assets (with a distinction between short-term and long-term), the product type and the geographical area (distinguishing between continental France and the overseas entities). Business models have been assigned in accordance with the standard to each type of portfolio presented below:

Short term portfolio
Auto
Personal loan
Revolving credit
Dealer
DC Unsecured*
**Consolidation of consumer loans*

Long term portfolio
DC Secured
**Consolidation of mortgages*

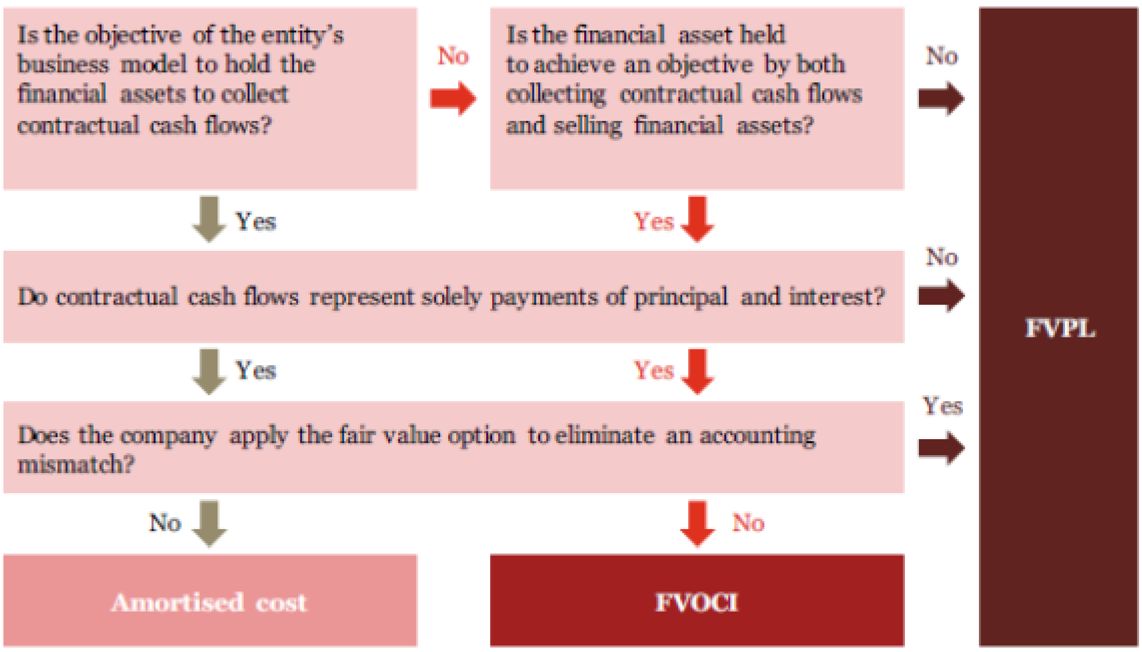
A study of the business model criteria has led the Group to conclude that all the portfolios presented are held in accordance with the "hold to collect" business model.

Debt instruments may be measured at amortised cost, at fair value in profit or loss or at fair value through equity, depending on whether or not they satisfy the SPPI criterion and on the business model within which the asset is held:

- a debt instrument will be measured at amortised cost if it satisfies the SPPI criterion and is held in a "hold to collect" business model
- a debt instrument will be measured at fair value through equity if it satisfies the SPPI criterion and is held in a "hold to collect and sell" business model
- a debt instrument will be measured at fair value in profit or loss:
    - if it belongs in a "hold to collect" or "hold to collect and sell" business model, but fails to meet the SPPI criterion
    - Or if it is held within an "other business model".

SPPI debt instruments that are held within a "hold to collect" or "hold to collect and sell" business model may also be optionally measured at fair value on the condition that this election (made at the date of initial recognition) reduces an accounting mismatch in profit or loss.

The process of classifying financial assets under IFRS 9 may therefore be summarised as follows:



For the Group, the result of these analyses is the classification of almost all its debt instruments at amortised cost.

If subsequent to initial recognition these assets undergo a change, IFRS 9 requires the identification of renegotiated or otherwise modified contracts that do not result in derecognition, and the recognition of a modification gain or loss. The gross carrying amount of the financial asset must be recalculated as the present value of the renegotiated or modified contractual cash flow at the original interest rate.

Investments in equity instruments are measured by default at fair value in profit or loss unless the Group makes an irrevocable election to designate them at fair value through non-recyclable equity (provided that these instruments are not held for sale and classified as such in financial assets at fair value in profit or loss) without the subsequent option to reclassify the gains and losses in profit or loss. This option has not been used in the accounts of the Promontoria MMB Group at 31 December 2017.

With respect of financial liabilities, the classification and measurement rules in IAS 39 have been carried over without change in IFRS 9 with the exception of financial liabilities optionally accounted for at fair value in profit or loss. In this instance, remeasurement adjustments due to own credit risk changes are recorded in an item for gains and losses directly recognised in equity, without subsequent reclassification in profit or loss. The Group was unaffected by this particular aspect of the standard at 31 December 2017.

The provisions of IAS 39 on the derecognition of financial assets and liabilities are carried over unchanged into IFRS 9 and continue to be based on an analysis of the transfer of substantially all the risks and rewards of the financial assets

Impairment

IFRS 9 introduces a single credit risk impairment model, now based on expected credit losses rather than incurred losses. These impairment methods apply to all financial assets measured at amortised cost or fair value through recyclable equity, lease receivables, loan commitments and financial guarantee contracts.

This new mechanism requires recognition of a loss allowance for impairment as from the initial recognition of the exposures concerned, without waiting for the appearance of objective evidence of impairment. This initial loss allowance corresponds to the expected credit losses given default over the next 12 months (stage 1). If the credit risk increases significantly after initial recognition, the expected credit losses will be measured over the residual lifetime of the instrument (stage 2). Finally, if the credit quality deteriorates to the point where the recoverability of the receivable is threatened, the lifetime expected losses must be provisioned (stage 3), taking into consideration in the calculation of the increase in the risk by comparison with the loss allowances estimated in stage 2 (including the use of 100% probability of default).

Expected credit losses are therefore recognised progressively, reflecting the increase in the risk of the instrument. The main characteristics of the different stages of provisioning can be summarised as follows:

- **Stage 1**:
  - All the contracts concerned are initially accounted for in this category
  - The amount of credit risk impairment is calculated on 12-month expected credit losses
  - Interest revenue is recognised in profit or loss using an effective interest rate applied to the gross carrying value of the asset before impairment.
- **Stage 2**:
  - In the event of significant deterioration since initial recognition, the financial asset is transferred to this category from stage 1;
  - The amount of credit risk impairment is then calculated on the remaining lifetime expected loss (losses expected at maturity)
  - Interest revenue is recognised in profit or loss using an effective interest rate applied to the gross carrying value of the asset before impairment.
- **Stage 3**:
  - Financial assets that have suffered a default event will be downgraded to this category
  - The amount of credit risk impairment continues to be calculated on the remaining lifetime expected loss (losses expected at maturity), but the calculation method will take account of an addition increase in credit risk;
  - Interest revenue is recognised in profit or loss using an effective interest rate applied to the net carrying value of the asset (after impairment).

A significant increase in credit risk can be determined individually (instrument by instrument) or collectively, on the basis of portfolios of similar financial assets.
In the case of collective loss allowances, impairment is calculated on a statistical basis, using all the relevant information available, including historical default and loss information.

The calculation of expected losses relies on three main parameters: probability of default (P), loss given default (LGD) and exposure at default (EAD), taking account of amortisation profiles. Expected losses are calculated using the formula PD x LGD x EAD.

Several exceptions and simplifications are provided by the standard in the part relating to impairment:

- According to the standard, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. This presumption has not been used by the Group for the 2017 financial year;
- The standard also states that it can be considered that the credit risk of a financial instruments has not increased significantly since initial recognition if the risk is low at the reporting date (for example, a financial instrument that has been given a very good rating such as "investment grade" by an external ratings agency). This measure has not been applied at this stage by the Promontoria MMB Group.
- Simplified approaches have been provided for commercial loans and loans on leases. Under certain conditions, these approaches allow entities to dispense with monitoring credit quality over time in order to recognise impairment over the residual lifetime of the receivable.

Further, the standard provides special measures for purchased or originated credit-impaired financial assets (POCI), which are financial assets acquired or created and already credit-risk impaired at initial recognition.
On initial recognition, the effective interest rate must be adjusted to reflect credit quality: the estimated recoverable flows take the expected credit losses into account. Subsequent impairment is calculated by remeasuring the recoverable flows using the revised effective interest rate. If the revised estimate of flows is higher than the recoverable flows, a gain may be recognised in profit or loss.

The method applied to the impairment of financial assets and the quantitative impacts within the Promontoria MMB Group are presented in Notes 5.1.4 and 7.7 in accordance with requirements of IFRS 7 as amended by IFRS 9.

Hedge accounting

The IFRS 9 provisions on hedging should lead to better alignment between hedge accounting and an entity's management of the risks than was the case under IAS 39, in particular by extending the range of eligible hedging instruments and by simplifying requirements for testing and documenting the effectiveness of hedging relationships.

IFRS 9 provides the option to defer application of its hedging provisions until the future macro-hedging standard comes into effect, and to maintain the existing hedging rules under IAS 39.

The Promontoria MMB Group has opted to apply all the provisions of IFRS 9 to its hedging relationships, with the exception of fair value hedges of the rate risk of a portfolio of financial assets or liabilities. The provisions of IAS 39 for these portfolio hedges, as endorsed by the European Union, will continue to apply in the absence of explicit treatment of these cases under IFRS 9.

Hedging relationship existing within the Group and their accounting impacts are detailed in Note 5.1.7 and 6.1.

2.3. Main new standards that have been published but not yet effective

The IASB has published a number of standards, interpretations and amendments that had not all been endorsed by the European Union at 31 December 2017. They will come into force for financial years current at 1 January 2018 at the earliest, or when adopted by the European Union. Therefore, they are not applied by the Group at 31 December 2017.

Accounting standards	Themes	Decision date	Start date
IFRS 9 amendments	Early repayment clause	Not adopted	1 January 2019
IFRS 15	Income recognition and update of the date	29 October 2016	1 January 2018
IFRS 15 amendments	Clarification on IFRS 15	9 November 2017	1 January 2018
IFRS 16	Operating lease contract	9 November 2017	1 January 2019
IFRS 17	Insurance contract	Not adopted	1 January 2021
IFRS 4 amendments	Application of IFRS 9 through IFRS 4	9 November 2017	1 January 2018
IFRS 2 amendments	Share based payment	Not adopted	1 January 2018
IAS 40 amendments	Investment property	Not adopted	1 January 2018
IAS 28 amendments	Investments in Associates and Joint Ventures	Not adopted	1 January 2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Not adopted	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	Not adopted	1 January 2019

The main standards which the Group expects to apply in the future as are follows:

- **IFRS 15 *Revenue from Contracts with Customers***, with a mandatory effective date of 1 January 2018, setting out the revenue recognition principles applicable to all contracts with customers except leases, insurance contracts and financial instruments.

  This new standard defines a single accounting model for revenue from the sale of goods, services, and long-term contracts, which is intended to reflect the actual transfer of the control of goods and services in exchange for the consideration that the entity expect to receive in return. This approach to recognition can be broken down into five steps:
  - Identifying contracts with customers
  - Identifying the separate performance obligations in the contract
  - Determining the overall transaction price
  - Allocating the transaction price to the different performance obligation in the contract
  - Recognising the revenue when (or as) a performance obligation is satisfied.

  The impacts of this new standard on the Group's financial statements of the group are unlikely to be significant. The Group revenues potentially concerned by this standard will mainly be commissions for banking services and similar out with the scope of IRFS 9 (that is to say, not included in the calculation of the effective interest rate of financial instruments).

- **IFRS 16 *Leases***, to be applied with retrospective effect at 1 January 2019, will replace IAS 17 *Leases* and the associated interpretations. It introduces a new definition of leases and amends the accounting treatment of these contracts in the financial statements of lessees. The new standard will have very limited impact on lessors as compared with the existing provisions of IAS 17.
  For lessees, IFRS 16 introduces a single accounting model for all leases based on the recognition of an (intangible) right of use, representing the lessor's right to make use of the

asset during the lease period in consideration of a lease liability representing the discounted lease payments.
The right-of-use asset is depreciated on a straight-line basis and the financial liability is amortised actuarially over the lifetime of the lease. The amortisation expense of the asset and the interest expenses on the debt will be presented separately in profit or loss.
The impacts of this new standard on the Group's financial statements of the group are unlikely to be significant.

3. Principles for drafting the consolidated financial statements

3.1. Determining the consolidation perimeter

The consolidation of the Group's financial statements includes the accounts of Promontoria MMB and of all the entities the consolidation of which has a significant impact on the consolidated accounts of the Group and that are controlled by the consolidating entity, or over which it exercises joint control or significant influence.

The scope of the entities consolidated by Promontoria MMB is set out in Note 4.

3.2. Consolidation methods

Under IFRS 10, control of an entity is assessed using three cumulative criteria:

- power over the investee, i.e. the effective rights that give it the current ability to direct the activities that significantly affect the entity's returns (e.g. though voting or other rights);
- exposure, or rights, to variable returns from its involvement with the investee, such as dividends, changes in the fair value of an investment, or tax benefits;
- the ability to use its power over the investee to affect the amount of the investor's returns.

For entities governed by voting rights, the Group generally controls an entity if it directly or indirectly holds the majority of the voting rights and if there exist no other agreements that change the power of these voting rights.

The scope of the voting rights taken into consideration for assessing the nature of the control exercised by the group include the existence and impact of substantive potential voting rights, such as those that may be exercised to take decisions on the relevant activities during the next General Meeting.

The Group exercises joint control in a joint arrangement when the decisions regarding the entity's relevant activities contractually require the unanimous consent of the partners.

Significant influence is defined as the power to participate in the financial and operating policy decisions of an investee, but not to control them. It may result from representation on the board of directors or supervisory bodies, participation in strategic decisions, the existence of material transactions between the entity and the investee, the interchange of managerial personnel, or technical dependence.

Consolidation methods are applied depending on the nature of the control exercised by the Promontoria MMB Group on its subsidiaries.

All the subsidiaries are regarded as controlled by the Promontoria MMB Group and are consolidated through full integration. This consolidation method consists of replacing the carrying value of the holding with the items of the investee's assets and liabilities in the parent company's accounts. The proportion of non-controlling interests is presented separately in the statement of financial position, in profit or loss, in the statement of gains and losses recognised directly in equity and in the statement of changes in equity of the Group in order to express the rights of minority shareholders in the equity and the result of the subsidiary.

3.3. Consolidation rules

a. Retreatments and eliminations

Before consolidation, the statutory accounts of the consolidated companies undergo specific retreatment to bring them into line with the accounting principles applied by the Group.

Balances and reciprocal revenues and charges resulting from internal operations are eliminated, including dividends and the gains and losses due to intra-group disposals.

b. Business combinations

Business combinations have been accounted for by applying the acquisition method in accordance with IFRS 3 (Revised) for business combinations carried out after 1 January 2010.

Under this method, the identifiable assets acquired and the liabilities assumed from the acquiree are accounted for at their fair value on the measurement date.

The acquisition cost is equal, at the acquisition date, to the sum of the fair values of the assets given, the liabilities incurred and the equity instruments issued in exchange for the control of the acquiree. Any price adjustments are included in the acquisition cost at their estimated fair value at the acquisition date and remeasured at each reporting date. Subsequent adjustments are recorded in profit or loss.

Costs directly attributable to the combination operation constitute a separate transaction and are recorded in profit or loss.

The Group has a period of 12 months after the acquisition date in which to finalise the recognition of a given business combination.

Goodwill, or excess value, corresponds to the difference between the acquisition cost and the purchaser's share of the fair value of the identifiable assets and liabilities at the acquisition date. If positive, this difference is recorded in assets by the acquirer under “Goodwill”. If negative, it is accounted for immediately in profit or loss under “Variation in the value of goodwill”.

On the date that control is obtained, non-controlling interests can be measured for each combination, at the Group’s discretion:

- Either on the basis of their share in the fair value of the identifiable net assets of the acquiree at the acquisition date, without accounting for goodwill for non-controlling interests (the “partial goodwill” method);
- Or at their fair value. In this case, a fraction of the goodwill will then be attributed to them (the “full goodwill” method).

4. Consolidation scope and Pro-forma at 31 December 2017

4.1. Consolidation scope at 31 December 2017

Entity	Country	Method of consolidation	% of interest
Promontoria MMB SAS	Metropolitan France	Parent	
My Money Bank SA	Metropolitan France	Full consolidation	100%
Sorefi SA	Reunion	Full consolidation	100%
Somafi-Sogafi SA	Caribbean	Full consolidation	100%
Socalfi SAS	New Caledonia	Full consolidation	100%
Domaine du Grand-Duc SNC	Metropolitan France	Full consolidation	63,10%
Immobilière Alcor et Cie SNC	Metropolitan France	Full consolidation	100%

Entity	Country	Method of consolidation
SapphireOne Mortgages FCT 2016-1	Metropolitan France	Full consolidation
SapphireOne Mortgages FCT 2016-2	Metropolitan France	Full consolidation
SapphireOne Mortgages FCT 2016-3	Metropolitan France	Full consolidation
DiamondOne FCT	Metropolitan France	Full consolidation
FCT RubyOne	Metropolitan France	Full consolidation
FCT EmeraldOne	Metropolitan France	Full consolidation
FCT SapphireOne Auto 2017-1	Metropolitan France	Full consolidation

The Group controls securitization vehicles in accordance with IFRS 10 which criteria are mentioned in Note 3.2.

The consolidation perimeter of Promontoria MMB SAS includes an economic interest group (GIE Money Outre-Mer), the participants of which are My Money Bank SA, Sorefi, Somafi-Sogafi, and Socalfi.

4.2. Income Statement Pro-forma at 31 December 2017

The following 2017 Income Statement Pro-forma (over 12 months) has been built:

- From 1 January to 27 March 2017 using the French GAAP combined statutory accounts adjusted by excluding the quarter major events (issues costs of securitization) and the specific French GAAP postings (particularly CRC 2009-03 and 2002-03) and then by adding the IFRS 9 main impacts;
- From 28 March to 31 December 2017 using the IFRS consolidated accounts presented in Note I;
- The Risk line has been built based on the 9-month performance multiplied by 4/3.

In thousands of euros	2017
Interest and similar income	163 650
Interest and similar expense	(10 382)
Fee income	26 169
Fee expense	(39 405)
Net gains and losses on financial instruments at fair value through other comprehensive income	225
Net gains and losses on financial instruments at fair value through other comprehensive income	(1 437)
Income from other activities	32 034
Expenses from other activities	(741)
Net banking income	**170 112**
Operating expenses	(134 859)
Amortisation, depreciation and impairment of tangible and intangible fixed assets	(3 334)
Gross operating income	**31 919**
Cost of risk	(15 663)
Operating income	**16 256**
Net income/expense from other assets	(15 416)
Bargain purchase gain	621 750
Earnings before tax	**622 590**
Income tax	(15 333)
Consolidated net income	**607 257**
Net income, Group share	606 836
Non-controlling interests	421

5. Accounting principles and measurement methods

5.1. Financial assets

At initial recognition, financial assets are recognised at their fair value, corresponding to the acquisition price at this date, net of acquisition costs directly relating to the operation. In accordance with IFRS 9, and as clarified in Note *2.2. Standards applied in advance by the Group at 31 December 2017,* financial assets are then classified in one of the following categories:

a. Financial assets at fair value in profit or loss

Financial assets at fair value through profit or loss include assets which satisfy one of the following conditions:

- The financial asset is mandatorily measured at fair value from initial recognition because:
  - Either its contractual cash flows cannot be regarded as constituting a simple loan basic (failure to respect the SPPI criterion);
  - Or its cash flows meet the SPPI criterion but the financial asset is managed under an “Other” business model.

- The financial asset is irrevocably measured at initial recognition using the fair value option in IFRS 9, provided that the financial instruments optionally classified in this category are in one of the three following situations:
    - the designation is used to eliminate or substantially reduce an inconsistency in the accounting treatment of an associated asset or liability ("accounting mismatch");
    - the instrument is part of a group of financial assets or liabilities whose management and performance are measured at fair value;
    - the instrument is a hybrid contract containing an embedded derivative and a host contract that does not qualify as a financial asset under IRFS 9.

The market value of these assets is reviewed at each reporting date following the approach described in Note 5.1.8 *Fair value of financial instruments*. The fair value variations resulting from these remeasurements, the dividends on variable-yield securities and gains or losses on disposals are accounted for in profit or loss on the line "Gains or losses on financial instruments at fair value in profit or loss" on the consolidated income statement.

Income on fixed-yield securities are presented separately on the line "Interest and similar income" of the consolidated income statement.

b. Financial assets measured at fair value through other comprehensive income (with recycling)

The category "financial assets measured at fair value through other comprehensive income" consists of financial assets satisfying the following two conditions:

- the financial asset is held in a business model in which the objective is achieved both by collecting contractual cash flows and by selling financial assets ("hold to collect and sell");
- the contractual cash flows correspond solely to payments of principal and interest (the SPPI criterion).

Changes in the fair value of financial assets measured at fair value through recyclable equity are accounted for directly in equity in the entry "Gains and losses directly recognised in equity", except in the case of variations attributable to credit risk changes on these instruments and the associated allowances for expected credit losses. In this instance, the proportion of the changes in fair value attributable to allocations or reversals of provision for impairment are recognised directly in profit or loss, under "Cost of risk". Methods of impairment are specified in Note 5.1.4 below.

Income accrued or received is recognised in profit or loss on the basis of the interest rate under "Interest and similar income".

When these instruments are derecognised, the cumulative changes in value previously recognised in equity are recycled in profit or loss accounts under "Net gains or losses on financial instruments at fair value through equity".

c. Financial assets measured at amortised cost

A financial asset must be measured at amortised cost if the following two conditions are fulfilled:

- the financial asset is held in a business model in which the objective is to hold financial assets in order to collect their contractual cash flows ("hold to collect");
- the contractual cash flows correspond solely to payments of principal and interest (the SPPI criterion).

These assets are measured after their date of initial recognition at amortised cost using the Effective Interest Rate (EIR) method. They are subject to a loss allowance for impairment on the grounds of credit risk as from their initial recognition, following the principles set out in Notes 2.2 and 5.1.4.

Amortised cost is defined as the value attributed to a financial asset or a financial liability on initial recognition, decreased by principal repayments, increased or decreased by the cumulative amortisation, calculated using the EIR method, of any difference between this initial value and value at maturity, and, in the case of a financial asset, adjusted for credit risk impairment.

Interest income, calculated using an effective interest rate, will be accounted for in profit or loss under "Interest and similar income". It will be calculated on the basis of the gross carrying value of the assets, except in the special cases of impaired assets for which the interest is calculated on the net carrying value (i.e. after credit risk impairment).

Financial assets at amortised cost are registered on the balance sheet under the headings "Securities at amortised cost", "Loans and receivables to credit institutions and similar at amortised cost" and "Loans and receivables to customers at amortised cost" depending on the asset's economic nature and counterparty type.

d. Impairment and restructuring of financial assets.

IFRS 9 requires the provisioning of eligible assets in accordance with the methods and scope indicated in Note 2.2. *Standards applied in advance by the Group at 31 December 2017.* Allowances for expected credit losses on the Group's financial assets that fall within the scope IRFS 9 are constituted as from inception, based on an estimate of expected credit losses in the event of default within 12 months.

Allowances are reviewed at each reporting date to verify whether the credit risk has increased significantly since initial recognition. If so, the expected credit losses are measured over the residual lifetime of the financial instrument concerned. A significant increase in credit risk is based on an assessment of the change in the risk of default over the lifetime of the instrument, rather than a change in the amount of the expected credit losses.
The Group assesses the significant increase in credit risk mainly in terms of the payments past due criterion, where payments more than 30 days past due automatically move to stage 2 of provisioning.

In the event that the increase in credit risk is such that the financial asset is considered as impaired, the expected credit losses continue to be estimated over the residual lifetime of the instrument, but the parameters for calculating the provision are adjusted to take account of this increase of the risk.
A financial instrument is considered as impaired when one or more events occur with a detrimental effect on its future estimated cash flows. Indications of impairment include any credit event corresponding to one of the following situations:

- probable or certain risk of non-collection: more than three months past due for equipment loans and leases, and six months past due for property loans and leases;
- confirmed counterparty risk: deterioration of financial situation, warning procedure;
- existence of litigation proceedings with the counterparty.

For a given counterparty, classification of financial assets as impaired, or stage 3 of provisioning, leads to an identical classification for all that counterparty's financial instruments.

Payments to reserves for expected credit losses are accounted for in profit or loss under the heading "Cost of risk" against a provision account on the balance sheet reducing the amount of the financial instrument in question.
Allowances may be subject to reversals accounted for in profit or loss under the same heading where the probability of counterparty default falls to a level such than the instrument can be transferred to a higher provisioning category.

Purchased or originated credit-impaired financial assets are an exception in terms of impairment, insofar as the expected credit losses at maturity are directly reflected in the estimated cash flows for the calculation of the effective interest rate of the instrument at initial recognition. Changes in expected credit losses at maturity are then accounted for under the heading "Cost of risk".

Expected credit losses correspond to the present value of the difference between the contractual cash flows and those that the group expects to receive, calculated on the basis of estimations relying on the probability of realistically achievable scenarios under circumstances existing at the reporting date and the macro-economic forecasts available (without having to incur unreasonable costs or efforts to obtain them). These credit losses are calculated on the maximum contractual period (including options for extension) during which the group is exposed to the credit risk.

These credit losses are calculated as the product of the probability of counterparty default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are the subject of estimations based on internal models.

In accordance with IFRS 9, the “forward looking”, developed on a model including probabilities of scenarios, is measured in the Group’s estimates.

Collective impairments on loans

Financial instruments that are not individually impaired undergo a risk analysis by portfolios representing the same level of risk. Given the structure of the Group’s products, information that would capture the variations in credit risk before payments are past due are not available at contract level. Collective provisions are therefore calculated on portfolios the uniformity of which has been identified in terms of:

- product type (consolidation loans, consumer loans, car loans, loans to private individuals and equipment financing for enterprises).
- the geographic area to which the instruments belong (continental or overseas territories);
- the background of the financial instruments, depending on whether or not they have been subject to modifications not resulting in derecognition.

This segmentation of the Group’s financial assets into homogenous portfolios relies on the Group’s internal ratings system based on historical data, adjusted if necessary to reflect circumstances at the reporting date.

The methods of recognition and measurement of expected credit losses, and the description of the models and main assumptions used, are clarified in Note 11, *Risk management*.

Modified financial assets

A modified financial asset is an asset whose initial contractual flows have been renegotiated or otherwise modified, but without leading to derecognition in accordance with IRFS 9 (see Note 5.1.9 *Derecognition of financial assets or liabilities)*. For this asset category, the gross carrying amount of the financial asset must be recalculated as the present value of the renegotiated or modified contractual cash flow at the original interest rate. The profit or loss resulting from this modification is recognised in profit and loss.

For the purposes of credit risk provisioning, it is also necessary to assess whether the modification has brought about a significant increase in credit risk by comparing the probability of default at the reporting date, according to the amended contractual data, with the probability of default at the date of initial recognition, in accordance with the initial unaltered contractual arrangements.

e. Recognition date of financial assets

Securities acquired or sold are respectively recognised and derecognised on the settlement date, whatever the accounting category to which they belong.

Derivative financial instruments are recognised on the negotiation date. Changes in fair value between the negotiation date and the settlement date are accounted for in profit or loss or in equity, depending on their accounting classification. Loans and receivables at amortised cost are registered on the balance sheet at the disbursement date.

f. Debts

Debts which are not classified in financial liabilities at fair value are initially recorded at their fair value, corresponding to the acquisition price at this date or at their issue date, net of any directly attributable transaction costs.

At the reporting date, they are measured at amortised cost using the effective interest rate method and recognised on the balance sheet under the headings "Amounts owed to credit institutions", "Customer deposits" and "Debts represented by a security".

Amounts owed to credit institutions and customer deposits are broken down by initial duration or nature: on demand (demand deposits, current accounts) or term loans.

Financial instruments issued are classified as debt instruments if the issuer has a contractual obligation to deliver liquidities or another financial asset to another entity or to exchange the instruments under potentially unfavorable conditions.

Debts represented by a security consist mainly of issues of shares in the securitisation mutual funds consolidated within the Promontoria MMB group.

g. Derivative financial instruments and hedge accounting

Under IFRS 9, a derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in an interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or index, or another specified variable described as 'underlying'.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to behave similarly in response to changes in market factors; and
- it is settled at a future date.

In accordance with IFRS 9, derivatives are measured and recognised in the statement of financial position at fair value. These instruments are remeasured at their fair value at each reporting date. Changes resulting from this remeasurement will be accounted for differently depending on whether the derivative is held for trading or is part of a hedging relationship.

In the case of a derivative held for trading, changes in fair value are recognised in profit or loss under the heading "Net gains or losses on financial instruments at fair value through profit or loss" and interest accrued or due will be accounted for separately in profit or loss under "Interest and similar income" or "Interest and similar expenses". At 31 December 2017, the Group held no derivatives belonging to this category.

Hedge accounting

A derivative can qualify as a hedging instrument if it meets a number of criteria set out in IFRS 9. The hedging relationship will be documented at inception, indicating the hedging strategy pursued, the designation of the hedged risk and the hedged item, the hedging instrument, and the method of measuring hedge effectiveness. Effectiveness depends on three criteria reflecting the risk management objectives:

- there is an economic relationship between the hedged item and the hedging instrument (inverse correlation);
- the changes in the value of the derivative are mainly due to credit risk changes (except in the special case where changes in the underlying factor and the credit risk are both reduced);
- the hedge ratio, i.e. the relationship between the quantity of the hedged items and the quantity of the hedging instruments, corresponds to the ratio used by the Group in its operational risk management.

These qualitative criteria are accompanied by a quantitative estimate of the effectiveness of the hedging relationship in order to determine any ineffectiveness and the resulting appropriate accounting treatment.

The effectiveness of a hedging relationship is determined prospectively, at inception, and then at every reporting date and during the financial year if a significant event affects the balance of the hedging relationship.

These instruments will be classified on the statement of financial position under the heading “Derivative hedging instruments”. IFRS 9 recognises three types of hedging relationships, depending on the objective and the risk:

- **Fair value hedge**: hedging the risk of change in the value of an existing asset or liability, or of a firm commitment;
- **Cash flow hedge**: the aim is to hedge against exposure to variability in future cash flows for a highly probable forecast transaction or an existing operation with variable flows;
- **Hedge of net investments in foreign operations**: this type of hedge is used for the foreign exchange risk of a net investment (equity investments, long-term loans, unremitted income) in a consolidated entity abroad.

As part of Promontoria MMB Group strategy, the Company aims to hedge the risk of variability of interest rates on the shares issued by the consolidated securitisation mutual funds in the Group (rates based on Euribor). The assets underlying these funds are portfolios of consolidated loans, car finance and mortgages. Consequently, all the hedging relationship existing within the Group qualify as cash flow hedges.

Under IFRS 9, in a cash flow hedge, the effective portion of the change in fair value of the derivative financial instrument is recognised in shareholders' equity on a separate line under the heading “Gains and losses recognised directly through equity”, while the ineffective portion is accounted for in profit or loss under “Net gains or losses on financial instruments at fair value through profit or loss”.

The amounts recorded in equity over the lifetime of the hedge are gradually transferred to profit or loss under the heading “Interest and similar income” or “Interest and similar expenses” as the performance of the hedged instrument affects the profit or loss (symmetrical recycling of the impact of the hedged item in profit or loss).

The hedged instruments themselves continue to be accounted for in accordance with the rules for their accounting category and receive no special treatment in respect of the hedging relationship to which they belong.

When the hedging relationship no longer satisfies the criteria for effectiveness while its objectives remain unchanged, the hedge ratio must be adjusted, for example by derecognising a portion of the hedging instruments, in order to correct the structural changes in the hedge ratio. IFRS 9 refers to this practice as ‘rebalancing’ the hedging relationship. Rebalancing will not interrupt the original hedging relationship, but the Group will identify and recognise hedge ineffectiveness before any adjustment of the hedge ratio.

When all or part of a hedging relationship no longer meets the criteria for hedge accounting, or if the risk management objectives of the Group change, the hedging relationship will cease. In this instance, the cumulative amounts recorded in equity for the remeasurement of the hedging derivative are transferred over the life of the hedge to profit or loss under the headings “Interest and similar income” or “Interest and similar expenses” if the hedged cash flows are still likely to be generated (even if they are no longer regarded as highly probable), or accounted for immediately in profit or loss if the hedged cash flows are no longer likely to occur (for example, if the hedged item is no longer held).

The Group determines the amount of exposure to which to apply hedge accounting by estimating the potential impact of an interest rate change on the cash flows attributable to the issues of variable-rate debt securities (Euribor) in the consolidated securitisation funds. This estimate is carried out using techniques such as cash flow sensitivity analyses.

The use of derivatives with external counterparties involves the exposure of the group to a credit risk in respect of these counterparties which is not offset by the hedged items. This credit risk exposure is considered as negligible by the Group, as long as the derivatives are contracted with first-rank international banking institutions and are accompanied by standard guarantee contracts of the Collateral Standard Agreement type (CSA).

The main sources of ineffectiveness identified by the Group in its cash hedging relationships concern the impacts of the counterparty and Group credit risk on the fair value of the hedging swaps that are not reflected in the fair value of the hedged item attributable to an interest rate change, but which are hedged in accordance with the principles set out above. The systematic adjustment of the nominal value of swaps to match that of the hedged items through BGS swaps makes it possible to hedge the other potentially significant sources of ineffectiveness, such as maturity mismatches between swaps and securities due to events such as early repayments.

For the purposes of its cash flow hedging relationships, the Promontoria MMB Group has introduced prospective effectiveness tests based on the simulation of future underlying indices (variable rates) of the hedged items, based on historical volatility. The simulations are based on several amortisation profiles to take account of the risk of modification of the nominal value of the hedging swap and of the hedged items that could arise from events such as default, early repayment or extensions.

The hedge ratio is then calculated on the basis of the ratio between the cash flows paid and those received in each simulation trajectory and will be considered as effective when this ratio falls within a given interval. Effectiveness is proven when the simulations for each amortisation profile analysed demonstrate the effectiveness of the hedge when it is equal to 100% or slightly less.

h. Determining fair value of financial instruments

IFRS 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. At initial recognition of a financial asset or liability, its fair value is assumed to be the transaction price.

During subsequent measurements, the standard recommends giving priority to quoted prices in active markets to determine the fair value of a financial asset or liability, or, if these data are not available, to valuation techniques based on observable market inputs.
An active market is defined as one in which transactions take place for the asset or liabilities with sufficient frequency and trading volume to provide continuous price information. In application of this definition, a market will be considered as active if the prices are easily and regularly available from a

stock market, broker, trader, negotiator or regulatory agency, and if these prices represent actual and regular transactions on the market under normal competitive conditions.

In the absence of an active market, the most commonly used valuation techniques include reference to recent transactions in a normal market context, the fair values of similar instruments, discounted cash flow models and option pricing models, or the use of internal models in the case of valuations based on meaningful unobservable inputs of the value of the instruments concerned.

For the needs of financial reporting, IFRS 13 introduces a three-level fair value hierarchy, based on the decreasing order of observability of the values and parameters used for valuation. Some instruments can use inputs available at several levels, in which case the fair value measurement is categorised at the lowest level input that is significant to the entire measurement, based on the application of judgment. The Group's financial instruments are presented in the Note 5.1.7 in accordance with the levels defined by IFRS 13:

- **Level 1**: fair value is determined using quoted prices in an active market that are immediately accessible and directly usable.

- **Level 2**: the instruments are measured using valuation techniques whose significant inputs are observable on the markets, directly (prices) or indirectly (derived from prices).

- **Level 3**: this level includes the instruments valued on the basis of significant parameters that are not observable on the markets, for example in the absence of liquidity of the instrument or risks inherent in measurement model or in the inputs used. Unobservable inputs shall be the subject of internal assumptions reflecting the assumptions that market participants would use when pricing the asset or liability. Developing these assumptions calls for judgment.

For financial instruments presented at level 3 of the fair value hierarchy, there may be a difference between the transaction price and the market value. Where it results in a gain for the group, this margin ("day one profit") is deferred and spread in profit or loss over the anticipated period during which valuation inputs will not be observable. When originally unobservable inputs become observable, the unrecognised portion of the margin is then recognised in profit or loss.
A day one loss is immediately recognised in profit or loss in in its entirety.

The majority of financial instruments held by the Group are considered as belonging in level 2. These loans are measured by a discounted cash flow technique based on significant indirectly observable inputs (including discount rates based on Euribor).

The Group also hold swaps qualifying as hedging instruments and considered as belonging in level 3. These are BGS interest rate swaps (Balance Guaranteed Swaps) whose nominal value adjusts continuously to the nominal value of the hedged item. In light of these characteristics, the Promontoria MMB Group must apply measurement assumptions that take account of early repayments or extensions of the hedged loans, or of any other parameters that might influence the maturity or the amortisation profile of these instruments. These estimations are conducted using the associated rate curve scenarios and by allocating probabilities of the occurrence of these events to these different scenarios.

Swaps have been valued by reference to comparable vanilla instruments whose data are observables via Bloomberg (breakdown of swaps into fixed or variable-rate bonds coupled with floor/cap type options), adjusted by the best probabilistic estimate of the events described above, the upper and lower limits of this adjustment corresponding respectively to minimum or maximum prepayment scenarios.

i. Derecognition of financial assets or liabilities

According to IFRS 9, financial assets are derecognised when the contractual rights to the cash flows on the asset expire, or these rights and substantially all of the risks and rewards of ownership of the asset are transferred.

Where the group has neither transferred nor retained substantially all of the risks and rewards associated with the asset, the transfer of control of the asset is analysed. If control is lost, the asset is derecognised. If control is retained, the asset continues to be accounted for on the balance sheet to the extent of the continuing involvement (for example, in the form of a guarantee or a written and/or purchased option on the transferred asset). A liability representing the obligations resulting from the transfer is also recognised.

A financial liability is derecognised if the contractual obligation is discharged or cancelled or expires.

j. Offsetting financial assets and financial liabilities

Pursuant to IAS 32, a financial asset and a financial liability shall be set off, and the net amount presented in the statement of financial position when, and only when, the entity: has a legally enforceable right to set off the recognised amounts and if it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The derivatives concluded by the Group with one and the same banking counterparty, and which are subject to a framework agreement respecting these two criteria, are set off in the balance sheet.

5.2. Lease operations

An operating lease is a contract by which the lessor transfers to the lessee, for a determined period, the right of use of the asset in exchange for a payment or series of payments. Depending on the situation, the Group’s entities may be the lessor or the lessee.

These contracts will be analysed either as finance lease contracts or as operating leases, in accordance with the definitions in IAS 17.

a. The Group entity is the lessor

Leases are considered as finance leases when they have the effect of transferring almost all the risks and rewards incidental to the ownership of an asset to the lessee. By default, contracts will be analysed as operating leases.

The classification of leases as finance leases or operating leases depends on the economic substance of the contract rather than its legal form. To this end, the standard provides five indicators with which to analyse whether the transfer of substantially all of the risks and rewards has taken place:

- the lease transfers ownership of the asset to the lessee at the end of the lease period;
- the lease gives the lessee an option to purchase the lease asset at a price which is sufficiently below its fair value on the date the option can be exercised for it to be reasonably certain at inception that the option will be exercised;
- the lease term is for the major part of the economic life of the underlying asset, even if there is no transfer of ownership;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

IAS 17 offers three further indicators that could also lead to a lease being classified as a finance lease:
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual value accrue to the lessee; and
- the lessee has the ability to continue the lease for a second period at a rent that is substantially lower than market rent.

Finance leases are analysed in substance as finance granted by to the lessee for the purchase of an asset. The present value of the lease payments due, increased where applicable by the residual value, is accounted for as a receivable on the balance sheet under the heading "loans and advances to customers".

The income corresponding to the portion of interest in the rents are recognised in profit or loss in "Interest and similar income".

Rents received are spread across the term of the finance lease, allocating them to the amortisation of the capital and to interest such that the net income represents a constant rate of return on the residual asset. The interest rate used is the rate implicit in the lease, i.e. the discount rate that, at the inception of the lease, causes:
- the present value of the minimum lease payments to be received by the lessor and the unguaranteed residual value to be equal to
- the fair value of the leased asset and any initial direct costs of the lessor.

Allowances made for these loans follow the same rules as those described in Note 5.1.4 *Impairment and restructuring of financial assets*.

At 31 December 2017, all the leases in which the Group is the lessor meet the definition of finance leases.

b. The Group entity is the lessee

Leases in which the entities in the group are the lessee are all classified as operating leases.

in this configuration, the good is not recognised in assets by the Group. Payments on operating leases are accounted for on a straight-line basis over the term of the lease under the heading "expenses from other activities".

5.3. Tangible and intangible fixed assets

The fixed assets on the Group's balance sheet consist of tangible and intangible operating assets, i.e. used for administrative purposes. The Group holds no investment property.

After initial recognition, fixed assets are valued at cost less accumulated depreciation and any loss of value. The amortisable value of a fixed asset corresponds to the cost less its residual value in the case of tangible fixed assets where this is significant.

Assets are amortised on a straight-line or reducing balance basis when the regulation so permits over the asset's expected useful life to the Group. Buildings are amortised over 40 years, equipment over three to five years, furniture and other categories over between five and ten years. Software is amortised over one year for common software packages and up to five years for complex software that has undergone significant customisation.

At 31 December 2017, the Group held no internally generated intangible assets.

Amortisable fixed assets are subject to impairment tests when, at the reporting date, evidence of a decline in value is identified. Non-amortisable fixed assets are subject to impairment tests when, at the reporting date, evidence of a decline in value is identified, and at least once a year.

If there is evidence of impairment, the new recoverable amount is compared with the net carrying value of the asset. In the case of loss of value, an impairment loss is recorded in profit or loss. This also modifies the future depreciable base. The impairment is reversed in the event of a change in the estimated recoverable amount or if there is no longer an indication of impairment.

Allowances for amortisation costs and impairments are accounted for under the heading "Allowances for amortisation costs and impairments of intangible and tangible assets".

Gains and losses on the sale of fixed operating assets are recognised in profit or loss under "Net gains or losses on other assets".

5.4. Non-current assets intended for sale and discontinued activities

When the Group decides to sell non-current assets, and when it is highly probably that the sale will occur within twelve months, these assets are presented separately on the balance sheet under the heading "Non-current assets held for sale". Liabilities related to them are also presented separately under "Debts related to non-current assets held for sale".

For the sale to be highly probable, the Group must be committed to a plan to sell the asset or disposal group and have launched an active program to locate a buyer. The asset (or disposal group) must be marketed for sale at a price that is reasonable in relation to its current fair value.

Once they are classified in this category, non-current assets and groups of assets and liabilities are valued at the lower of their carrying value and their fair value less costs to sell.

These assets are no longer amortised after their reclassification. An impairment loss is recorded in profit or loss in the event that an asset or group of assets and liabilities is found to have lost value. Impairment losses recognised on this basis are reversible until the disposal date.

5.5. Provisions

The provisions recorded under liabilities on the Group's statement of financial position, other than those concerning financial instruments and employee commitments, mainly relate to provisions for disputes, fines, penalties and tax risks.

A provision is constituted when it is probable that an outflow of economic resources will be necessary to extinguish an obligation arising from a past event and where the amount of the obligation cannot be reliably estimated. The estimated amount of the obligation is discounted to present value to determine the size of the provision, where this discounting has a significant impact.

Provisions and reversals of provisions are entered in profit or loss on the lines appropriate to the nature of the future expenditure covered.

5.6. Employee benefits

Employee benefits represent consideration of all kinds provided by the Group for the services rendered by staff or as post-employment benefits. They fall into four categories, in accordance with IAS 19R:

- short-term employee benefits, such as wages and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses payable within twelve months of the end of the period. They are recognised as expenses for the financial year in which the staff members rendered the services corresponding to these benefits.

- Employee termination benefits are employee benefits provided in consideration of the termination of employment resulting either from the group's decision to end an employment contract before the statutory retirement age or the decision of the staff member to accept the offer of a severance benefit in exchange for the termination of employment. Employee termination benefits include severance pay or compensation due under voluntary redundancy plans.
  Provision is set aside for these benefits in the same way as the provisions estimated for defined post-employment benefit plans.
- Post-employment benefits are the employee benefits (other than employee termination benefits and short-term employee benefits) that are payable after the end of employment, such as pensions, lump sums on retirement and other contractual benefits paid to retired employees.

- The group distinguishes defined contribution plans from defined benefit plans:
  - defined contribution plans are characterised by the payment of defined contributions to a separate entity that absolves the employer of any subsequent legal or implicit obligation towards staff members. The amount of contributions paid during the financial year is recognised in expenses.

  - Defined benefit plans are characterised by a commitment on the part of the Group to an amount or level of benefits. They give rise to recognition of an allowance in liabilities in order to express this commitment.

The provisions recognised for defined benefit plans correspond to the present value of the obligations and are subject to an actuarial calculation using the projected unit credit method. These estimations use demographic and financial assumptions that are reviewed annually, such as the staff turnover rate, the wage growth of beneficiaries, the discount rate and the inflation rate.

The net liability recognised for post-employment plans is the difference between the present value of the defined benefit obligations and the fair value of the plan assets (if such exist). When the value of the plan assets exceeds the value of the commitment, an asset is recognised if it represents a future economic benefit to the group in the form of a saving in future contributions or an expected repayment of some of the amounts paid into the plan.

The annual expense recognised under staff costs for defined benefit plans includes:
- past service cost, representing the rights earned during the period by each beneficiary;
- the net interest linked to the discounting of the net defined benefit liability (or asset);
- the past service cost resulting from any plan amendments or plan curtailments, and the consequences of any plan wind-ups.

Net defined benefit liability (or asset) remeasurements are recognised directly in equity without possibility of recycling in profit or loss. They include the actuarial differences resulting from changes in actuarial assumptions, the return on plan assets and any changes in the effect of the asset ceiling.

Other long-term employee benefits include all benefits other than short-term employee benefits, post-employment benefits and termination benefits, including long-service awards. These commitments are the subject of provision corresponding to their value at the reporting date. They are measured using an actuarial method identical to that used for defined benefit post-employment benefits, with the exception of the liability remeasurements which are recognised directly in profit or loss and not in equity.

Information about employees' benefits are detailed in Notes 6.9 et 10.

5.7. Interest income and expense

Interest income and expense are accounted for in profit or loss for all the financial instruments measured at amortised cost and fair value through recyclable equity, using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument in such a way as to obtain the gross carrying amount (or amortised cost) of the financial asset (or liability). The calculation of this rate takes account of all the contractual terms of the financial instrument (e.g. early repayment options, extension options, etc.) and includes all the commissions and costs received or paid that are by nature an integral part of the effective contract rate, and transaction costs, premiums or discounts.

In the particular case of purchased or originated credit-impaired financial assets, the effective interest rate will be also take account of the expected credit losses in estimations of future cash flows.

5.8. Commission income and expense

The Group recognises commission in profit or loss on the basis of the services performed and of the method of recognition of the financial instruments to which the service is attached:

Commissions remunerating ongoing services are spread in profit or loss over the duration of the service (commission on methods of payment).

Commissions remunerating one-off services or remunerating a major undertaking are recognised in their entirety in profit or loss when the service is performed or the undertaking conducted.

Commissions that considered to be part of the return on a financial instrument, such as commissions for the granting of loans, constitute additional interest and are included at the effective interest rate. These commissions are therefore accounted for among interest income and expenses, and not among commissions.

5.9. Cost of risk

The cost of risk includes provisions net of reversals on credit risk, net impact on POCI re-evaluation, loans and receivables written off and recoveries on bad debts written off.

5.10. Current and deferred taxes

Tax expense for the financial period includes corporation tax on entities located in France at the rate of 34.43% in 2017 (and 30% for Socalfi located in New Caledonia).

Deferred taxes are recognised when there are temporary differences between the carrying value and the tax basis of assets or liabilities, save for some exceptions (for example, the taxable temporary differences generated by the initial recognition of goodwill). They are calculated using the liability method at the tax rate expected to apply in the period during which the temporary difference will reverse, on the basis of tax rates and regulations which have been or will be adopted before the reporting date. Their calculation is not discounted.

The deferred tax rate applied in France includes the tax reductions proposed in the 2017 and 2018 finance laws, which provide for a gradual reduction in corporation tax rates, falling (excluding the impact of the 3.3% social contribution) to 31% in 2019, 28% in 2020, 26.5% in 2021, and 25% in 2022 and subsequent years. This reduction in tax rates has a positive impact of €4 million (see Note 7.9).

Deferred tax assets or liabilities are offset when they originate in the same tax group, concern the same tax authority and where there is a legal right of set-off.

Current and deferred taxes are recognised as tax income or expenses in profit or loss, with the exception of those relating to a transaction or an event directly accounted for in equity (such as fluctuations in the value of cash flow hedge derivatives or unrealised gains or losses on instruments classified at fair value through equity), which are also allocated to equity.

The activation of deferred tax assets arising from reportable tax deficits is based on and is in line both in timing and in amount to the prospective taxable income deriving from the Business Plan approved by the Board. The business plan has been tested for sensitivity by the Financial planning and analysis team.

5.11. Use of estimates in the preparation of financial statements

The preparation of the financial statements involves making assumptions and estimates in certain areas that may or may not prove accurate in the future. These sources of uncertainty can affect the determination of income and expenses in the profit or loss account, the measurement of balance sheet assets and liabilities, and some items of information presented in the notes. These estimates using information available at the reporting date call for the use of judgment by preparers. The final future results may differ materially from these estimates in response to changes in the Group's economic and regulatory environment and may have a significant influence on the financial statements.

The main measurements requiring the use of assumptions and estimates are the following:

- financial instruments at fair value that are not listed on the markets using internal models;
- provisions for impairment on the basis of the credit risk of assets classified at amortised cost and fair value through equity;
- the valuation of employee liabilities and associated expenses, whose calculation uses actuarial assumptions regarding discount rates, staff turnover rates and wage developments;
- provisions recorded in liabilities other than those for credit risk and employee commitments, which mainly consist of provisions for litigation, the amounts and timings of which are uncertain and which require the use of judgment in assessing their likelihood of occurrence;
- assessment of the recoverable character of deferred tax assets, based on fiscal business plans using estimates of future taxable income;
- the effectiveness of hedging relationships, requiring assumptions regarding changes in the hedged risks and estimates of their impact on the hedging relationship.

6. Notes on the balance sheet

6.1. Hedging derivatives – Cash Flow Hedge (CFH)

All the hedging relationship existing within the Group are qualified as cash flow hedges and covers the interest rate risk.

a. Hedging instruments

Hedging derivatives Interest rate risk	Less than 1 month		1 to 3 months		3 months to 1 year		1 to 5 years		More than 5 years		Total
In thousands of euros	*Notional amount*	*Average price/rate*	*Notional amount*	*Average price/rate*	*Notional amount*	*Average price/rate*	*Notional amount*	*Average price/rate*	*Notional amount*	*Average price/rate*	
Swaps	56 052	(0,02%)	205 311	0,13%	1 746 365	0,08%	1 463 376	0,16%	1 035 238	0,52%	4 506 341
Total hedging derivatives	**56 052**	**(0,02%)**	**205 311**	**0,13%**	**1 746 365**	**0,08%**	**1 463 376**	**0,16%**	**1 035 238**	**0,52%**	**4 506 341**

Cash Flow Hedge Interest rate risk	Notional amount	Carrying amount		Ineffective portion accounted in profit or loss
In thousands of euros		*Assets*	*Liabilities*	
Interest rate swaps	4 506 341	2 656	4 620	225

b. Hedged items

Cash Flow Hedge Interest rate risk	Change in fair value for the calculation of the ineffective portion	Cash Flow Hedge reserve on hedging instruments	Cash Flow Hedge reserve on discontinuation of the hedging relationship
In thousands of euros			
Floating rate notes	5 338	5 113	-
Floating rate restructured loans	121	121	-

c. Hedge effectiveness

Cash Flow Hedge Interest rate risk	Gains/Losses recognised in OCI	Ineffective portion accounted in profit or loss	Poste du résultat global comprenant la part inefficace de la couverture
In thousands of euros			
Interest rate swaps	5 233	225	Net gains and losses on financial instruments at fair value through other comprehensive income

d. Equity components related to Cash Flow Hedge

In thousands ofeuros	Transaction related hedged items	Time related hedged items
CFH Reserve at 01.01.2017	**-**	**-**
Effective portion of the change in fair value recognised in equity	-	5 233
CFH Reserve at 12.31.2017	**-**	**5233**

6.2. Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income, €73 million at 31 December 2017, include bonds and other fixed-income securities. The unrealised gains recognised in equity amount to €0.2 million. The amount of impairments of these financial assets stands at €0.1 million.

6.3. Financial assets measured at amortised cost

In thousand of euros	12.31.2017
Gross book value	**386 233**
Current accounts	386 233
Individual provisions	-
Loans and receivables due from banks and credit institutions	**386 233**
Gross book value	**3 601 717**
Consolidated debts (mortgages and personal loans)	1 639 546
Consumer loans	1 314 431
Financial lease	362 037
Defaulted loans	263 372
Revolving credit	22 331
Individual provisions	-
Collective provisions	**(25 674)**
Loans and receivables due from customers	**3 576 043**
Total financial assets at amortised costs	**3 962 276**

6.4. Financial liabilities measured at amortised cost

In thousand of euros	12.31.2017
Debt securities	2 689 835
Related payables	280
Sub-total debt securities	**2 690 115**
Term loans and advances	5 000
Other financial liabilities	1 997
Sub-total due to bank and credit institutions	**6 997**
Current accounts	203 347
Term loans and advances	825 295
Related payables	6 195
Sub-total due to customers	**1 034 837**
Total financial liabilities at amortised costs	**3 724 952**

Debt securities are the securitization issuances of the Group. In the course of refinancing measures after the change of control, My Money Bank and its regulated overseas subsidiaries have taken part since March 2017 in three securitisation operations (RubyOne, EmeraldOne and SapphireOne Auto-2017-1) and My Money Bank alone has participated in a fourth securitisation operation (DiamondOne):

- **RubyOne**: securitisation of loan receivables and auto lease contracts,

- **EmeraldOne**: securitisation of general purpose consumer loan receivables,
- **DiamondOne**: securitisation of loan receivables that the Company holds against certain of its customers in respect of loan contracts included in a portfolio of mortgages granted from 1 September 2016.
- **SapphireOne Auto 2017-1**: public securitisation of a portfolio of auto loans and leases.

The four securitisation operations, mainly using the proceeds from the sale of the transferred receivables to repay intra-group loans concluded with entities in the General Electric group, were intended to reduce the indebtedness of the entities concerned and contribute to the financing of their future activities independently of the General Electric group.

6.5. Current and deferred tax assets and liabilities

a. Current and deferred taxes

In thousand euros	12.31.2017
Current taxes	6 760
Deferred taxes	53 633
Current and deferred tax assets	**60 393**
Current taxes	(2 907)
Deferred taxes	(8 532)
Current and deferred tax liabilities	**(11 439)**

b. Breakdown of deferred tax assets and liabilities by nature

In thousand euros	12.31.2017
Financial instruments at fair value through equity	7 253
Unrealised leasing reserves	(16 362)
Provisions for employee benefit	16 407
Provisions for credit risk	3 883
Other non-deducted provisions	3 034
Tax losses carried forward	30 885
Net deferred taxes	**45 101**
O/w deferred tax assets	*53 633*
O/w deferred tax liabilities	*(8 532)*

c. Deferred tax assets on unrecognised tax losses carried forward

In thousand euros	12.31.2017	*Legal duration of the carry-forward*	*Forecast horizon for recovery*
Promontoria MMB SAS	-	Indefinite	
My Money Bank SA	24 546	Indefinite	5 ans
Somafi-Soguafi SA	3 786	Indefinite	2 ans
Sorefi SA	2 553	Indefinite	2 ans
Total unrecognised deferred tax assets	**30 885**		

d. Changes in deferred taxes

In thousand of euros	Changes in profit or loss	Changes in equity	Other changes	Total 12.31.2017
Net deferred taxes at 01.01.2017	**-**	**-**	**-**	**-**
Changes in scope	-	-	54 885	**54 885**
Financial assets at amortised costs and at fair value through OCI	11 750	(1 858)	-	**9 892**
Tax rate impact on financial assets at fair value through P&L and OCI	(76)	-	-	**(76)**
Changes in unrealised leasing reserve	(3 912)	-	-	**(3 912)**
Tax rate impact on unrealised leasing reserve	(1 385)	-	-	**(1 385)**
Changes in provisions for employees benefits	285	(662)	-	**(377)**
Taxe rate impact on provisions for employees benefits	(2 006)	-	-	**(2 006)**
Changes in provisions for credit risks	(20 389)	-	-	**(20 389)**
Taxe rate impact on provisions for credit risk	3 874	-	-	**3 874**
Changes in other non-deducted provisions	4 106	-	-	**4 106**
Tax rate impact on other non-deducted provisions	(206)	-	-	**(206)**
Changes in tax losses carried forward (before recognition)	9 279	10 018	(739)	**18 558**
Impact of unrecognised tax losses carried forward	(7 132)	-	-	**(7 132)**
Tax rate impact on tax losses carried forward	(1 452)	-	-	**(1 452)**
Net deferred taxes at 12.31.2017	**(7 264)**	**7 498**	**54 146**	**54 380**

6.6. Other assets and liabilities

In thousand of euros	*Assets 12.31.2017*
Suppliers	330
Insurance	5 844
Deposits, advances	1 669
Taxes	6 071
Valeurs reçues lors de l'encaissement	4 370
Deferred expenses	4 967
Other adjustment accounts	9 401
Other assets	12 121
Prepaid expenses	891
Accrued income	12 444
Total others assets	**58 107**

In thousand of euros	*Liabilities 12.31.2017*
Security deposits	484
Suppliers	14 340
Tax and social security liabilities	27 522
Insurance	2 937
Other adjustment accounts	36 943
Other liabilities	27 947
Accured expenses	13 489
Deferred income	6 200
Total other liabilities	**129 863**

6.7. Non-current assets held for sale

As of 31 December 2017, the Promontoria MMB Group classified two distinct asset portfolios into this category:

- a portfolio of revolving credits resulting from the business combination of 28 March 2017, with an initial value of €85.7 million and a net carrying value of €8.5 million at 31 December 2017 following the dispositions during the financial period. Several potential purchasers have been identified for the sale of the residual portion of the portfolio. These are collection agencies with which the Promontoria MMB Group has long-term commercial relationships and to which it regularly sells similar assets;
- a portfolio of car loans with a net carrying value of €375.3 million (Puma Project). This sale should be finalised by the end of June 2018, a sales commitment having been signed with a purchaser in late January 2018.

In accordance with IFRS 5, these assets have continued at be valued under IFRS 9 which is applicable. Following the remeasurement of the portfolios intended for sale, an additional impairment loss was recognised in profit or loss under the heading “Net gains or losses on other assets” to adjust the net carrying value to the fair value less costs to sell (see Note 7.8).

6.8. Tangible and intangible assets

In thousands of euros	**Gross value 01.01.2017**	Changes in consolidation scope (03.28.2017)	Increase	Decrease	**Gross value 12.31.2017**	**Impairment and amortisation 01.01.2017**	Increase	Decrease	**Net value 12.31.2017**
Tangible assets	-	**2 773**	**3 146**	**(1 250)**	**4 668**	-	**(1 899)**	**830**	**3 599**
Buildings	-	265	1 138	(518)	884	-	(1 147)	328	**65**
Office and IT equipments	-	774	1 000	(70)	1 704	-	(425)	53	**1 332**
Fittings and facilities	-	1 697	1 011	(661)	2 047	-	(327)	449	**2 169**
Tangible assets in course	-	37	(3)	-	34	-	-		**34**
Intangible assets*	-	**3 145**	**820**	(122)	**3 843**	-	**(964)**	**122**	**3 001**
Total tangible and intangible assets	-	**5 918**	**3 966**	**(1 372)**	**8 511**	-	**(2 863)**	**952**	**6 600**

**Mainly softwares*

6.9. Provisions

In thousands of euros	**01.01.2017**	Changes in consolidation scope (03.28.2017)	(+) Increase	(-) Reversal (utilized provisions)	(-) Reversal (surplus provisions)	Change in actuarial assumptions	**12.31.2017**
Pensions and other benefits post-employment *	-	64 971	1 102	-	-	(2 561)	**63 512**
Other long-term employee benefits *	-	1 664	-	(25)	-	15	**1 655**
Restructuration	-	3 479	-	(3 479)	-	-	**-**
Fiscal and legal risks	-	2 546	3 517	(1 850)	(302)	-	**3 911**
Commitments and given guarantees	-	18	1 270	(266)	-	-	**1 022**
Other provisions	-	6 995	573	(1 428)	(2 060)	-	**4 080**
Total	-	**79 673**	**6 462**	**(7 048)**	**(2 362)**	**(2 546)**	**74 180**

** See Note 10*

6.10. Remaining balance sheet items

In thousands of euros	< 3 months	3 months to 1 year	1 to 5 years	More than 5 years	**Total 12.31.2017**
Cash, due from central banks	13 948	-	-	-	**13 948**
Hedging derivatives	-	-	-	2 656	**2 656**
Financial assets at fair value through other	736	-	31 371	40 547	**72 654**
Loans and receivables due from banks and credit institutions at amortised cost	386 233	-	-	-	**386 233**
Loans and receivables due from customers at amortised cost	393 654	905 897	983 216	1 293 276	**3 576 043**
Non-current assets held for sale	-	383 840	-	-	**383 840**
Total financials assets	**794 571**	**1 289 737**	**1 014 587**	**1 336 479**	**4 435 374**
Hedging derivatives	4 620	-	-	-	**4 620**
Debt securities issued	704 000	-	-	1 986 115	**2 690 115**
Due to bank and credit institutions	6 997	-	-	-	**6 997**
Due to customers	210 279	-	824 558	-	**1 034 837**
Total financial liabilities	**925 895**	**-**	**824 558**	**1 986 115**	**3 736 568**

The table above presents the residual contractual maturities of the Group's derivative and non-derivative financial liabilities. In the case of derivatives, the amounts shown correspond to fair value at the reporting date, to the extent that the residual contractual maturities do not reflect the liquidity risk on these positions. In the case of non-derivative financial liabilities, the amounts presented are the undiscounted contractual cash flows in accordance with the due dates provided for in the contract.

Expected cash flows may vary from the data presented in this table for some financial liabilities. These differences mainly result from the fact that cash outflows might occur significantly sooner than the data suggest, because the group has the option to exercise an early repayment of securitisation fund units issued.

6.11. Financial assets given as collateral

The 5 million securities have been pledged to the Banque de France in consideration of a three-month funding operation (ending March 2018).

7. Notes on the income statement

7.1. Interest income and expense

In thousands of euros	Interest income	Interest expense	Net 12.31.2017
Loans and receivables from customers	107 208	-	107 208
Securities	-	(1 316)	(1 316)
Financial lease	21 709	1 010	22 719
Impaired financial assets	2 045	-	2 045
Other income and expense	(4 232)	-	(4 232)
Total financial assets at amortised cost	**126 730**	**(306)**	**126 424**
Due to banks	-	(213)	(213)
Due to customers	-	(1 967)	(1 967)
Debt securities issued	-	(15 533)	(15 533)
Total financial liabilities at amortised cost	**-**	**(17 713)**	**(17 713)**
Total interest income and expense	**126 730**	**(18 019)**	**108 711**

7.2. Fee income and expense

In thousands of euros	Income	Expense	Net 12.31.2017
Transactions with customers	6 827	-	6 827
Securities transactions	252	(1 419)	(1 167)
Transactions with payment instruments	-	(340)	(340)
Financial services	10 030	(854)	9 176
Other	-	(18 900)	(18 900)
Total fee income and expense	**17 110**	**(21 514)**	**(4 404)**

7.3. Net gains and losses on financial assets measured at amortised cost

In thousands of euros	12.31.2017
Gains/(Losses) on financial assets at amortised cost	**(1 437)**
Loans and receivables due from customers	(1 437)
Gains/(Losses) on financial liabilities at amortised cost	**-**
Total Gains/(Losses) on financial assets and liabilities at amortised cost	**(1 437)**

The deconsolidation of assets realized in 2017 relate to portfolio sales completed by the various entities of the group on defaulted short-term loan portfolios, classified in POCI or in Stage 3. These sales enable the group to optimize its collections management process and the own funds consumption related to these assets. Debt sales related to defaulted loans are part of the group's strategy and are expected to be recurring in the future.

7.4. Income and expense from other activities

In thousands of euros	12.31.2017
Losses on sales	(741)
Total other expenses	**(741)**
Insurance income	7 509
Financial lease income	7 148
Reversal ofprovision	122
Files fees	2 901
Other	3 055
Total other income	**20 735**
Total other income and expense	**19 994**

7.5. General operating expenses

In thousands of euros	12.31.2017
Employees costs	(54 286)
Operational expenses	(41 695)
Taxes	(5 495)
Other	942
Total operating expenses	**(100 535)**

7.6. Amortisation costs and depreciations

In thousands of euros	12.31.2017
Depreciation and amortisation on intangible assets	(921)
Depreciation and amortisation on tangible assets	(1 942)
Reversals of provisions for depreciation	122
Total Amortisation, depreciation and impairment of tangible and intangible fixed assets	**(2 741)**

7.7. Cost of risk

In thousands of euros	12.31.2017
Net provisions on transactions with customers	(16 129)
Net POCI re-evaluation	5 657
Net losses on transactions with customers	(278)
Net provisions on other risks	(998)
Total Cost of risk	**(11 748)**

7.8. Net gains and losses on other assets

In thousands of euros	12.31.2017
Gains on disposals of tangible assets	283
Losses on disposals of tangible assets	(167)
Impairment on non current assets held for sale	(15 531)
Total gains or losses on other assets	**(15 416)**

The depreciation on non-current assets held for sale is related to the recorded fair value adjustment in line with IFRS 5 on the mainland Auto portfolio.

7.9. Income tax and deferred taxes

In thousands of euros		12.31.2017
Net income - Group share		601 352
Net income - Non-controlling interests		421
Income tax charge		(12 507)
Earnings before tax		**614 280**
Theoretical tax rate		34,43%
Theoretical tax		**211 497**
Permanent differences		(294)
Differences in foreign subsidiary tax rates		(1 130)
Tax looses for the year (limited for reasons of prudence)		(7 132)
Impact of the change in tax rate on deferred tax		(3 964)
Tax on prior periods		(2 586)
Tax on bargain purchase gain		214 069
Other		26
Tax charge for the period		**(12 507)**
	w/o tax payables	(5 982)
	w/o deferred tax	(6 525)

8. Fair value of balance sheet items

8.1. Fair value of financial assets & liabilities at amortised cost

In thousands of euros	Carrying amount	Fair value
Current accounts	386 233	386 233
Loans and receivables from credit institutions	**386 233**	**386 233**
Consolidated debts (mortgages and personal loans)	1 639 546	1 639 546
Consumer loans	1 314 431	1 314 431
Financial lease	362 037	362 037
Defaulted loans	263 372	263 372
Revolving credit	22 331	22 331
Loans and receivables from customers	**3 601 717**	**3 601 717**
Total financial assets at amortised cost	**3 987 950**	**3 987 950**

In thousands of euros	Carrying amount	Fair value
Debt securities	2 690 115	2 690 115
Subtotal debt securities	**2 690 115**	**2 690 115**
Term loans and advances	5 000	5 000
Other financial liabilities	1 997	1 997
Subtotal liabilities due to credit institutions	**6 997**	**6 997**
Current accounts	203 347	203 347
Term loans and advances	825 295	825 295
Related payables	6 195	6 195
Subtotal liabilities due to customers	**1 034 836**	**1 034 836**
Total financial liabilities at amortised cost	**3 731 948**	**3 731 948**

8.2. Fair value hierarchy of financial assets and liabilities

In thousands of euros	Fair value Level 1	Fair value Level 2	Fair value Level 3
Hedging derivatives	-	-	2 656
Financial assets at fair value through OCI	-	72 653	-
Loans and receivables due from banks and credit institutions at amortised cost	-	386 233	-
Loans and receivables due from customers amortised cost	-	3 576 043	-
Non-current assets held for sale	-	383 840	-
Total financial assets	**-**	**4 418 769**	**2 656**
Hedging derivatives	-	4 972	(352)
Debt securities	-	2 690 115	-
Due to credit institutions	-	6 997	-
Due to customers	-	1 034 836	-
Total financial liabilities	**-**	**3 736 920**	**(352)**

9. Offsetting financial assets and financial liabilities

Financial liabilities subject to offsetting, enforceable netting framework agreements and similar agreements

In thousand euros	Gross amount Financial liabilities	Gross amount Financial assets	Net amount Financial liabilities	Cash collateral	**Net amount at 12.31.2017**
Derivatives	(2 993)	1 497	**(1 496)**	(1 420)	**(76)**
Total	**(2 993)**	**1 497**	**(1 496)**	**(1 420)**	**(76)**

10. Employee benefits

10.1. Changes in the actuarial debt

In thousands of euros	Metropolitan France	Overseas	Total
Actuarial debt at the opening	**-**	**-**	**-**
Current service cost	493	106	**598**
Actuarial debt interest charges	809	20	**828**
Purchases and sales	80 574	1 960	**82 533**
Actuarial gains and losses, due to changes in financial assumptions	(1 521)	(38)	**(1 559)**
Actuarial gains and losses due to experience adjustments	(872)	73	**(799)**
Benefits paid	(1 818)	(100)	**(1 918)**
Actuarial debt at the closing	**77 663**	**2 021**	**79 684**
With a partial or total hedging asset in return	*68 528*	*-*	*68 528*
Without hedging asset	*9 134*	*2 021*	*11 155*

10.2. Changes in investment

In thousands of euros	Metropolitan France	Overseas	Total
Fair value of the investment at the opening	**-**	**-**	**-**
Interest income on investments	136	-	136
Amendments plans	15 949	-	15 949
Benefits paid	(1 754)	-	(1 754)
Actuarial losses or gains	187	-	187
Fair value of the investment at the closing	**14 517**	**-**	**14 517**
Actual return on investments	2.1%	-	2.1%
Composition of investments in percentage		**-**	
Shares	11.5%	-	11.5%
Bonds	82.1%	-	82.1%
Other	6.4%	-	6.4%

10.3. Financial hedging

In thousands of euros	Metropolitan France	Overseas	Total
Financial Hedging	63 145	2 021	65 166
Net amount	**63 145**	**2 021**	**65 166**

10.4. Net cost analysis

In thousands of euros	Metropolitan France	Overseas	Total
Current services costs	493	106	**598**
Interest on actuarial debt	809	20	**828**
Interest on investments	(136)	-	**(136)**
Actuarial losses and (gains) related to other long-term liabilities	(27)	44	**16**
Total net cost analysis	**1 138**	**169**	**1 307**

10.5. Assumptions used

In thousands of euros	Metropolitan France	Overseas	Total
To determine commitments as of 12.31.2017			
Discount rate included inflation	1%	1%	**1%**
Growth rate of the expected wage	2%	2%	**2%**
Expected rate of the plan assets	1%	N/A	**1%**
Rate of inflation of pensions	2%	N/A	**2%**
Rate of inflation of medical costs	3%	N/A	**3%**
To determine fees as of 12.31.2017			
Discount rate included inflation	1%	1%	**1%**
Growth rate of the expected wage	2%	2%	**2%**
Expected rate of the plan assets	1%	N/A	**1%**
Rate of inflation of pensions	2%	N/A	**2%**
Rate of inflation of medical costs	3%	N/A	**3%**

10.6. Sensitivity to the assumptions

On all commitments (Metropolitan France and overseas)

In thousands of euros	Reference discount rate-0.25%	Reference discount Rate	Reference discount rate + 0.25%
Fair value of the commitment as of 12.31.2017	81 641	79 684	**77 813**
Current services costs 2018	756	716	**686**

In thousands of euros	Reference discount rate-0.25%	Reference discount Rate	Reference discount rate + 0.25%
Fair value of the commitment as of 12.31.2017	75 718	79 684	**84 436**
Current services costs 2018	733	716	**705**

10.7. Major special events of the year

No major special event impacted the Group between 28 March 2017 and the end of the financial year.

10.8. Discount rate

The discount rate has been determined with reference to the performance as of 1 December 1st 2017 of investment-grade corporate bonds carrying an AA rating or higher with a duration comparable to the average duration of Group commitments in each zone.

10.9. Description of obligations in respect of defined benefit plans

Retirement obligations include retirement and other postemployment benefits, including termination benefits.

The main defined benefit plans are:

- lump sums paid on retirement, which correspond to the payment of a capital sum to the employee by the entity on retirement. The lump sum paid on retirement is determined by the national collective agreement that covers the Group, and the terms of the Group's internal agreement.

- the long-service awards scheme, corresponding to a capital sum paid to employees reaching total seniority (since the beginning of their careers) of between 15 and 40 years, depending on the Group entities.

"- the healthcare expenses plan for retirees, the obligations of which take effect when the Group:

1) assumes the total or partial financing of the contribution of retirees to the healthcare expenses plan,

2) does not pay the retiree's contribution directly, but the mutual plan for current and retired employees. In this instance, there is nevertheless a benefit from mutualisation; the participation of the employer in the asset plan indirectly funds the retirees' plan"

- the CRCC plan, revised following the agreement of 3 July 2008, which is a closed retirement plan with two populations: current plan members (active employees, future pensioners) and current pensioners. Rights were frozen at the plan closure date and have been remeasured since based on the annual level of the Social Security pension (but may not be lower than an increase based on the AGIRC plan index).

10.10. Future cash flows

The average plan duration is around 10 years.

In thousand euros	Metropolitan France	Overseas	Total
Performance expected in 2018	7 486	146	**7 632**
Performance expected in 2019	4 598	107	**4 705**
Performance expected in 2020	5 460	139	**5 599**
Performance expected in 2021	3 400	198	**3 598**
Performance expected in 2022	4 615	123	**4 738**
Performance expected in 2023 à 2027	25 841	799	**26 640**

11. Other information

Through its activity the Promontoria MMB Group is exposed to the following risks on the financial instruments it holds:

- Credit risk;
- Liquidity risk;
- Overall interest rate risk;
- Securitisation risk.

The framework for managing these risks is presented below in accordance with IFRS 7 – Financial instruments: Disclosures. It has been introduced in accordance with the 3rd of November 2014 decree on the internal control of businesses in the banking sector, payment services and investment services subject to the supervision of the ACPR (Autorité de Contrôle Prudentiel et de Résolution).

11.1. Risk management in the Promontoria MMB Group

a. Liquidity risk, overall interest rate risk and securitisation risk

Management and control of liquidity risk, interest rate risk and securitisation risk form part of a comprehensive policy established and applied within the Promontoria MMB Group’s Treasury department to oversee the definition, measurement and supervision of these risks in line with the objectives and the Group’s Risk Appetite Statement.

The principle objectives of this policy are to:

- establish the strategy and risk appetite for each type of risk exposure;
- develop and implement the processes and procedures for measuring and reporting risk exposure;
- monitor compliance with the limits and principles defined by the Group;

- define escalation procedures in the event of failure to respect the limits and principles of risk management, and action plans to address such situations;
- set out clear roles and responsibilities for risk management and reduction.

This comprehensive policy has been validated by the Asset Liability Committee (ALCO) and the Internal Audit and Risk Committee. It is revised at least annually by ALCO. The same committee monitors its implementation quarterly at group level.

The Asset Liability Committee consists of the following permanent members: the Chairman, Finance Director, Risk Officer, and the officers responsible for permanent control and the Treasury. They may be joined by additional invited members, depending on the subjects addressed. Its main tasks are:

- reviewing and recommending approval of the Treasury's comprehensive policy and any changes following its annual revision;
- reviewing the Group's position in terms of the limits and principles set;
- reviewing and approving any exceptions to the Treasury policy;
- approving the annual modelling assumptions for liquidity and interest rate risk stress tests;
- approving the warning thresholds defined for market indicators to be monitored by the Group (CAC 40, Euribor rates, etc.);
- determining the Group's refinancing capacity based on the market indicators monitored;
- defining and approving urgent financing action plans if an event occurs materially affecting the Group's refinancing capacity;
- approving distributions of dividends as part of the capital management strategy and the regulatory capital adequacy requirements;
- approving the securitisation of assets in dedicated financing structures;
- approving the use of hedging operations to modify the Group's risk profile in respect of interest rates or foreign exchange rates;
- reviewing the information on the list of authorised investments;
- annually approving the Treasury's operational management directives.

In operational terms, these responsibilities are in part addressed and implemented by the Treasury department, whose role consists of the operational management of the group's refinancing requirements through the different authorised channels, within the applicable risk mandates and limits. The Treasury department is directly involved in drafting the comprehensive policy, inter alia by developing the Group Contingency Plan and by providing ALCO with information for its approval (e.g. the calculation of regulatory liquidity ratios, risk exposures or the development of stress tests).

b. Credit risk

The framework for monitoring credit risks is piloted by the Promontoria MMB Group Risk Department in compliance with the Decree of 3 November 2014 on risk monitoring. The scope of the Risk Department's intervention therefore addresses credit risk in line with the definition given in Regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR of 26 June 2013), in particular articles 387 to 403 and 493. This defines credit risk as the risk incurred in the event of default of a counterparty or counterparties considered as a single beneficiary.

The Risk Department establishes approval policies and documentation for each customer type and financing type. Credit approval delegations are defined in a formalised document, policy 5.0.

Officers responsible for giving approval must respect these procedures, and first and second level controls are carried out in order to monitor compliance. These controls provide for subsequent verification of compliance with policies for approval and documentation, and with delegations. The results of controls are presented to the Permanent Oversight Committee and will lead to staff corrective measures if necessary.

The Risk Department ensures weekly, monthly and quarterly monitoring of credit risk by activity (mortgage loans as provider, credit consolidation, vehicle loans and consumer loans).

Checks are carried out to verify this risk monitoring and respect for risk procedures in case management. Any anomalies found will give rise to actions ranging, in addition to an interview with the staff member responsible, from a general reminder of the rules to a specific action plan decided upon either by the staff member's manager or by the Permanent Oversight Committee when such anomalies are presented to this committee.

The Risk Department also monitors vehicle loans deemed to be in a state of rapid deterioration. These are cases with a missed payment within the six months following the first payment due after the loan is granted; missed payment monitoring is reported weekly to the Marketing Department and Debt Collection. The Risk Department also continues to monitor the risk of outstanding that are the subject of securitisation operations.

11.2. Liquidity risk

Liquidity risk is defined by the order of 3 November 2014 as the risk that the entity cannot meet its due obligations or unwind or offset a particular position, because of market or idiosyncratic factors, within a specified time and at reasonable cost.

a. Liquidity risk management objectives

The objective of the Promontoria MMB Group's liquidity strategy is to ensure access to sufficient funds to meet its commercial needs and financial obligations at a reasonable cost, while aiming for a sufficient diversity of financing types and maturities to meet the limits and constraints of existing or potential risks.

In this context, the MMB Group has sold a material portion of its outstanding consolidated loans to a number of securitisation mutual funds and has expands during the financial year its deposit programme for private individuals and SMEs in order to diversify its refinancing sources. This diversification limits the overall liquidity risk, giving the bank access to different potential sources with diverse characteristics (in terms of rate, duration, amount, etc.).

The Group's strategic objectives in terms of liquidity prioritise short-term resilience (one year) in the event of a deterioration in the Group's liquidity profile and its capacity to absorb short-term shocks resulting from stresses in the economic and financial environment.

b. Exposure to liquidity risk

The Promontoria MMB Group's liquidity risk exposure pertains to its two main refinancing sources, market financing via securitisation structures and customer deposits.

Inability to access the finance markets and significant withdrawals over a prolonged period can affect the entity's capacity to fund its current operations. Failure to maintain a sufficient stock of liquid assets can materially increase the liquidity risk. The timings of inflows and outflows of cash necessary to meet commitments can also contribute to the liquidity risk.

Additionally, the Company has conditional exposures to undrawn loan commitments to customers which could lead to unplanned increases in liquidity requirements.

The table below presents the residual contractual maturities of the Group's derivative and non-derivative financial liabilities. In the case of derivatives, the amounts shown correspond to fair value at the reporting date, to the extent that the residual contractual maturities do not reflect the liquidity risk on these positions. In the case of non-derivative financial liabilities, the amounts presented are the undiscounted contractual cash flows in accordance with the due dates provided for in the contract.

Breakdown of financial liabilities by contractual due date (undiscounted cash flows) is presented in Note 6.10.

c. Measures and monitoring of liquidity risk

The main liquidity monitoring indicator used by the Group is the Free Available Cash Equivalent (FACE).

The FACE is used to determine the cash amounts or cash equivalents available to the group for its economic activities. The indicator is measured daily and consists of the following assets, depending on their cycle of availability:

- Immediately available or within 48 hours:
  - liquidity reserve, including High Quality Liquid Assets (HQLA);
  - cash invested in first-rank banking institutions, in accordance with the Group's counterparty risk principles.
  - undrawn lending facilities (RCF).
- Available within one month:
  - balance sheet assets eligible for immediate securitisation.

Liquidity management relies on forecasts and analyses of scenarios, as well as the following three pillars:

- key liquidity indicators (FACE, LCR, NSFR, Economic Liquidity Buffer (ELB), Counterbalancing Capacity (CBC));
- market indicators (Early Warning Indicators, EWI) monitored on a daily basis;
- a contingency plan.

11.3. Overall interest rate risk

Overall interest rate risk is defined by the 3rd of November 2014 decree as the risk incurred in the event of interest rate change affecting balance-sheet and off-balance sheet operations, with the exception, where applicable, of operations subject to market risks. This risk results from exposure to adverse movements that could affect interest rate markets, their volatility or their spreads.

a. General policy for the management of overall interest rate risk

The Group's policy for the management of the overall interest rate risk is not intended to hold speculative positions on the portfolios concerned in a lasting and structural manner.

In order to limit its exposure to interest rate risks, the Group seeks to:

- refinance its debt by loans with matching rate type and maturity. Variable rate assets must be backed by variable rate liabilities, and fixed rate assets must be backed by fixed rate liabilities, with equivalent maturities. Interest rate risk is thus taken into account for fixed and variable rate operations;

- where the economic characteristics of financial assets and liabilities do not allow for natural set-off of the risks, establish hedging operations for all exposures to overall interest rate risk and foreign exchange risk, while respecting the limits set by the overall Treasury policy. These hedges comply with IFRS accounting standards and are presented in Note 5.1.7 *Derivative financial instruments and hedge accounting.*

b. Exposure to the overall interest rate risk

The Group is exposed to the interest rate risk through its lending activities, its financing operations and its investments. The main source generating overall interest rate risk are the timing differences between the application of new rates to assets and liabilities (depending on references and maturities).

Furthermore, a significant portion of the Group's variable-rate assets contain optionalities that restrict the possibility of passing on these variable rates to borrowers. These assets also contain clauses allowing a switch to fixed rate, necessitating a regular rebalancing of structural positions on the balance sheet to take account of the changes in the rate risk due to the exercise of these options.

c. Measuring and monitoring the overall rate risk

The approach to monitoring the Group's rate risk uses measures of economic sensitivity, within limits set by ALCO.

In its internal assessment of capital adequacy, the Group applies the Pillar 2 rate shocks, corresponding to instantaneous parallel shocks of +/- 200 bps.

The calculation and monitoring of risk indicators and limits are reported to ALCO every month, as are overall interest rate risk hedging operations.

11.4. Credit risk

a. General principles for lending and the selection of credit operations

The Promontoria MMB Group lending and investment guidelines have been developed in compliance with articles 111 and 112 of the 3rd of November 2014 Decree on the internal control of businesses in the banking sector, payment services and investment services subject to the supervision of the ACPR.

The appraisal and decision process depend on eligibility conditions, an analysis and the determination of a financial rating specific to each segment, and in some cases obtaining guarantees.

Loan approval decisions are taken in the course of delegations granted jointly to the business lines by the Risk Department. These delegations are granted on an individual basis and are validated annually. Delegations correspond to a ceiling amount or a specific authorisation defining the exceptions or exemptions to the rules laid down by the Risk Department. When a case exceeds the delegation threshold of the approvals service, it is escalated for approval to the Investment Committee, consisting of the Risk Officer and the Chief Executive, and in the final resort to the Group Board of Directors.

<u>Launch of a new product or significant modification of an existing product</u>

For all operations, any new product launch or significant product changes are accompanied by a presentation containing a description of the product, financial forecasts, the product risk profile, standards for approval and monitoring criteria.

The process of bringing new products to the market requires the approval of the Group Management Committee (including the Finance, Risks, Legal, Compliance and Operations departments). When the Management Committee has validated a request to market a product, it submits the application for the approval of the Board of Directors of Promontoria MMB.

Approving and monitoring business introducers

For the car loan, credit consolidation and deposits businesses, product distribution is largely dependent on business introducers. These introducers therefore act as an initial selection filter. For example, any financing dossier submitted requires the introducer's prior approval. All the rules for this process are set out in the KYI policy ("know your introducer").

In order to approve new introducers, the Marketing Department collects all the documents necessary to acquire a solid knowledge of the introducers, in accordance with the current approval procedure. Significant introducers, or those presenting an unusual risk or compliance profile, receive special treatment (as set out in the KYI policy) and must obtain the agreement of the Marketing, Risk and Compliance Departments for definitive approval.

The situation of active and inactive introducers is reviewed every four months by the Risk, Marketing, Sales and Compliance departments in a meeting of the Introducer Monitoring Committee, based on a list drawn up by the Risk Department. The approvals officer for each activity is also invited to attend. The Committee determines the future of the business relationship with the introducer. It may decide to continue or terminate the relationship, or to monitor it through various operational measures.

Finally, ad hoc committees can also meet in the event of any alerts or one-off anomalies.

Approval of applications

The Risk Department establishes approval policies for each type of customer (individual or corporate) and financing type. It sets out all the rules and conditions for granting loans, and the list of customer documents required in order to study and approve a financing application.

The approval process relies on rigorous customer knowledge, in particular through analyses of indebtedness and solvency based on a wide range of available information sources (Banque de France records, evidence of financial position provided by the customer, financial statements in the case of legal persons, etc.).

In the cases of vehicle finance for private individuals and mortgage consolidation, specific analyses of the value of the goods financed or used to guarantee the loan are carried out. The values of these goods are checked using external sources, comparative market studies or expert analyses.

b. Rating systems and methods of estimating credit risk

The Promontoria MMB Group applies the standardized approach and therefore does not calculate its regulatory capital requirement using internal rating systems. Where there is no external credit rating directly applicable to a banking portfolio exposure, the Bank's customer databases may, depending on the case and after analysis, make it possible to apply a rating based in part on an internal or external rating of the issuer (or of its guarantor if any). The Risks Department monitors the Banque de France borrower ratings, which are automatically updated monthly.

General methods of calculating expected credit losses

Credit risk is expressed through the impairment provisions recognised for expected credit losses as defined by IFRS 9 and set out in Note 2.2 Standards given early application by the Group at 31 December 2017.

The calculation of expected losses relies on three main parameters: probability of default (P), loss given default (LGD) and exposure at default (EAD), taking account of amortisation profiles. Expected losses are calculated using the formula PD x LGD x EAD and are discounted at the effective interest rate determined on initial recognition of the financial instrument. For all exposures, the assessment of the ECL is carried out in a way that reflects the reasonable and justifiable information on past events, current conditions and forecasts for future economic conditions that can be obtained at the reporting date without excessive costs or efforts ("forward looking").

These parameters are defined using internal statistical models and the historical information.

Estimations of probability of default

Estimations of the probability of default are based on the situation of a counterparty at a point in time and are calculated using transition matrices per tranche of outstanding. The migration of a counterparty or an exposure between the various tranches will entail a change in the estimated PD. Calculation of PD takes into consideration the contractual maturities of exposures, as well as estimates of early repayments. Transition matrices are differentiated, depending on whether the PD is calculated over 12 months or at maturity, and sub-segmentation is carried out in order to distinguish unmodified financial assets and those that have been modified in an immaterial manner.

In the special case of financing associated with the dealer portfolio, PD estimations rely on internal scores attributed to dealers with a view to segmenting them in accordance with their estimated probability of default and/or judicial liquidation.

Calculation of the LGD

The LGD represents the rates of expected loss on a given exposure in the event of default. Loss given default is calculated on the basis of the history of losses (total or partial) observed on the Group's defaulted contracts, and the residual future recovery curves for contracts classified in stage 3. Depending on default seniority, these curves provide the residual recovery rates in comparison with the cumulative recovery rate calculated for an instrument entering default. The final rate of loss applied is a weighted average incorporating each possible scenario for emerging from default (e.g. reclassification as a healthy debt, closure without loss, reclassification as disputed, or write-off).
In the case of the DC Secured portfolio, the systematic constitution of guarantees to cover exposure is included when determining the LGD of the portfolio, taking account of:

- the valuation of guarantees and the progress of recovery;
- new parameters in the default exit scenarios used for the calculation of the final loss rates, reflecting the methods of disposal of guarantees (amicable sale, judicial sale).

Methods of determining the EAD

The EAD is the expected exposure at the time of counterparty default. The Group determines the EAD on the basis of the current exposure at the estimate date, taking account of the impact of expected events on the contract until the default date, such as exposure amortisation or early repayment. The EAD at the estimate date is equal to the carrying value of the instrument. Variations in the EAD between the reporting date and the date of default are modelled and integrated into the estimations of probability of default, which take account of amortisation and drawdowns before default.

Time horizon for assessing expected credit losses

The Group measures the expected credit losses on the instruments it holds over the maximum contractual period, including options for extension, during which it is exposed to the credit risk.
However, in the case of revolving credits, this period can be extended beyond contractual maturity to behavioural life, when Group's contractual right to demand repayment and to terminate an undrawn loan commitment does not limit its exposure to credit losses beyond the contractual notice period. This extension beyond contractual maturity is determined by considering such factors as credit risk mitigation measures, including the reduction or removal of unused limits, which the group proposes to take should the credit risk on the financial instrument increase. The behavioural life of revolving credits is calculated by the Group in consideration of historical information and experience of similar financial instruments in terms of the period of credit risk exposure, the time period for the occurrence of default following a significant increase in the credit risk, and the measures to mitigate the risk in the event of such an increase (limitation or removal of unused limits).

c. Measurement and monitoring of credit risk

Credit risk is managed and monitored by the Risk Department using three main drivers:

- lending limits;
- an analysis of profitability of credit operations;
- regular monitoring of collection performance.

Lending limits

The Promontoria MMB Group has strict limits, set by the Board of Directors, depending on the nature of the operations and the guarantees attached. These limits are reviewed annually. Each new product or activity launch is submitted for the approval of the Promontoria MMB Board of Directors.

Analysis of profitability of credit operations

The Risk Department and the Pricing Service regularly conduct a review of the profitability of the relationship with each introducer or partner whose inventories the Bank finances. For the affected financing (vehicles, finance at the point of sale), introducer risk monitoring is conducted at least quarterly on the basis of several risk indicators. Where appropriate, this makes it possible - in consultation with the Marketing Department and acting on a proposal from the Risk Department - to terminate the relationship with introducers with negative profitability.

Reports on commercial and financial margins are prepared by the Finance Pricing Service and distributed to all the entity's departments and support functions on a weekly basis. Changes in the margins and volumes of the various activities are analysed during Management Committee meetings, or in ad-hoc Pricing Committees.

Two indicators in particular are tracked:

- the gross margin, calculated as a percentage, which is the difference between the nominal rate and the refinancing rate;
- the risk-adjusted margin, incorporating the refinancing cost and the cost of risk. This corresponds to the gross margin adjusted for expenses received (administrative charges, management expenses, late fees and collection fees), additional insurance revenues, commissions paid to introducers and the cost of risk.

A monthly review of profitability is conducted by the Pricing Services and the Marketing Department, making it possible to assess:

- new volumes in comparison with the entity's targets;
- the profitability of credit operations based on US accounting standards, in comparison with the entity's targets;
- a summary of current pricing operations;
- future pricing operations to be developed.

Finally, Group Management carries out monthly follow-up based on an analysis of the profitability of lending operations per activity conducted by the Pricing Service. This analysis includes the NBI, acquisition costs, cost of risk and overheads.

<u>Monitoring collection performance</u>

The collection process uses internal software for managing and monitoring cases of arrears (including the management of reminders and urging letters, and follow-up of promises to pay).

Two teams operate at different stages in the processing of arrears, depending on the loan type:

- for vehicle loans and consumer loans, a reminder team intervenes to conduct amicable negotiation, with the support of a proceedings team for cases of litigation;
- for mortgages and credit consolidation, a pre-litigation collection team provides individualised customer management until the 6th payment failure, and a litigation collection team takes over cases beyond that point.

In conjunction with the criteria used to assess a significant increase in default risk for the purposes of IFRS 9 provisioning (moving to stage 2 or stage 3), the main management indicators used to monitor arrears and the effectiveness of collection are as follows:

- 0+ (cases presenting no failures to pay);
- 2+ (2 or more payment failures, cases in judicial settlement, judicial liquidation, forfeiture of term or payment moratorium);
- 4+ (4 or more payment failures, cases in judicial settlement, judicial liquidation, forfeiture of term or payment moratorium);

Further, other management indicators. based on US accounting standards (US GAAP) and in use by the My Money Bank Group that was acquired on 28 March 2017, continued to be used by the Promontoria MMB Group during 2017. These indicators are:

- the monitoring of US GAAP buckets, representing the customer's number of late monthly payments. This number is determined by the ratio between the total unpaid amount and the amount of a contractual monthly instalment. This indicator is used to measure non-payments at each collection stage, and the effectiveness of the different collection units;
- the monitoring of gross write-offs and recoveries in US GAAP;
- the roll rate which is used to measure the percentage of cases settled in each bucket.

The results of call campaigns are also monitored, with the number of calls made (in the reference month), changes in contact rates per customer segment, and the rate of payment promises kept per product.

These aspects are followed up regularly through:

- weekly monitoring of collection service performance per activity (vehicle loans, consumer credit, mortgages, and credit consolidation) by the Risk Department on the basis of an estimate per structure (amicable, pre-litigation, litigation, etc.) and by level of arrears,
- monthly reports presented to the full Management Committee during the monthly review of the Bank's activities.

d. Credit risk mitigation techniques

Credit risk mitigation is a technique for the reduction of the credit risk incurred by the bank in the event of total or partial counterparty default.
The Group relies on traditional proven risk mitigation techniques that are adapted to its activities:

- for motor vehicle financing, the Group uses collateral in cases where the amount of finance is significant and applies a reservation of title clause in other cases, in accordance with its acquisition credit risk policy.
- Continuous first and second level controls are carried out to validate the respect of formalities and the legal validity of the guarantee. The collateral rate, i.e. the ratio between the number of guarantees recorded and the number to be taken, is monitored regularly to ensure that the cases concerned are adequately covered;
- in the case of mortgage consolidation finance, whether or not including the takeover of a real estate loan, the Group takes a first mortgage. Continuous first and second level controls are carried out to validate the respect of formalities and the validity of the mortgage and of its renewal.

e. Expected credit losses on long term portfolios

Book value Long term portfolios *In thousands euros*	Expected losses at 12 months (S1)	Expected losses at maturity (collectively assessed) (S2)	Expected losses at maturity (individually assessed) (S2)	Financial assets with incurred credit losses at closed (expected losses at maturity) (S3)
Book value at 01.01.2017	**-**	**-**	**-**	**-**
Changes related to the financial instruments purchased on 28 March 2018	**2 253 281**	**-**	**-**	**-**
Financial assets transferred to S1	-	-	-	-
Financial assets transferred from S1	-	26 134	-	53 725
Financial assets transferred to S2	(28 023)	-	-	-
Financial assets transferred from S2	-	-	-	-
Financial assets transferred to S3	(56 096)	-	-	-
Financial assets transferred from S3	-	-	-	-
Financial assets created or acquired during the year	332 973	1 471	-	5 976
Write-offs	(2 313)	-	-	-
Financial assets derecognised during the year	(201 049)	-	-	-
Amortisation	(129 141)	-	-	-
Book value at 12.31.2017	**2 169 633**	**27 605**	**-**	**59 701**

Provisions Long term portfolios *In thousands euros*	Expected losses at 12 months (S1)	Expected losses at maturity (collectively assessed) (S2)	Expected losses at maturity (individually assessed) (S2)	Financial assets with incurred credit losses at closed (expected losses at maturity) (S3)
Provisions at 01.01.2017	**-**	**-**	**-**	**-**
Changes related to the financial instruments purchased on 28 March 2018	**1 352**	**-**	**-**	**-**
Transfer to S1	-	-	-	-
Transfer to S2	(17)	580	-	-
Transfer to S3	(34)	-	-	1 762
Financial assets created or acquired during the year	200	33	-	196
Write-offs	(1)	-	-	-
Financial assets derecognised during the year	(121)	-	-	-
Amortisation	(77)	-	-	-
Provisions at 12.31.2017	**1 302**	**613**	**-**	**1 958**

f. Expected credit losses on short term portfolios

Book value Short term portfolios *In thousands euros*	Expected losses at 12 months (S1)	Expected losses at maturity (collectively assessed) (S2)	Expected losses at maturity (individually assessed) (S2)	Financial assets with incurred credit losses at closed (expected losses at maturity) (S3)
Book value at 01.01.2017	**-**	**-**	**-**	**-**
Changes related to the financial instrumets purchased on 28 March 2018	**1 011 445**	**-**	**-**	**-**
Financial assets transferred to S1	-	-	-	-
Financial assets transferred from S1	-	17 780	-	21 920
Financial assets transferred to S2	(22 441)	-	-	-
Financial assets transferred from S2	-	-	-	-
Financial assets transferred to S3	(26 678)	-	-	-
Financial assets transferred from S3	-	-	-	-
Financial assets created or acquired during the year	372 418	3 981	-	2 965
Write-offs	(43)	-	-	-
Financial assets derecognised during the year	(125 939)	-	-	-
Amortisation	(153 010)	-	-	-
Book value at 12.31.2017	**1 055 752**	**21 761**	**-**	**24 885**

Provisions Short term portfolios *In thousands euros*	Expected losses at 12 months (S1)	Expected losses at maturity (collectively assessed) (S2)	Expected losses at maturity (individually assessed) (S2)	Financial assets with incurred credit losses at closed (expected losses at maturity) (S3)
Provisions at 01.01.2017	**-**	**-**	**-**	**-**
Changes related to the financial instruments purchased on 28 March 2018	**7 771**	**-**	**-**	**-**
Transfer to S1	-	-	-	-
Transfer to S2	(185)	2 932	-	-
Transfer to S3	(209)	-	-	7 526
Financial assets created or acquired during the year	2 786	629	-	1 023
Write-offs	(0)	-	-	-
Financial assets derecognised during the year	(984)	-	-	-
Amortisation	(1 182)	-	-	-
Model changes	1 676	-	-	-
Provisions at 12.31.2017	**9 673**	**3 561**	**-**	**8 550**

g. Credit risk exposures

In thousands euros	Not due or < 30 days	> 30 days	> 60 days	> 90 days	Total
Personal loans - Book value					
On the basis of the expected credit losses at 12 months	120 648	7	-	18	120 673
On the basis of the expected credit losses at maturity	1 443	1 060	665	2 449	5 618
POCI *(Purchased or Originated Credit Impaired)*	1 445	103	52	2 346	3 945
Consolidated debts (Mortgages) - Book value					
On the basis of the expected credit losses at 12 months	2 169 633	-	-	-	2 169 633
On the basis of the expected credit losses at maturity	33 619	14 856	9 011	29 820	87 306
POCI	57 308	3 215	1 924	71 142	133 589
Auto - Book value					
On the basis of the expected credit losses at 12 months	747 929	-	-	-	747 929
On the basis of the expected credit losses at maturity	11 661	8 592	4 817	11 799	36 869
POCI	6 295	1 312	1 198	33 305	42 110
Consolidated debts (Personal loans) - Book value					
On the basis of the expected credit losses at 12 months	187 151	-	-	-	187 151
On the basis of the expected credit losses at maturity	1 505	817	406	1 431	4 159
POCI	1 252	47	88	2 620	4 008

11.5. Securitisation risk

The Promontoria MMB Group holds securitised assets on its balance sheet, acquired either as originator in the course of its financing activities, or through the securitisation of several portfolios of customer loans (debt consolidation, motor vehicle loans & leases and personal loans).

In the context of the Capital Requirement Regulation (articles 404 to 410), the total securities issued in these seven securitisation operations stands at €2 690 million at 31 December 2017.

The RMBS securities issued have been rated by two external ratings agencies, S&P and DBRS, the Auto ABS has been rated by Moody's and Fitch. Private securitizations are not externally rated. The companies under French law which manages these securitisation funds are EuroTitrisation or FranceTitrisation, and the custodians of the securities are Société Générale or BNP.

In the course of these operations, servicing contracts have been established between the Promontoria MMB Group (the servicer) on the one hand, and EuroTitrisation (the management company) or FranceTitrisation (the management company) and Société Générale or BNP (the custodians) on the other. These servicing contracts mean inter alia that the Group is responsible for the management of the securitised assets on behalf of the management company and of the custodian.

A specific monitoring tool has been established including first-level controls within the Treasury covering cash flows, data transferred to the management company and external reporting. The data transferred to the management company is subject to a second-level control by the Finance Director and the Risk Officer. The performance of securitisation vehicles is also reviewed monthly, as a second-level control, by ALCO.

11.6. Management and adequacy of internal capital

a. Regulatory capital

The Promontoria MMB Group is included in the consolidation perimeter of Promontoria MMB SAS, the entity responsible for evaluating internal capital adequacy.

The method for evaluating internal capital adequacy must enable credit institutions and other investment entities to assess the extent to which their capital is sufficient to cover all their actual or potential risks. The Group must comply with the prudential regulations defined in the Basel III agreements: Directive 2013/36/EU and Regulation (EU) no 575/2013 of the European Parliament and of the Council. The regulatory capital requirement is calculated on a consolidated basis by the parent company Promontoria MMB SAS.

The standardized approach is used to quantify the total Pillar I capital requirement for credit risk and operational risk. Additional analyses of the Group's other risk exposures under Pillar II (mainly the overall interest rate risk and liquidity risk) are conducted in order to measure any necessity for an additional allocation of capital in order to comply with the Basel principles.

In terms of solvency, three levels of capital are defined:

- Common Equity Tier 1 (CET1). This category of equity includes the Group's accounting equity (capital, issue premiums, reserves, annual result), less the proposed distribution of dividends, and restated for the applicable regulatory adjustments, including the deduction of goodwill and intangible assets (net of tax liabilities) or other adjustments related to OCI accounted for directly in equity (e.g. fair value reserves related to gains or losses on cash flow hedges);

- Tier 1 equity, consisting of Common Equity Tier 1 and Additional Tier 1 capital (AT1). This category includes securities with no specified maturity date;
- total equity, which consists of tier 1 and tier 2 equity, and includes subordinated debt in addition to the previous levels.

b. Monitoring and management of equity

The Group's capital management strategy consists of maintaining a level of equity sufficient to cover potential losses, guarantee respect of its regulatory requirements and ensure its solvency.

This strategy is implemented through a management system addressing all the operational processes required to achieve these objectives:

- the development of an internal approach to the measurement of the capital requirement and the monitoring of the group's resilience in a high-stress environment (ICAAP);
- forecasting capital requirements and their allocation reflecting the needs of business lines, and profitability targets;
- a system for the analysis of the consumption of equity by business lines and of their profitability, based on weighted assets in Basel III/CRR;
- the monthly monitoring of internal capital adequacy indicators (solvency ratios, CET1, RWA) in the ALCO committee;
- an analysis and approval by ALCO and the Promontoria MMB Board of Directors of any planned distributions of dividends.
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12. Fees paid to the statutory auditors

In thousand of euros	KPMG Audit	RSM Paris	Total
Independent audit, certification and examination of the separate and consolidated accounts	240	92	332
Services other than the certification of accounts	99	31	131
Total	**339**	**123**	**462**