FINANCIAL REPORT 2014

GROUPE BPCE

BANQUE PALATINE

L'Art d'être Banquier

SOMMAIRE

2014 FINANCIAL REPORT

Banque Palatine, Groupe BPCE's specialist bank for businesses and high-net-worth-individuals, is dedicated to meeting the professional and personal needs of entrepreneurs.

It offers its expertise to mid-sized enterprises.

Harnessing the synergies across its specialised business lines (private banking, corporate finance, real estate, international, trading floor, etc.), its network of **51** branches in France currently serves over 12,000 businesses and 61,000 private banking clients.

www.palatine.fr

STATEMENT BY THE PERSON RESPONSIBLE FOR THE FINANCIAL REPORT

Pierre-Yves Dréan, Chief Executive Officer of Banque Palatine SA

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions, the information contained in this annual financial report is in accordance with the facts and contains no omission likely to affect its import.

I further declare that, to the best of my knowledge, the accounts are prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position, and profit or loss of the company and all the undertakings in the consolidation taken as a whole, and that the management report beginning on page 4 includes a fair review of the development and performance of the business, profit or loss and financial position of the Company, and the undertakings in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Paris, 24 April 2015

Chief Executive Officer

1 Board of directors’ management report

Economic environment

In 2014, the pace of global expansion stabilised at 2.9%. Growth in developed economies accelerated somewhat, but was moderately slower in emerging economies. Global liquidity was broadly supported by the consistently accommodative monetary policies pursued by the various central banks.

The euro zone, having emerged from recession in 2013, showed signs of weakness in 2014, particularly from the second quarter onwards. The business climate deteriorated as new geopolitical risk factors (the crisis in Ukraine) came to the fore. The picture varies considerably from one euro zone member state to another. Germany fared better than its counterparts, recording growth averaging 1.5%, yet still experienced a distinct slowdown. Spain showed signs of recovery, with average economic growth of 1.2% p.a. Growth in France remained sluggish (0.4%), while Italy slipped back into recession (-0.4%).

The downtrend in farm commodities, prices of global manufactured products and unit labour costs sparked a decrease in euro-zone inflation at the beginning of the year. This trend was exacerbated by the collapse in oil prices (by over 40% between June and December) in the second half of the year. Inflation in France ran at 0.1% in the year to 31 December 2014. Faced with the growing threat of deflation in the euro zone, the European Central Bank had no option but to lower its rates, pushing the deposit rate into negative territory, to inject liquidity (TLTRO - Targeted Longer-Term Refinancing Operations) and to announce a selective asset purchase programme for 2015.

Most of the euro-zone’s leading countries – aside from Germany, which recorded a small budget surplus – failed to reduce their public deficits. At 3% and 4.4% respectively, the public deficit of Italy and France was virtually unchanged as a percentage of gross domestic product. Only the Spanish public deficit improved, dropping back by more than one point to 5.4%.

The US economy gained traction during the year and is expected to post average growth of 2.4% in 2014. Leading this expansion was domestic demand and the uptick in business investment. The labour market also gained strength, creating some 2.8 million jobs and sending the unemployment rate down to 5.8% by the end of the year. Inflation moved back up towards the 2% mark at the beginning of the year, before falling back in the second half alongside tumbling oil prices, averaging 1.6% over the year as a whole. The economic upswing led to a further reduction in the public deficit, which was at 2.8% of gross domestic product in 2014, down from 4.1% in 2013.

Growth in China gradually stabilised at 7.3% in 2014, down from a peak of close to 12% seen from 2010 onwards, and inflation eased significantly to 1.5% p.a. at the end of 2014 (compared with close to 6% in 2011).

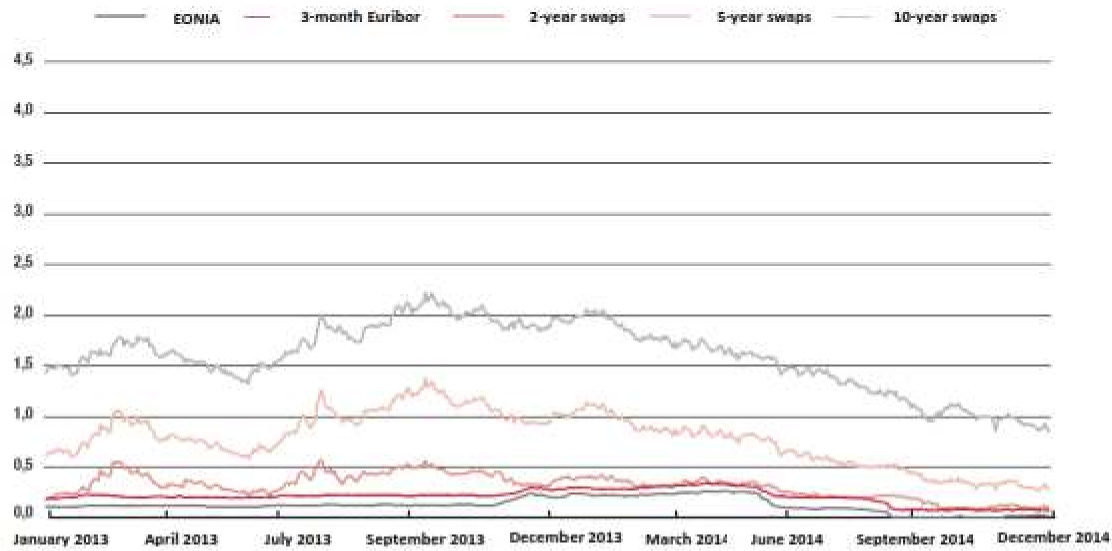
Russia was hit by the sanctions taken by the United States and Europe as a result of the conflict in Ukraine, and by a major loss of investor confidence that has triggered colossal capital outflows and a collapse in the rouble. Tumbling oil prices have also had an exceedingly negative impact on Russia’s predicament.

Interest rate trends

Monetary policies remained expansionary, as leading central banks continued to apply zero-rate and unconventional policies. Given the boost to the money supply, especially in the United States and Japan, global liquidity continued to accelerate in 2014 despite the contraction in the European Central Bank’s balance sheet (impact of early VLTRO redemptions).

The European Central Bank lowered its benchmark rates twice during the summer of 2014 after several months of keeping them on hold. These moves sparked a downturn in money-market rates and pushed Eonia into negative territory in the second half of the year. Together with the decisions by the European Central Bank, inflation expectations dragged the swaps curve down to record lows.

Euro interest rate trends since the beginning of 2013

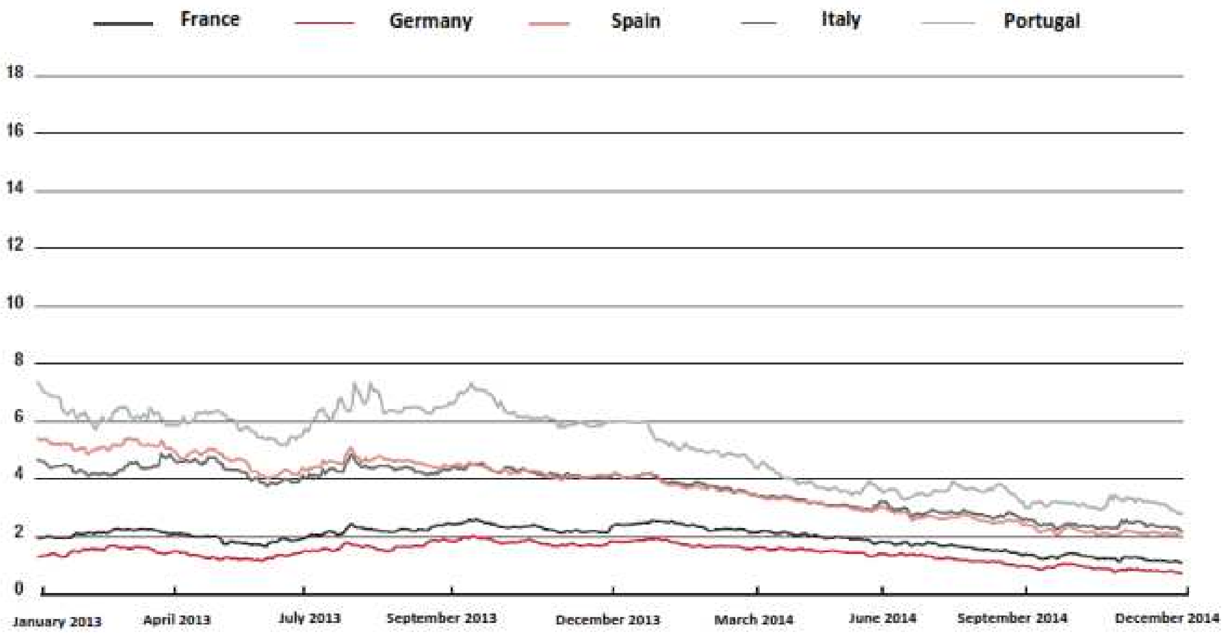


Yield curves flattened considerably during the year, with long-term rates converging steadily towards the level of short-term rates. At the beginning of the year, 10-year Bunds yielded slightly less than 2%. By the end of the year, their yields had dropped to a record low of around 0.6%.

Yields on German notes with a maturity of 3 years or less have been in negative territory since August 2014.

The actions of the European Central Bank in 2014 led to the convergence of spreads on euro-zone sovereign issues throughout the year. Contributory factors included the possibility of quantitative easing (monetary easing through a programme of sovereign bond purchases) in 2015 and the first stirrings of recovery in peripheral countries.

Yields on the main 10-year euro-zone government bonds



Key figures

Ratings at 31 December 2014

	Moody's	Fitch Ratings

Long-term rating	P-1	F1
Short-term rating	A2	A
Outlook	Negative	Stable

Consolidated figures

Financial condition

(in millions of euros)	**31 Dec. 2014**	**31 Dec. 2013**
Equity attributable to equity holders of the parent	820.8	789.2
Tier One capital	726.4	744.7

Prudential ratios

	31 Dec. 2014**	**31 Dec. 2013****
Core Tier One ratio	7.87%	8.51%
Tier One ratio	8.48%	9.23%
Total capital adequacy ratio	8.79%	9.54%

* *Basel II.*
** *Basel III.*

Consolidated income statement

(in millions of euros)	**31 Dec. 2014**	**31 Dec. 2013**
Net banking income	318.2	307.7
Gross operating income	129.9	124.4
Net income	52.7	38.9
Cost/income ratio	59.2%	59.6%

Banking activity

(in millions of euros)	**31 Dec. 2014**	**31 Dec. 2013**
Total assets	15,721.8	13,582.4
Customer loans	7,748.9	7,321.4

Significant events

Groupe BPCE highlights

The following two highlights of the year provided further evidence of the financial strength of Groupe BPCE, the central body of which is a shareholder in Banque Palatine.

Comprehensive assessment of bank balance sheets: confirmation of Groupe BPCE's financial strength

On 26 October 2014, the European Central Bank (ECB) published the results of its evaluation of the largest euro-zone banks. This assessment consisted of an asset quality review (AQR) and stress tests, conducted jointly with the European Banking Authority (EBA). This extremely in-depth exercise on an unprecedented scale was a prelude to single banking supervision of the euro zone by the ECB.

The AQR and stress tests conducted by the ECB and EBA confirmed the financial strength of Groupe BPCE. The impact of the asset quality review was very limited (-29 basis points[1]), confirming the adequacy of the provisions set aside in the Group's financial statements. It put the reference Common Equity Tier-1 ratio at 10.0% at year-end 2013. Projected by the ECB to the end of 2016, the ratio stood at 7.0% in an adverse stress scenario[2], leaving a comfortable 150 basis point margin[(2)] relative to the 5.5% threshold set by the ECB and EBA. The AQR also demonstrated the Group's robustness in a very severe stress scenario with major effects on the French economy, including the assumption of a steep fall in real estate prices (28% over three years).

[1] *Basis points (1 basis point = 0.01%).*
[2] *Assumptions determined by the ECB and EBA.*

Groupe BPCE internal securitisations

At 30 June 2014, two new special purpose entities (two French Securitisation Funds or FCTs) were consolidated by Groupe BPCE – the BPCE Master Home Loans FCT and the BPCE Master Home Loans Demut FCT. These were both the product of an internal group securitisation transaction by the Banque Populaire banks and the Caisses d'Epargne on 26 May 2014.

This transaction led to the sale of home loans to BPCE Master Home Loans (for around €44 million) and ultimately to subscription for the securities issued by the special purpose entities by the institutions that sold the loans. It replaced the BPCE Home Loans transaction carried out in 2011, which no longer met the eligibility terms for Eurosystem refinancing operations,

and helped maintain the eligibility of Groupe BPCE's collateral for Eurosystem refinancing operations at a high level.

Highlights of the year for Banque Palatine

Change in corporate governance

At the combined general meeting of 14 February 2014, shareholders voted to change Banque Palatine's governance and executive framework to a unitary board of directors.

After adopting amended articles of association and terminating management and supervisory board members' terms in office, the annual general meeting appointed the directors.

At the first meeting of the board, the directors appointed the chief executive officer, the executive vice-presidents, the chairman of the board of directors and the chairmen and members of the board committees.

At 31 December 2014, the composition of the board of directors, audit committee and remuneration committee was as follows:

- Jean-Yves Forel — chairman of the board of directors;
- Max Bézard — director;
- Jean-Charles Boulanger — director;
- Maurice Bourrigaud — director;
- Yves Breu — director;
- Brigitte Briffard — employee-elected director;
- Jean-Pierre Gabriel — director;
- Matthieu Godefroy — employee-elected director;
- Michel Grass — director;
- Pascal Marchetti — director;
- Benoît Mercier — director;
- Bernard Niglio — director;
- Raymond Oliger — director;
- Gonzague de Villèle — director;
- BPCE represented by Marguerite Bérard-Andrieu — director;
- Jean-Charles Boulanger — chairman of the audit committee;
- Maurice Bourrigaud — member of the audit committee;
- Pascal Marchetti — member of the audit committee;
- Max Bézard — member of the audit committee; free auditor;
- Jean-Yves Forel — chairman of the remuneration committee;
- Bernard Niglio — member of the remuneration committee;
- Raymond Oliger — member of the remuneration committee;

and Banque Palatine's effective managers are Pierre-Yves Dréan – chief executive officer and Thierry Zaragoza – executive vice-president, finance and banking production.

Launch of the new strategic plan
IMPULSIONS 2014/2017

In 2014, the Bank launched its new three-pronged strategic plan – Impulsions – to pursue and accelerate its success through implementation of 49 projects:

- **developing** its two markets:
  - continuing to grow in the corporate market and enhancing its presence among company directors;
  - expanding its private banking client base, confirming its position as the bank for company directors and wealth management customers.
- **modernising** processes and the information system to enhance quality of service and operational efficiency.
- getting teams to **buy in** to the plan while fostering entrepreneurial spirit.

Banque Palatine – the leading bank for mid-sized enterprises

The Palatine Circle for mid-sized enterprises was founded in 2012 by Banque Palatine. It acts as a forum for meetings and discussions between company directors, with a view to contributing to the debate on developing a supportive eco-system for mid-sized enterprises.

- In partnership with Challenges and ASMEP-ETI, the Palatine Circle for mid-sized enterprises met in Paris on 18 June, with a hundred company directors joining the evening's debate on "Will today's star mid-sized enterprises become the industrial champions of the future?".
- The Palatine Circle for mid-sized enterprises held its first meetings outside Paris in 2014: Lyon in February, Rennes in June and Aix-en-Provence in November.
- Banque Palatine celebrated the achievements of mid-sized enterprises by holding its third consecutive Trophées Ambitions d'Entrepreneurs awards, in partnership with iTELE, for ambitious entrepreneurs, and by participating in the ESMEP-ETI awards for mid-sized enterprises and family-owned companies.
- Banque Palatine continues to provide dedicated support for mid-sized enterprises as they look to tap into new sources of growth abroad.

  In 2014, Banque Palatine led a delegation of mid-sized enterprises at the France-China SME Forum in Chengdu, the capital of Sichuan province.

Business review of 2014

Commercial banking

Corporate market

Despite persistently unsupportive economic conditions, Banque Palatine's commercial banking business in the mid-sized enterprise segment continued to prosper, thanks to its three main drivers:

- ongoing and brisk acquisitions of new core business with sales of over €15 million, entering into 269 new relationships, up 3.5% on the previous year;
- outstanding loans to businesses, including property lending, again grew at a significant rate of close to 8.3%, totalling €5,772 million. New lending volumes were strong across all loan categories (equipment, syndication, LBOs, short-term), reflecting Banque Palatine's drive to support businesses with their development and their investments. It accelerated the development of two new financing solutions: pre-financing for the CICE (competitiveness and employment tax credit) in France, with outstandings totalling €29.2 million at 31 December 2014, and the bond range, with lending soaring to €202.5 million in 2014 from €51.9 million in 2013;
- On-balance sheet savings and deposits also experienced rapid growth of close to 10% to €10,828 million.

The expansion in Banque Palatine's activities in the corporate market was underpinned by its organisation shaped around its nationwide network, its dedicated customer segments, its areas of expertise and Groupe BPCE's specialised business lines.

- Through its nationwide network of branches, Banque Palatine offers a personalised and tailored approach, building a close relationship with its customers. It operates in the corporate market through its 31 branches across 6 regions (Western France, South & Mediterranean, Central & Eastern France, Western Paris, Central Paris, and Eastern Paris).
- Banque Palatine has maintained its position as a leading player in the property administrators and real estate agent market, with close to 1,500 customers, assisting them in particular with the new ALUR law on access to housing.
- Real estate professionals, including in the investor market, made a major contribution to loan production.
- The large account department supported 96 groups, providing a vehicle for Banque Palatine to showcase its expertise in this crucial segment, working closely with its specialised business lines.

- The audiovisual/cinema unit set up in 2010 also enjoyed further expansion during the year. It contributed to lending while giving customers in the sector access to its expertise and specialised units.
- Corporate finance activity was brisk, with 85 deals generating €6.79 million in fee income.
- International business lines beat the record 2013 volume of documentary credits, generating a total volume of €1,021 million. Instrumental in this performance was the ramp-up of the Cap Export programme that supports exporting businesses, with a special emphasis on countries around the Mediterranean, in Asia and the Americas.
- In addition, Banque Palatine is gradually strengthening its partnerships with Natixis' specialist financing business lines (Natixis Lease, Natixis Factor, Natixis Garantie), as illustrated by the Natixis Interépargne solutions marketed since 2013.

Its trading floor supports the Bank's customers by providing them with a broad range of customised solutions enabling them to hedge risks or invest their cash surpluses:

- hedging products based on FRAs/futures or options, enabling customers to protect against fluctuations in interest or exchange rates. The number of transactions carried out by the trading floor was higher in 2014 than in previous years;
- investment solutions based on plain vanilla products (CDs, medium-term notes, time deposits) and structured solutions (EMTNs). This extensive range provides customers with all the solutions they need to manage their cash surpluses within their own particular constraints.

Private banking market

Banque Palatine significantly increased its positions serving its two core customer segments – company directors and wealth management customers. It opened a record number of 717 new accounts for private banking clients with over €50,000 in assets at the start of the relationship, up 34% on the previous year.

Banque Palatine stabilised its financial and on-balance sheet savings and deposits in this market, with savings volumes totalling €4,293 million.

Banque Palatine also supported its private banking clients by providing financing to help them realise their projects. New mortgage and personal loans held up at a brisk level of close to €288 million.

Banque Palatine's activities in the private banking market are structured as follows:

- the nationwide network of 38 branches remains the key channel for building personalised relationship with customers and is backed up by an integrated digital range of solutions, including a web site and mobile app;
- its specialised business lines consisting of private bankers, wealth management specialists and experts in financing for company directors (capital transactions for businesses and capital incentive plans), put their skills and know-how to work in support of the network;
- an extensive range of savings and investment products, drawing on the skills and know-how of:
    - Banque Palatine (Palatine Asset Management's range of UCITS, launch of the PEA-PME equity savings plan, EMTN issues),
    - Groupe BPCE (Ciloger SCPI range of real estate funds, partnership with Natixis Luxembourg, a new PME ISF fund investing in SMEs with wealth tax benefits),
    - external partners (tax planning, UCITS, SCPI real estate funds, life insurance, Girardin products with tax incentives for investments in French overseas departments and territories, SOFICA Palatine Etoile 13);
- quality of service, especially customer relationships, is another strength of Banque Palatine's private banking offering. Many training sessions were held during the year to provide our private banking clients with the best possible advice.

Financial activities

The Bank's preparations for the introduction of the LCR ratio remained on track. Accordingly, it raised liquidity from customers that will be transferred to reserves in the form of bond issues eligible for inclusion in Basel III reserves. It made investments in fixed-income issues throughout the year, with particular emphasis on euro-zone government and corporate bonds. At the end of the year, the value of the portfolio stood at close to €1.7 billion.

Since most of these securities are eligible for European Central Bank refinancing operations, they may be deposited as collateral with the Banque de France to obtain liquidity if required. Together with eligible private loans, they help secure financing for the Bank.

The Bank obtains most of its financing from customer deposits and investment products. The ratio of customer loans-to-deposits stood at close to 78% at the end of the year. This solid base of customer deposits enables the Bank to play an active role in financing the French economy.

The balance sheet interest-rate risk was hedged to guard against fluctuations in profitability potentially arising from changes in the interest-rate environment. The Bank therefore took advantage of the low interest-rate environment by preparing its balance sheet for a possible rise in interest rates in the future. The Bank's interest-rate gap was negative at the end of the year, meaning that a rise in interest rates would have a mildly positive impact on its profitability.

It complied with its regulatory ratios throughout the year and kept its liquidity ratio consistently above 100%. Likewise, Banque Palatine maintained its capital adequacy ratio at a high level (8.79% at the end of the year), despite an increase in outstanding loans over the year.

Business review of principal subsidiaries

Asset management – Palatine Asset Management

Palatine Asset Management, a subsidiary of the Bank, offers an extensive and diversified range of UCITS covering every major type of investment, including money-market, fixed-income and equity funds. Its range also features funds that are specialised in certain equity market segments, such as small- and mid-cap companies, certain geographical regions and socially responsible investment.

Volumes invested in equity funds were buoyed by the firm performance of the markets and now account for 55% of total assets under management.

This equity weighting had a positive impact on profitability, which increased and helped to curb the subsidiary's risk exposure, which is now more the focus of fund managers in the money and bond markets.

In 2014, its flagship Uni-Hoche UCITS regained top spot in the Morningstar rankings of French large-cap equity SICAV funds on account of its annual performance. For the past five years in a row, it has been the top-rated fund in this category, and ranked 11th in the Alpha League Table of all equity funds.

Activities of the other subsidiaries

The Ariès Assurances subsidiary is specialised in collective social protection, as well as in the design of made-to-measure pension cover (Articles 39 and 83 of the French Tax Code) and the appraisal and management of end-of-career employee benefits.

Changes in scope of consolidation

There were no material changes in Banque Palatine's scope of consolidation in 2014.

Consolidated and parent-company balance sheet

Consolidated balance sheet

The Bank's consolidated assets totalled €15,722 million at 31 December 2014, up €2,140 million on 2013.

On the asset side, the increase came primarily in available-for-sale financial assets (up €1,019 million) reflecting the investments made in securities eligible for the LCR reserve (HQLA securities). Loans and advances due from customers also rose (or €428 million) on the back of healthy loan distribution.

On the liabilities side, debt securities recorded the largest increase (€1,356 million) as a result of significant inflows of funds from our customers in the form of certificates of deposit. Amounts due to customers came to €8,142 million, up €308 million on 2013.

Equity increased by €32 million to €821 million, in line with the rise in consolidated retained earnings and growth in net income.

Parent-company balance sheet

Assets on the parent-company balance sheet at 31 December 2014 totalled €15,608 million, up €2,022 million on the level at 31 December 2013. This performance reflects the strength of loan distribution, significant inflows of funds from customers and the implementation of measures to keep the Bank on track to increase its LCR (Basel III) ratio.

On the asset side, loans and advances to customers rose €290 million, while on the liabilities side, debt securities recorded an increase of €1,357 million as a result of significant inflows of funds from our customers in the form of certificates of deposit. Amounts due to customers also rose by €306 million.

The Bank's LCR plans prompted investments in HQLA securities, especially sovereign bonds, which were part of the €928 million increase in treasury bills and similar securities.

Other items that contributed to the changes on the asset side were:

- Cash and amounts due from central banks and post office banks, up €279 million;
- Loans and advances due from credit institutions, up €332 million.

On the liabilities side, the only other major change was in amounts due to credit institutions, which recorded an increase of €358 million.

Property, plant and equipment and intangible assets, which moved up €138 million, reflected the goodwill of the banking service businesses contributed by Crédit Foncier de France in 2008.

Share capital and additional paid-in capital remained stable at €538.8 million and €56.7 million respectively.

Consolidated and parent-company earnings

Consolidated financial statements

IFRS consolidated net income came to €52.7 million in 2014, up from €38.9 million in 2013 on higher gross operating income and a lower cost of risk.

Net banking income stood at €318.2 million in 2014, up 3.4% or €10.5 million compared with 2013. Positive trends in most components of net banking income generated this increase.

Net interest income rose by €8.5 million (up 3.9%) owing to the growth in customer outstandings (loans and deposits), in income similar to interest, and the reversal of €3.9 million in provisions for PEL regulated home savings loans.

Net fee income totalled €85.9 million, up from €82.6 million in 2013, with this 4.0% increase reflecting brisk business trends at both the Bank and its Palatine Asset Management subsidiary.

Net gains and losses on financial instruments at fair value through profit or loss declined by €0.2 million, while net gains and losses on available-for-sale financial assets fell back €1.1 million reflecting the gains on the disposal of securities recorded in 2013.

Total operating expenses came to €188.3 million, up €4.9 million or 2.7% compared with 2013, largely reflecting trends in the Bank's costs and payroll costs in particular.

Gross operating income totalled €129.9 million in 2014, an increase of €5.6 million or 4.5%, which put the cost/income ratio at 59.2%, a 0.4 point improvement on 2013.

The annual cost of risk came to €46.6 million in 2014, down €16.5 million on its 2013 level (albeit including a material amount for a specific industry-wide issue).

The share in net income of associates came to €0.5 million and was generated entirely by Conservateur Finance. The equivalent contribution in 2013 was €0.3 million.

Parent-company financial statements

Banque Palatine's parent-company net income came to €53.5 million, up €15.8 million on 2013.

Net banking income rose €9.7 million or 3.4% to €299.2 million compared with 2013. This encouraging trend was driven by growth in net interest income (up €7.3 million), as well as the rise in net fee income (up €2.0 million) and in variable-income securities (higher dividends from Palatine Asset Management).

The decline in net gains and losses on available-for-sale securities and similar items (down €1.7 million) was almost entirely offset by the growth in net gains or losses on trading book transactions (up €1.6 million).

Total operating expenses advanced by €6.2 million to €181.2 million in particular as a result of higher payroll costs.

Accordingly, gross operating income rose by €3.5 million to €118.0 million, which put the cost/income ratio at 60.6%, down 0.1 point on 2013.

The cost of risk, which came to €41.9 million, declined by €17.8 million from its 2013 level, reflecting both the effects of a persistently tough economic environment on the Bank's customers, and the impact of a specific industry-wide issue on the 2013 financial statements.

Net gains and losses on fixed assets contributed a loss of €0.8 million (including a €0.85 million write-down of the investment in Ariès Assurances) compared with a net gain in 2013 of €1.6 million, reflecting gains on the disposal of Euroclear, Banque Fiducial and Acxior Corporate Finance.

Results of the subsidiaries

Palatine Asset Management recorded net income of €9.4 million in 2014, up €1.1 million compared with 2013.

Ariès Assurances' net income totalled €0.2 million in 2014, down €0.2 million on 2013.

Internal control framework and activities

Information about the internal control framework and activities is presented in the chairman's report on internal control and risk management procedures.

Risk management

This information is presented in the Risk management section satisfying the obligations of the ministerial order of 20 February 2007 concerning the capital requirements applicable to credit institutions and investment firms. Some of this information is mandatory under IFRS 7 and is thus covered by the opinion of the statutory auditors on the consolidated financial statements.

Social and environmental information

The report on employee-related, environmental and social information is included in the report of the board of directors.

Five-year financial summary

A table showing the five-year financial highlights is presented in the appendix to the management report.

Subsequent events

No material event liable to have an impact on the parent-company or consolidated financial statements occurred between the reporting date and the preparation date of this report.

Terms in office, duties and remuneration of the corporate officers

A list of all the terms in office and duties in every company held by each of the corporate officers during the year, together with a remuneration schedule, is presented in the appendix to the management report.

Information on payment periods

Information concerning payment periods is contained in the appendix to the management report.

Employee participation in the share capital at 31 December 2014

At 31 December 2014, the employees did not hold any interest in Banque Palatine's share capital.

Ownership structure

BPCE holds 99.999% of the share capital.

Non-tax deductible expenses

In accordance with the provisions of Article 223 *quater* of the French Tax Code, the financial statements for the year ended 31 December 2014 include €67,826.74 in non-tax deductible expenses.

Accordingly, the tax charge incurred as a result of these expenses amounted to €25,774.16.

These non-tax deductible expenses derived from the portion of rental costs on Banque Palatine's service vehicles not deductible for tax purposes.

Authorisation to effect capital increases

The board of directors has not received any authorisation to increase the share capital.

Research and development activities

Banque Palatine did not conduct any research and development activities during the period.

Related party agreements in 2014

In accordance with order no. 2014-863 of 31 July 2014, this report must disclose related party agreements entered into with any of the Bank's corporate officers or shareholders holding over 10% of the voting rights and with any business having any corporate form whatsoever that comes into possession directly or indirectly of over half of its share capital.

In 2014, the related party agreements falling within the scope of this requirement are shown below and relate to three agreements entered into by Banque Palatine and its wholly-owned subsidiary Palatine Asset Management:

- update of the supplemental agreement on IT services to the service agreement;
- depositary agreement following the regulatory changes concerning AIFs;
- credit analysis agreement concerning the Palatine Années 20 fund.

Trading by Banque Palatine in its own shares

In 2014, Banque Palatine did not trade in its own shares.

Resolutions

The board of directors will submit its management report to the general meeting of the shareholders together with its parent-company and consolidated financial statements for 2014.

The table showing the appropriation of earnings is provided in the appendix to this report.

Pursuant to Article 47 of law no. 65-566 of 12 July 1965, the previously appropriated amounts are shown below:

Year	Number of shares	Total dividend payment	Net dividend per share
2011	26,940,134	€18,319,291.12	€0.68*
2012	26,940,134	€19,935,699.16	€0.74*
2013	26,940,134	€19,396,896.48	€0.72*

* *Not eligible for the 40% rebate.*

In accordance with Article L. 225-38 of the French Commercial Code, the agreements referred to in the statutory auditors' special report are submitted for the approval of the shareholders. Commitments given to the chief executive officer and executive vice-presidents in respect of remuneration, indemnities or benefits due or likely to fall due as a result of the cessation or change in their duties are submitted for shareholders' approval in accordance with Article L. 225-142-1 of the French Commercial Code.

In addition, shareholders are consulted about the remuneration due or awarded to the chief executive officer and to the executive vice-presidents, as well as the overall package of remuneration of any kind paid to individuals covered by Article L. 511-71 of the French Monetary and Financial Code in accordance with Article L. 511-73 of the French Monetary and Financial Code.

In accordance with Article L. 225-129-6 of the French Commercial Code, which originates from the law of 19 February 2001 on employee savings, the extraordinary general meeting of the shareholders must consider once every three years a resolution proposing an increase in the share capital reserved for employees where they own less than 3% of the share capital, as is the case at Banque Palatine. Since our last proposal dates back to 16 May 2012, we hereby propose that you consider a resolution proposing an increase in the share capital under the terms and conditions provided for in Article L. 3332-18 *et seq.* of the French Labour Code.

Future outlook and expected developments

Against the backdrop of a gradual, yet fragile recovery in the global economy and sweeping changes in the regulatory environment, Banque Palatine will continue to focus resolutely on the initiatives under its Impulsions 2014-2017 strategic plan. This features an aggressive commercial strategy and commensurate financial strategy, together with a contribution from all the business lines in line with the business plan.

While the initial benefits were evident in the first year of the plan, implementation of the Impulsions strategic plan will be accelerated in 2015 with the ramp-up in synergies and specialised business lines.

In 2015, all the Impulsions plan projects will be launched in pursuit of the expansion and modernisation objectives and to contribute to Banque Palatine's future development.

Major initiatives concerning service levels and the Bank's overall organisation will be introduced to meet the needs of its core customers. Optimisation of its new IT backbone and modernisation of its customer-oriented processes will be key tasks in 2015 as it seeks to enhance the quality of its services, its efficiency and its performance. An incentivising performance-linked human resources and remuneration policy has been drawn up and will be fully implemented in 2015.

Banque Palatine has provided finance to the real economy for more than two centuries and intends to strengthen further still its credentials as a top-tier bank serving mid-sized enterprises, their directors and wealth management customers in the private banking market.

Appendix

- Report on employee-related, environmental and social information
- Five-year financial summary
- Offices and duties held by corporate officers
- Remuneration and benefits awarded to executives and corporate officers
- Information on payment periods
- Appropriation of income

2 Chairman's report on the work performed by the board of directors, internal control and risk management procedures

To the Shareholders,

In addition to the board of directors' management report and in accordance with Article L. 225-37 of the French Commercial Code, I have the honour of reporting to you under the terms of this report on:

- the composition of the board, the preparation and organisation of the board's work during the year ended 31 December 2014 and the principles and rules governing the determination of remuneration and benefits granted to corporate officers;
- internal control and risk management procedures adopted by Banque Palatine;
- internal control procedures for the preparation and processing of accounting and financial information.

The highlight of 2014 from the perspective of Banque Palatine's corporate governance was the decision made by shareholders at the combined general meeting on 14 February 2014 to switch to a unitary board of directors. For clarity's sake, this report covers solely the company's corporate governance from that date onwards.

This report was drawn up under my authority on the basis of the available internal control and risk oversight and control documentation.

It was submitted in advance to the audit committee on 11 February 2015, then approved by the board of directors at its meeting on 13 February 2015.

The external statutory auditors will issue a specific report, appended to their report on the annual financial statements, containing their observations on internal control and risk management procedures for the preparation and processing of accounting and financial information, and attesting to the provision of other disclosures required pursuant to French law (Article L. 225-235 of the French Commercial Code).

Preparation and organisation of the board's work

Corporate governance

In preparing this report, Banque Palatine referred to the AFEP-MEDEF Corporate Governance Code for listed companies updated in June 2013 including the recommendations on executive pay.

Only certain provisions that are not relevant to Banque Palatine, since its share capital is held in its entirety by BPCE, a central body – as defined in French banking law – and a credit institution, with its share capital owned jointly by the 17 Caisses d'Epargne and 18 Banque Populaire banks. Accordingly, the following provisions were not taken into account: the proportion of independent members on the board of directors and the board committees, the staggered reappointment of directors, the application of the balanced representation of men and women on the board and its committees, the possession of a significant number of the Bank's shares by board members and the appraisal of the board's work.

Given the mutual-oriented organisation of BPCE's parent companies, as far as possible, one-third of the members of the board of directors and its committees are BPCE members, one-third belong to the Caisses d'Épargne network and one-third to the network of Banques Populaires banks. The appointments cannot be staggered if this balance is to be maintained.

In addition, two members of the board of directors are elected by employees – one representing managerial-level employees and the other representing technical and supervisory-grade staff.

In its present configuration, two women sit on the board of directors, namely Marguerite Bérard-Andrieu, a permanent representative of BPCE - director, and Brigitte Briffard, a director elected by employees (even though the latter cannot be counted pursuant to the law), which equates to a proportion of 6.67%.

Lastly, pursuant to the articles of association adopted on 14 February 2014, each director may own shares in the company.

Table summarising compliance with AFEP-MEDEF code recommendations

Board of directors: governing body	Recommendations implemented
Board of directors and the market	Recommendations implemented
Separation of the duties of chairman from those of chief executive officer	Recommendations implemented
Board of directors and strategy	Recommendations implemented
Board of directors and general shareholders' meeting	Recommendations implemented
Composition of the board of directors: guidelines	Recommendations partially implemented (not adopted concerning the balanced representation of women and men)
Employee representation	Recommendations implemented
Independent directors	Recommendations not implemented
Board appraisal	Recommendations not implemented
Board and committee meetings	Recommendations implemented
Access to director information	Recommendations implemented
Directors' terms in office	Recommendations implemented
Board committees	Recommendations implemented
Audit committee	Recommendations partly implemented (proportion of independent directors not satisfied)
Committee in charge of selection or appointments	Recommendations not implemented
Committee responsible for remuneration	Recommendations partly implemented (proportion of independent directors not satisfied)
Number of terms for company directors and directors	Recommendations implemented
Directors' code of conduct	Recommendations implemented
Termination of employment contract for corporate office	Recommendations implemented
Remuneration of corporate officers	Recommendations implemented
Transparency regarding company director remuneration	Recommendations implemented
Implementation of recommendations	Recommendations implemented

Board of directors

Composition

The board's composition is governed by Article 10 of the articles of association, which stipulates that it shall be composed of directors elected at the general meeting of the shareholders and employee-elected employees.

Directors elected by the general meeting of shareholders

There are least six and no more than 18 of these directors. They are appointed, reappointed and dismissed in line with the provisions of law and the regulations in force.

They are appointed for a term in office of three years. That said, a director appointed to replace another director whose term in office has not yet expired remains in office only for the remainder of his predecessor's term.

Employee-elected directors

There are two employee-elected directors, one elected by managerial-grade and the second by other categories of staff.

They are elected in line with the provisions of law and the regulations in force. Any seat vacated through death, resignation, dismissal or termination of an employment agreement is filled in line with the provisions of law and the regulations in force.

They are appointed for a term in office of three years.

Even so, the term in office of directors designated in the event of the death, resignation, dismissal or termination of an employment agreement of an employee-elected director comes to an end when the normal term in office of the other employee-elected directors ends.

In any event, the period for which a director is appointed may not exceed the remaining term in office through to the date on which his employment agreement ends as a result of retirement or for any other reason.

Provisions common to both categories of director

Directors may be reappointed unless they have reached the age limit of 70 years.

On an exceptional and transitional basis, the age limit has been set at 72 years for members of the first board of directors designated following the amendment of the articles of association introducing the switch to a unitary board of directors.

A director's duties end at the close of the ordinary general meeting of the shareholders convened to consider the financial statements for the previous financial year that is held during the year in which such director's term expires, unless he resigns, is dismissed or dies.

Directors

The combined general meeting of 14 February 2014 adopted the unitary board of directors model. The composition of the board of directors retained the balanced one-third representation that existed previously giving the Caisses d'Épargne and Banques Populaires bank networks an equal say alongside BPCE, the central body of the group with which Banques Palatine is affiliated.

At present, the board of directors has 13 directors who were appointed at the combined general meeting of 14 February 2014 until the end of the general meeting convened to approve the financial statements for the financial year ending on 31 December 2016 and 2 employee-elected directors, whose appointment began on 14 May 2014 and ends on the determination by the board of directors of the results of the employee elections to be held in 2017, all of whom have French nationality:

- **Jean-Yves Forel**, 53, chairman of the board of directors, member of BPCE's management board, director in charge of commercial banking and insurance;
- **Max Bézard**, 49, director, head of management control at Groupe BPCE;
- **Jean-Charles Boulanger**, 67, director, chairman of the steering and supervisory board of Caisse d'Epargne Aquitaine Poitou-Charentes;
- **Maurice Bourrigaud**, 56, director, chairman of the management board of Caisse d'Epargne d'Auvergne et du Limousin;
- **Yves Breu**, 64, director, chief executive officer of Banque Populaire de l'Ouest;
- **Brigitte Briffard**, 56, director, elected by employees (technical staff);
- **Jean-Pierre Gabriel**, 68, director, chairman of the steering and supervisory board of Caisse d'Epargne de Bourgogne Franche-Comté;
- **Matthieu Godefroy**, 35, director, elected by employees (managerial-grade staff);
- **Michel Grass**, 57, director, chairman of Banque Populaire Bourgogne Franche-Comté;
- **Pascal Marchetti**, 50, director, chief executive officer of Banque Populaire des Alpes;
- **Benoît Mercier**, 61, director, chairman of the management board of Caisse d'Epargne Lorraine Champagne-Ardenne;
- **Bernard Niglio**, 65, director, chairman of the steering and supervisory board of Caisse d'Epargne Provence-Alpes-Corse;
- **Raymond Oliger**, 69, director, chairman of the board of directors of Banque Populaire Lorraine Champagne;
- **Gonzague de Villèle,** 61, director, chief executive officer of Banque Populaire Val de France;
- **BPCE**, director, represented by Marguerite Bérard-Andrieu, BPCE's deputy chief executive officer - strategy, legal affairs, corporate secretariat and compliance.

Terms in office

A list of all the terms in office held by the directors is provided in the appendix to the board of directors' management report on 2014.

Changes to the board during 2014

At its meeting on 14 February 2014, the supervisory board duly noted the resignations of Murielle Guempik and Hervé Le Sage as employee-elected supervisory board members and the replacement of Hervé Le Sage by Michelle Barbotin, representing managerial-grade employees, at the final meeting of the supervisory board.

At its meeting on 14 May 2014, the board of directors duly noted the resignation of Jean-Claude Cette as a director of Banque Palatine and a member of the remuneration committee. In addition, the board duly noted the results of the elections held on 30 March 2014, in which technical staff elected Brigitte Briffard (principal) and Jacky Gauthier (alternative) and managerial-grade staff elected Matthieu Godefroy (principal) and Céline Guillemot (alternative) in a second round of voting.

At its meeting on 29 July 2014, the board of directors co-opted Bernard Niglio as a director to replace Jean-Claude Cette and appointed him as a member of the remuneration committee.

Non-voting directors

Pursuant to Article 19 of the articles of association, the ordinary general meeting may appoint up to six non-voting directors.

At the preparation date of this report, no non-voting directors had been appointed to the board of directors.

Role

Duties and powers

The board of directors, the governing body representing shareholders, determines the Bank's business goals and oversees their implementation. Except for the powers expressly reserved for general meetings of the shareholders and within the restrictions set by the corporate objects, the board of directors handles any issue concerning the smooth running of the company and settles any matters arising.

In its dealings with third parties, Banque Palatine is bound by the actions of the board of directors not covered by the company's corporate objects, unless the company can prove that the third party knew that the act was *ultra vires* or could not have been unaware that the act was *ultra vires* in the light of the circumstances. Publication of the articles of association may not constitute proof thereof.

The board of directors conducts any inspections or audits that it deems necessary.

The chairman and/or the chief executive officer are required to provide each director with all the documents or information they require to fulfil their duties.

Pursuant to the provisions of law and the regulations in force, the board of directors may entrust one or more directors with any special responsibilities or decide to set up board committees. The board determines the composition and powers of committees, which operate under its authority.

It conducts any checks and controls it deems appropriate and may request any documents it regards as expedient in fulfilling its duties.

To this end, the board of directors:

- meets to approve the interim and annual individual parent-company and to review the quarterly parent-company and consolidated financial statements prepared by executive management and hear its report;
- presents to the general meeting its management report on the financial statements for the financial year.

At its first meeting on 14 February 2014, the board of directors decided to separate the offices of chairman of the board of directors and of chief executive officer in accordance with Article L. 225-51-1 of the French Commercial Code.

The board of directors appoints the chief executive officer and, in consultation with the latter, may appoint executive vice-presidents. In addition, it sets the method and amount of the remuneration paid to each senior executive.

It adopts the rules of procedure of the board of directors and the audit committee.

It calls the general meeting of the shareholders to deliberate on an agenda that it prepares and may include the appointment or ratification of the directors, the appointment of the statutory auditors, the reappointment of directors or statutory auditors, consultation of shareholders concerning the individual remuneration of the corporate officers and the overall amount paid to regulated persons.

Rules of procedure for the board of directors

The board of directors' rules of procedure were adopted at the meeting of the board on 14 February 2014.

The rules of procedure lay down the arrangements for convening meetings, videoconferences or conference calls, the creation of special commissions or committees, drafting of minutes, administration of the company registers, professional secrecy and remuneration received by directors.

Integrity of directors

Directors have undertaken to perform their duties with integrity and professionally and not to take any actions damaging the company's interests, and they must act in good faith in all circumstances.

Furthermore, the directors and members of the board committees, as well as any person invited to attend their meetings, are bound by an obligation of professional secrecy, as provided for in Article L. 511-33 of the French Monetary and Financial Code, and by an obligation to keep their discussions confidential, as well as regarding any such information or information presented as confidential by the chairman of the meeting, as provided for in Article L. 225-37 of the French Commercial Code.

The chairman of the meeting may declare the proceedings of a meeting to be confidential whenever regulations or Banque Palatine's interests so require. This declaration is placed on record in the minutes of the meeting. The chairman of the meeting then takes the requisite measures to maintain the confidentiality of the discussions. He may require all individuals taking part in a meeting to sign a confidentiality undertaking.

If a director fails to comply with one of his obligations, in particular the obligation to keep matters confidential, the chairman of the board of directors refers the matter to the board with a view to issuing a formal warning to said member, independently of any measures taken under the applicable provisions of the law, regulations or articles of association.

The board of directors may, if so proposed by its chairman, request the dismissal of the director by the relevant body or authority. If the relevant person is a committee member, the duties of said committee member may be terminated if so proposed by its chairman.

Said member is given prior notice of the penalties being considered and shall be able to present observations.

Potential conflicts of interest

To the best of the company's knowledge, there is no conflict of interest between the duties of the directors vis-à-vis the Bank and any other private duties or interests. The directors take steps to maintain their independence of judgement, decision-making and action in all circumstances. Likewise, to the best of the company's knowledge, no agreements or arrangements have been entered into with a shareholder, nor are there any familial ties between the directors.

Activities

The board of directors meets as often as the company's interests, laws and regulations require and at least once every quarter to review the quarterly parent-company and consolidated financial statements. Board meetings are convened by its chairman or by half of its members, and take place at the registered office or at any other location stated in the notice of meeting.

In accordance with Article L. 823-17 of the French Commercial Code, the statutory auditors were invited to board meetings reviewing the annual and interim financial statements.

The works council is represented at board meetings as provided for in the legislation in force.

Banque Palatine's board of directors met four times in 2014 and the average attendance rate was 68%.

The main topics covered at the meetings in 2014 were:

- the decision as to what executive management structure to adopt;
- resignations and co-options of directors;
- election of the chairman of the board of directors;
- appointments of directors to the committees;
- appointment of the committee chairmen;
- the variable portion of executives' remuneration;
- appointment of the chief executive officer;
- appointment of the executive vice-presidents;
- appointment of the effective managers;
- adoption of the rules of procedure for the board of directors;
- the remuneration committee's report;
- remuneration policy;
- allocation of directors' fees;
- authorisation and delegation of authority to carry out issues of debt securities;
- arrangements for calling general meetings of the shareholders;
- approval of the interim and annual financial statements;
- the review of the quarterly financial statements;
- approval of the budget;
- the audit committee's report;
- the chairman's report on internal control;
- the mediator's report;
- the report on employee-related, environmental and social information;
- commercial activity;
- related party agreements;
- follow-up on inspections and discussions with the supervisory authorities;
- the report pursuant to Articles 258 and 262 of the order of 3 November 2014 on internal control (previously CRBF Regulation 97-02 as amended).

Operation of the board committees

The board of directors set up two specialised committees in charge of preparing its decisions and making recommendations. Their duties, resources and make-up are set out in the rules of procedure for the board of directors or in the rules of procedure applicable to them.

The board of directors has not delegated its powers to these committees, which do not restrict executive management's powers. Committee members are selected by the board of directors from among its members based on a proposal made by the chairman of the board. The term in office of committee members coincides with their term in office as board members. Each committee has at least three members.

The chairman designated by the board of directors for each committee is responsible for organising its work.

Wherever possible, each committee meets several days ahead of a meeting of the board of directors to review in advance of the board the points falling within their remit such that the chairman of each committee can give an exhaustive oral presentation of the committee's positions and any recommendations it may have to the board.

Audit committee

Composition

At 31 December 2014, Banque Palatine's audit committee had the following members:

- Jean-Charles Boulanger — chairman;
- Maurice Bourrigaud — member of the committee;
- Pascal Marchetti — member of the committee;
- Max Bézard — member of the committee; free auditor;

Role

The audit committee is tasked with providing opinions to the board of directors concerning:

- the clarity of the information provided and the relevance of the accounting methods used to prepare the parent-company and, where appropriate, consolidated financial statements;
- the quality of internal control and in particular the consistency of risk measurement, administration and control systems, and proposing additional measures, where required. To this end, it reviews this report prior to its presentation to the board of directors.

The committee's role is to conduct an in-depth review of files and to lay the groundwork for decisions by the board of directors in the following areas in particular: quality of financial reporting, counterparty and financial risks, operational and organisational risks, and non-compliance risks.

The minutes of each meeting are sent to the board of directors.

More specifically, the audit committee:

accounting and management information:

- assesses the relevance of the accounting methods used to prepare the parent-company and, where appropriate, consolidated financial statements;
- verifies the clarity of the information provided to the board of directors in the areas falling within the audit committee's remit and in particular accounting and prudential reporting;
- gives its opinion on the draft annual consolidated and parent-company financial statements, as well as the quarterly and interim accounts, on the draft management report of the Bank's board of directors to the general meeting of the shareholders and on its draft annual report;

permanent control of operations:

- ensures compliance with the main arrangements made by BPCE concerning key aspects of the internal control and risk management systems;
- apprises itself of the findings from the consolidation of permanent controls carried out by the relevant central divisions, i.e. risk management division, compliance and permanent controls division. Following this review, the committee issues an opinion to the board of directors;

risk control and surveillance:

- reviews at least once a year the key aspects and principal lessons that can be learned from the measurements of the risk to which the relevant business is exposed, including:
  - the general operation of the existing and future Basel frameworks and changes in the stratification of the lending portfolio by risk class;
  - analysis of the profitability of lending transactions as provided for in Article 109 of the order of 3 November 2014;
  - monitoring of the non-compliance risk;
- is kept informed of the decisions made in terms of setting limits, monitoring compliance with them, breaches observed and measures taken to remedy the situation;
- reviews the measures taken to ensure business continuity and the assessment made of the effectiveness of the frameworks in place;
- apprises itself of the measures taken to control the outsourced activities and any risks arising for the Bank, drawing a distinction between each of the outsourced services;

oversight of financial management:

- ensures that the level of liquidity and interest-rate risk is consistent with structure of the business and with the Group's rules and that these risks are managed effectively as part of the strategies, guidelines and procedures laid down and implemented to control and curb these risks, and with appropriate resources, assigned and dedicated to the assessment, management and control of these risks,
- issues an opinion on the Bank's financial charter and performs the duties entrusted to it by the latter;

periodic control of operations:

- approves the internal audit charter and priorities set for audit work, including the audit cycle and scope,
- reviews the adequacy of the human and physical resources for the assignments entrusted to it,
- analyses the internal audit activities and organisation,
- reviews the main findings of the internal audits and external inspections,
- oversees implementation of the recommendations formulated following audits and inspections,
- issues an opinion to the board of directors on the annual reports covering the operation of internal control and risk measurement and surveillance provided for in Articles 258 and 262 of the order of 3 November 2014 on internal control;

opinion on appointments and selection of statutory auditors:

- issues an opinion on the appointments of the managers referred to in Articles 16 and 17 of the order of 3 November 2014 on internal control – that is the head of permanent controls and the head of periodic controls, whose names are communicated to the Autorité de contrôle prudentiel et de résolution,
- reviews the process of selecting or reappointing the Bank's statutory auditors and their work programme, the results of their checks and controls, and their recommendations, as well as follow-up thereupon. It also reviews the consulting assignment projects entrusted to the statutory auditors that exceed one-third of the annual fees paid to the statutory auditors.

Activities

The audit committee met four times in 2014 with an average attendance rate of 81%.

The main topics covered at the meetings in 2014 were:

- the review of the quarterly, interim and annual financial statements and the Bank's financial position;
- the draft board of directors' report on the financial statements;
- a review of the budget;
- follow-up on inspections and discussions with the supervisory authorities;
- follow-up on recommendations after inspections at Banque Palatine and BPCE and discussions with the supervisory authorities;
- the review of the audit division's audit plan and annual budget;
- the chairman's report on internal control;
- the head of compliance's report on investment services;
- fees paid to and independence of the statutory auditors;
- reports provided for in Articles 258 and 262 of the order of 3 November 2014 on the operation of internal control and risk surveillance;
- quarterly audit, risk and compliance reports;
- review of the findings by the audit committee of Banque Palatine's fully controlled subsidiary Palatine Asset Management.

Remuneration committee

Composition

The committee has a chairman and two members, all of whom were selected from among the members of the board of directors. The chairman of the remuneration committee is the chairman of the board of directors.

At 31 December 2014, the committee's members were as follows:

- Jean-Yves Forel, chairman;
- Bernard Niglio, committee member;
- Raymond Oliger, committee member.

Role

The committee's role is to propose to the board of directors remuneration arrangements for senior executives consisting of a fixed and a variable portion. The committee issues an opinion on the criteria for calculating the variable portion (indexed to earnings or other indicators). It also reviews the proposals concerning the pension and personal protection cover and benefits in kind and other monetary rights for senior executives.

In addition, it considers the variable remuneration for regulated persons and arrangements for its payment.

Any issues related to the company's remuneration policy may also be referred to it for consideration.

Furthermore, it reviews the report pursuant to Article 266 of the order of 3 November 2014 on internal control and issues recommendations on this point to the board of directors.

Activities

The audit committee met three times in 2014 with an average attendance rate of 100% to deliberate concerning:

- variable remuneration paid to management board members in respect of the 2013 financial year and setting criteria for the variable portion payable to senior executives in respect of the 2014 financial year;
- the remuneration of the chairman of the board of directors;
- the remuneration of the chief executive officer;
- the remuneration of the executive vice-presidents;
- the update of the remuneration policy and its adequacy with the level of the institution's risks;
- the review of the variable remuneration for regulated persons and arrangements for its payment;
- the review of the report pursuant to Article 266 of the order of 3 November 2014 on internal control;
- the chief executive officer's pension plan.

Executive management

The board of directors decided to separate the offices of chairman of the board of directors and of chief executive officer, with Pierre-Yves Dréan, appointed to the latter role by the board of directors on 14 February 2014.

Pursuant to Article L. 512-107 of the French Monetary and Financial Code, the chief executive officer is appointed and reappointed subject to central body's approval.

The chief executive officer is not a director of the company and was appointed for a term in office of 5 years. The chief executive officer may be removed from office by the board of directors at any time.

In accordance with Article 17 of the articles of association, the chief executive officer holds the broadest powers to act on behalf of the company in all circumstances. He exercises his authority within the restrictions set by the corporate objects and subject to the authority expressly granted by law to general meetings of the shareholders and the board of directors. He represents the company in its dealings with third parties.

The board of directors did not set any restrictions on his powers in the board of directors' rules of procedure. Even so, any significant transaction departing from the strategy communicated requires the board's prior approval.

The chief executive officer may delegate his power to any authorised representative of his choice, with or without the ability to make replacements.

On the recommendation of the chief executive officer, the board of directors appointed at its meeting on 14 February 2014 two executive vice-presidents, one with responsibility for finance and banking production and the other overseeing business development, neither of whom are directors.

Pursuant to Article L. 512-107 of the French Monetary and Financial Code, any executive vice-presidents are appointed and reappointed subject to the approval of the central body.

In conjunction with the chief executive officer, the board of directors determined the scope and term of the powers granted to the executive vice-presidents. In accordance with Article 18 of the articles of association, the executive vice-presidents hold the same powers vis-à-vis third parties as the chief executive officer.

Internally, the executive vice-presidents shall hold the aforementioned powers to perform the duties with which they are entrusted. They may delegate their powers vis-à-vis third parties, each acting within their own area of expertise and for one or more given transaction categories.

The executive vice-presidents may be removed from office by the board of directors at any time, on the recommendation of the chief executive officer. Pursuant to the law, damages may be payable to the executive vice-presidents if they are removed from office without a valid reason.

The remuneration of the executive vice-president(s) is determined by the board of directors.

When the chief executive officer ceases to perform his duties or is prevented from doing so, the executive vice-presidents, unless the board of directors decides otherwise, retain their duties and responsibilities until a new chief executive officer is appointed.

Effective managers

At its meeting on 14 February 2014, the board of directors designated the chief executive officer and executive vice president, finance & banking production as its effective managers as defined in Article L. 511-13 of the French Monetary and Financial Code.

As effective managers, they safeguard and assume full and complete responsibility for the following activities vis-à-vis the supervisory authorities and the ACPR in particular:

- effective determination of the strategic aims for Banque Palatine's activities (in accordance with Articles L. 511-13 and L. 532-2 of the French Monetary and Financial Code);
- accounting and financial information (in accordance with Articles L. 571-4 to L. 571-9 of the French Monetary and Financial Code);
- internal control (in accordance with the order of 3 November 2014 on internal control);
- determination of capital (in accordance with Regulation 90-02).

Participation by shareholders at general meetings (section V of the articles of association)

No particular arrangements are applicable to shareholders' participation at general meetings.

General meetings of the shareholders are called and meet in accordance with regulations in force. They deliberate on issues listed on agenda as provided for in law.

General meetings are chaired by the chairman of the board of directors or, in his absence, by a director specially appointed for this purpose by the board of directors. Failing this, the meeting elects its own chairman.

Shareholders participating at a general meeting by means of videoconferencing or any other telecommunications-based system permitting their identification in accordance with Article L. 225-107 of the French Commercial Code are deemed present for the purpose of calculating the quorum and majority requirements.

Decisions made at general meetings are recorded in the minutes kept in a special register.

Decisions made by the general meeting can be evidenced vis-à-vis third parties using copies or excerpts certified as true and accurate copies by the chairman of the board of directors or any other person referred to in Article R. 225-108 of the French Commercial Code.

Ordinary general meetings are those convened to make any decisions that do not involve amendment of the articles of association.

Extraordinary general meetings are those convened to make decisions or authorise direct or indirect amendments to the articles of association.

Rules and principles governing determination of remuneration and benefits

Remuneration of members of the board and the board committees

The 14 February 2014 general meeting set the overall allocation of directors fees at €159,500.

The board of directors divided up this allocation at its meeting on 14 February 2014 subject to attendance based on the following arrangements:

- chairman of the board of directors: €31,000;
- director: €1,500 per meeting subject to a cap of €7,500 p.a.

For the audit committee:

- member of the audit committee: €1,000 per meeting subject to a cap of €4,000 p.a.;
- chairman of the audit committee: €1,000 p.a.

For the remuneration committee:

- member of the remuneration committee: €1,000 per meeting subject to a cap of €3,000 p.a.;
- chairman of the remuneration committee: €1,000 p.a.

The chairman of the board of directors receives only directors' fees that are paid in full to BPCE, together with those payable to BPCE's permanent representative, director and BPCE's employee-elected director.

Executive pay

Banque Palatine's executive pay is determined by its board of directors on the recommendation of the remuneration committee.

Chief executive officer's remuneration

The chief executive officer receives fixed remuneration that lies within a range recommended by BPCE plus a variable portion and benefits in kind – company car, accommodation, private unemployment insurance (GSC), pension and defined benefit pension.

The criteria for and size of the variable element payable to the chief executive officer are determined by Banque Palatine's remuneration committee, which puts forward proposals for adoption by the board of directors. The variable element is determined based on a combination of attainment of objectives set for Groupe BPCE's and Banque Palatine's earnings and qualitative objectives.

They may be adjusted annually to reflect economic conditions and/or exceptional events that occurred during the year. The size of the variable portion is capped at 80% of remuneration.

The rule regulating variable remuneration applies only where the amount of variable remuneration awarded in respect of a financial year is greater than or equal to €100,000.

Where variable remuneration granted in respect of year n is greater than or equal to this level:

- 50% of the amount vests and is paid upon grant;
- 50% of the amount is deferred and paid in thirds no earlier than 1 October of years n+2, n+3 and n+4, i.e. 16.66% for each of the three years.

The deferred portions of variable remuneration take the form of cash indexed to an indicator representing changes in the value of Groupe BPCE. The indicator adopted is net income, Group share. They may be adjusted annually to reflect economic conditions and/or exceptional events occurring during the year.

Remuneration of the executive vice-presidents

The fixed remuneration of the executive vice-presidents is determined based on two main criteria – experience in the post and mobility.

It breaks down as follows:

- aggregate remuneration, 90% of which is paid under their employment agreement and 10% in respect of their corporate office;
- a variable portion capped at 50% of remuneration under their employment agreement, contingent upon achievement of objectives linked to the results of Groupe BPCE and Banque Palatine and qualitative objectives set by the chief executive officer. Where appropriate, this variable element is reduced by the amount of any employee incentive and/or profit-sharing payments received;
- benefits in kind: company car and/or housing.

The criteria for and size of the variable element payable to the executive vice-presidents are determined by Banque Palatine's remuneration committee, which puts forward proposals for adoption by the board of directors.

The rule regulating variable remuneration applies only where the amount of variable remuneration awarded in respect of a financial year is greater than or equal to €100,000.

Where variable remuneration granted in respect of year n is greater than or equal to this level:

- 50% of the amount vests and is paid upon grant;
- 50% of the amount is deferred and paid in thirds no earlier than 1 October of years n+2, n+3 and n+4, i.e. 16.66% for each of the three years.

The deferred portions of variable remuneration take the form of cash indexed to an indicator representing changes in the value of Groupe BPCE. The indicator adopted is net income, Group share.

Pursuant to the law, the remuneration paid to Banque Palatine's corporate officers is disclosed in the appendix to the board of directors' management report.

Internal control and risk management procedures

General organisation

In accordance with the banking regulations, sound management practices and Groupe BPCE's standards, the control framework is built around three levels of controls – two levels of permanent control and one level of periodic control.

This framework operates in functions integrated within the Bank. These functions are led by three central body divisions:

- the group risk management division and the group compliance and security division, responsible for permanent control;
- and the group general inspection division, responsible for periodic control.

Strong functional ties with BPCE

The permanent and periodic control functions, which are located within the Bank and its subsidiaries, have a strong functional link, as consolidated control functions, to BPCE's corresponding central control divisions. In particular, the link encompasses:

- approval of the appointments and dismissals of managers responsible for permanent or periodic control functions at the institution;
- reporting, information and early warning obligations;
- establishment of standards by the central body;
- definition or approval of control plans.

These links have been formally defined in charters covering each function. The entire system was approved by BPCE's management board on 7 December 2009 and presented to its audit committee on 16 December 2009 and to its supervisory board. The implementation of these charters was reviewed in 2014 and presented to the coordination committee of the internal control functions and approved by the general management committee, then by the Bank's audit committee before being adopted by the board of directors.

Organisation adapted to the Bank's specific characteristics

The permanent control framework in place at Banque Palatine has several levels of controls:

First level

All the Bank's operational divisions are responsible for this first level of control, which forms the fundamental and essential cornerstone of the control framework.

As part of the self-assessment process, every employee takes part in the Bank's first-level permanent control framework through their use of the controls embedded in the operational procedures and of the automated transaction processing controls.

Every line manager, who is responsible for all the risks related to the entity he oversees, makes sure that employees under his charge comply with the procedures. As a function of changes in the business, regulations, professional standards and transaction processes, he makes adjustments to these processes, by adding in more controls.

First-level controls help to ensure:

- compliance with transaction processing procedures and their conformity;
- justification of the balances of the accounts affected by the transactions performed.

First-level controls are reported formally to the compliance and permanent controls division using the group permanent control monitoring (PILCOP) tool.

Second level

Second-level permanent control is provided by units dedicated solely to this function, described below:

- the risk management division, in charge of second-level permanent control of credit risks, financial and market risks, and operational risks;
- the compliance and permanent controls division, including information systems security;
- accounting review.

The role of these units is to prevent and control risks, supplementing the first-level controls performed by operational divisions and subsidiaries. They perform their duties as part of internal control functions coordinated by BPCE.

More specifically, the compliance division's permanent control service supervises the operational divisions' control framework:

- centralising the key controls for the divisions, departments and services;
- administering a reporting system;
- and making sure to support the requisite updates of the various units' control frameworks.

This service relies on permanent control correspondents designated at the head office, across the network and at subsidiaries. Their role is to catalogue the controls in the activities they cover, consolidate on a quarterly basis the results of the first-level controls and then pass them on to the compliance division. These correspondents play an instrumental role in monitoring remedial measures devised on the basis of the incident analysis.

The permanent control framework is supplemented by implementation of second-level controls performed by the service itself or compliance service employees. It also draws on the regional managers assigned to the network's regional divisions to ensure the quality of the first-level controls performed in the branches.

Third level

The third level of control falls within the responsibility of the Bank's audit division. This division acts in line with a corpus of rules laid down by Groupe BPCE for the audit function.

In accordance with the regulations, this division conducts on-site and off-site investigations led by agents possessing the requisite independence. Following these investigations, reports are drafted for the Bank's managers and executive body, with a quarterly report sent to the governing body via the audit committee.

This work aims to produce an assessment of the compliance of the Bank's transactions, the level of risk actually incurred by it, compliance with its procedures, the effectiveness and adequacy of its risk measurement and administration and its internal control frameworks, with implementation of these frameworks being supervised and their implementation monitored by the permanent control functions.

Banque Palatine's internal control functions participate at the coordination committee for internal control functions chaired by the chief executive officer. They also present risks to the audit committee, which the latter reports to the Bank's board of directors.

Coordination committee for internal control functions

The permanent control, periodic control and compliance functions are all represented on this committee, which is chaired by the Bank's chief executive officer and meets every six months.

The head of internal audit acts as the committee's secretary. The other committee members are the executive vice president, finance and banking production, the head of human resources, the head of audit, the head of risk management and the company secretary.

The committee's roles are to:

- ensure the proper organisation and exhaustiveness of permanent and periodic controls of operations;
- ensure the efficiency of the risk administration and control frameworks, as well as the internal control framework;
- coordinate the measures that need to be implemented by the various departments or divisions responsible for performing these controls;
- review the results of the internal control tasks and the follow-up actions implemented.

To this end, it deals with any inconsistency and any inefficiency in the organisation of the permanent controls identified by the head of risk management or by the head of compliance and permanent controls.

In particular, the committee makes sure that mapping exists identifying the key controls, their frequency and assignment of each activity to named individuals, as well as the upgrade of the permanent control framework in the event of regulatory changes, organisational changes or information system upgrades. It reviews annual control plans and their consistency.

It examines the annual regulatory reports on risk control and ensures proper implementation of the control frameworks and remedial measures needed for their operation.

Audit and internal control committee

This quarterly committee is chaired by the chief executive officer and consists of the executive vice-president, finance and banking production, the head of audit, the head of risk management, the head of compliance and permanent controls and a representative of the group risk management division. Those invited to attend are the company secretary, the head of legal affairs, the head of finance, the head of banking production and the head of lending.

Its role is to:

- propose to executive management the institution's policy in terms of risk, permanent controls and compliance;
- approve the internal limits and risk limits;
- propose the institution's framework for the delegation of powers;
- review major exposures and results of risk measurement and permanent controls.

It presents follow-up on recommendations from internal and external audits and a summary of the reports issued following internal audit assignments.

The architecture of the control committees common to the various permanent control functions within Banque Palatine is as follows:

Committees	**Frequency**	**Type of risks**
Coordination committee for internal control functions	S	Coordination of control function
Audit and internal control committee	Q	Financial risks
Asset-liability management committee	Q	Global interest-rate risk Liquidity risk
Finance committee	BM	Market risks
Pricing committee	M	Commercial risks
Credit committee	W	Credit risks
Development unit credit committee	W	Credit risks
Problematic files committee	W or BM	Credit risks
Credit committee	M	Credit risks
Monthly credit risk monitoring committee	M	Credit risks
Provisions committee	M	Credit risks
Operational risks and security committee	Q	Operational risks
Product and services approval committee	M or Q	All risks

Key: S = semi-annual, Q = quarterly, M = monthly, BM= bimonthly, W = weekly.

Governance

Governance of the internal control framework is predicated on:

Executive management, which defines and implements organisations and resources to ensure the proper assessment and management of risks in a comprehensive and efficient manner. Its control framework is appropriate to the Bank's financial position and strategy and Groupe BPCE.

It is responsible for day-to-day risk management and reports to the governing body. It defines risk tolerance using general objectives for risk administration and management, the relevance of which is stated on a regular basis. It regularly monitors the implementation of the policies and strategies defined. It keeps the audit committee and board of directors regularly informed of the key developments and main conclusions drawn from the analysis and monitoring of risks associated with the Bank's activities and results. Executive management is present or represented by at least one member and naturally has a right to vote on all the Bank's committees. As discussed above, the chief executive officer chairs the coordination committee for internal control functions. This configuration is used to ensure adequate steering by the executive body of the effectiveness of the Bank's internal control framework.

The **board of directors**, which oversees the management of the principal risks incurred, approves the main risk limits and approves the internal control framework in accordance with the regulatory framework. To this end, the Board is supported by an audit committee.

The **audit committee** assists the governing body and, to this end, monitors the quality of information provided to shareholders and, more generally, fulfils the duties set out in the order of 3 November 2014 on internal control.

The committee is also charged with an assessment of the quality of the procedures and periodic control tasks. It makes sure that the human and financial resources devoted to the control and audit division are sufficient, reviews the annual programme of audit assignments and their findings, and ensures recommendations issued following the various controls are implemented.

Disclosures by the governing body within the meaning of Article 98 of the order of 3 November 2014 on internal control

On the recommendation of the audit committee meeting on 9 September 2009, the board of directors approved on 22 September 2009 the regulatory thresholds proposed by the group in accordance with Article 98 of the order of 3 November 2014 on internal control at credit institutions and investment firms. The reporting threshold for credit risks and operational risks was thus set at 0.5% of the Bank's consolidated regulatory capital.

Pursuant to BPCE's guidelines, the audit committee of 12 May 2010 proposed adopting in respect of 2010 a threshold of €3.1 million and placed on record that this amount will now be updated every year in accordance with the rule approved by the board, without the board having to be consulted again. This threshold and these arrangements were approved by the board of directors on 26 May 2010.

Change in the reporting threshold

30 May 2011	€3.4 million
31 December 2011	€3.65 million
31 December 2012	€3.81 million
31 March 2013	€3.75 million
30 June 2014	€3.75 million

The Bank has thus embedded in its processes the immediate reporting to its executive and governing bodies, to the central body (BPCE) and to the Autorité de contrôle prudentiel et de résolution of any loss provided for or definitive in nature amounting to over 0.5% of its capital in accordance with Article 98 of the order of 3 November 2014 on internal control and BPCE's decisions.

No such incident was reported in 2014.

Risk measurement and surveillance

Risk management division

The risk management division ensures the effectiveness and consistency of the risk management framework and the consistency of the level of risks with the Bank's financial and human resources and information systems. These duties are performed in conjunction with the group risk management division, which assists the Bank's risk committee.

Banque Palatine's head of risk performs his duties under the dual supervision of the chief executive officer, to whom he reports hierarchically, and Groupe BPCE's head of risk, to whom he reports functionally.

His role is to:

- implement the control and surveillance of credit, market and operational risks in accordance with the regulations and the group's guidelines;
- implement permanent control of credit and market risks (regular controls of positions, evaluation of financial risks and control of the trading floor's results) and of operational risks;
- propose a framework of limits to the risk committee and implement a framework for using these limits;
- conduct counter-analyses on significant positions established based on their size or complexity for both lending and market transactions carrying counterparty risks;
- monitor operational risks;
- administer the framework for delegating authority and establish risk policies for activities by controlling positions while proposing changes to operational limits;
- inform executive management of changes in risks and alerting it where limits are exceeded;
- act as the functional point of contact on risk-related matters for the group risk management division. In this role, he should approve any risk reporting package sent to BPCE.

The risk management division does not delegate any operational authority and is built around four departments – a lending department, a market risk department, an operational risks department and a risk steering and measurement department.

Credit risks

The risk management division ensures that any transaction complies with the standards and procedures in force concerning authorised counterparties. Credit risk is monitored to detect any exposures deviating from internal standards and rules.

In addition, breaches of any limits set are monitored on a permanent basis by the risk management division, and a summary is presented on a quarterly basis to the audit and internal control committee.

Selection and decision-making process

Since the risk management function is independent of the operational functions, it may not carry out any of the latters' tasks. In particular, it does not have authority to grant loans and may not conduct a business analysis of lending requests.

The selection and decision-making process is thus organised around various levels of responsibility:

- the network is responsible for conducting analysis and permanent control of first-level risks and collates from the customer the explanatory materials and supporting documentation required to complete the file;
- the lending department is involved in selecting transactions. It conducts a second analysis of the credit requests examined by the Bank's operational bodies, issues a formal opinion and presents the file to the development unit's credit committee or to the credit committee. It also issues a formal opinion on breaches and exceptional requests.

It is organised around review procedures specific to individual markets. These include segmentation and internal ratings and are updated on a regular basis.

Groupe BPCE's group risk management committee defined the counterparty risk delegation levels for Banque Palatine, which are tailored by segment and by rating. The Bank was informed of these delegation levels on 22 October 2013, and they form part of the overall framework of limits in force and the new maximum limit rules at Groupe BPCE and Banque Palatine.

The framework for the delegation of authority is built around six levels of delegation per segment. A dual signature system has been introduced across the board in compliance with the Basel II directives across all markets.

Administrative review of exposure limits

A distinction is made within the Bank between:

- overall risk limits (by risk segment, by rating, by sector of activity, by market or even by product category), which are risk division rules stated, for example, as a percentage of outstandings or of capital. These are ex post limits, which are observed and analysed at audit and internal control committee meetings and, where appropriate, a plan should be drawn up to mitigate the breaches observed;
- individual risk limits per counterparty or group of counterparties according to the nature of the counterparty and its rating: these are ex ante limits, which apply to the grant and determine, where appropriate, the level of delegation.

Limits are proposed by the risk management division. They take into account the Bank's level of capital and its loss absorbing capacity, but do not show any direct correlation with gross operating income. They are reflected in the regulatory maximum norms limiting weighted risks to 25% of net equity and the internal upper limit set by BPCE.

The audit and internal control committee is responsible for revising the limits set in terms of credit risk on the recommendation of the risk management division.

Monthly risk monitoring and surveillance committees (commercial banking, real estate, regulated real estate professions)

These committees bring together the development unit and the lending division to analyse problematic files, decide whether or not to downgrade them and on their allocation to one of the internal risk categories and, lastly, whether they should be handled by the problematic files committee.

Change to the credit organisation in December 2014

To adapt and enhance the efficiency of the organisation in response to recent regulatory constraints, the Bank set up a lending division within the development unit, which handles the second-review prerogatives for credit applications examined by the Bank's operational bodies. It has delegated authority for files under the Bank's delegation of powers framework and acts as secretary for the development unit's credit committees and the credit committee. It also issues a formal opinion on breaches and exceptional requests.

A credit risk department has been set up within the risk management division, which will carry out, among other tasks, second reviews on files submitted to the credit committees, as well as second-level controls on credit risks.

The new framework is due to be rolled out across the board during 2015.

Market risks

The executive and governing bodies each provide effective scrutiny of financial management and in particular of global interest-rate risk management, the liquidity risk and of trading book transactions, including currencies. In addition, an independent internal control and audit process is guaranteed.

Executive management chairs the specialised committees per business line and is kept informed via minutes sent to it after the various committee meetings, including those held by the finance committee, the asset-liability management committee, and the audit and internal control committee for the market risks part.

Organisation

Under the organisation structure adopted, the front, back and middle offices are completely independent, as required by the regulations.

The market risk department, which is part of the risk management division, performs second-level controls, some of which were previously handled by a middle office function. This mode of operation was reviewed in 2013, leading to the creation of a middle office for the trading floor. The handbook of procedures for financial activities specific to the trading floor and its risk exposure, which is reviewed on an ongoing basis, provides a comprehensive and consistent picture of all the activities.

Market risk monitoring covers only the medium- and long-term investment segments and trading portfolio, with the customer segment being tracked by ALM risk.

Decision-making committees

Finance committee

This committee, which meets at the very least once every month, is tasked with:

- monitoring liquidity and treasury management, in conjunction with loan production;
- monitoring markets and, where appropriate, taking any preventative action required;
- making the specific decisions and arrangements to implement the programmes devised by the asset-liability management committee for market transactions it is responsible for executing (timing, level, division into lots, etc.) including transactions concerning the medium- and long-term portfolio;
- monitoring market trends and steering risks arising from the investment portfolio position and related hedging derivatives. In particular, it reviews the internal BPCE ratings and those issued by rating agencies concerning portfolio securities, studying and measuring the impact of any downgrades;
- monitoring Value at Risk (VaR) of the corresponding segments.

Market risk handled by the audit and internal control committee

This committee sanctions the Bank's financial risk policy by establishing systems based on limits and permanent controls, framework documents related to financial risks (charters, risk procedures, etc.) at large, including those arising from structural balance sheet risks. The audit committee is kept informed of its findings. Its duties are as follows:

- it reviews major exposures and risk indicators and makes sure risk indicators and limits are adjusted at the very least once every year and risk maps are updated;
- it sanctions the risk measurement, administration and management standards and methods and establishes the classification for quantitative limits;
- it sets the overall and operational limits after a review by the specialised risk function of requests for limits made by operational functions; the overall and operational limits may be stated in terms of a loss scenario or risk exposure;
- it examines reporting on the use of limits and monitors the action plans in the event of limits being breached and may decide to halt certain operational activities or withdraw authorisation for certain products, where appropriate.
- it analyses the Bank's sensitivity to extreme risks (stress scenarios);
- it draws up action plans where the risk management frameworks display weaknesses and monitors their implementation.

The audit and internal control committee met four times in 2014. The audit committee received a detailed report on each of its meetings.

Assessment of trading book risks

The VaR of the trading portfolio and the medium- to long-term segment is monitored on a daily basis, as well as using stress scenarios.

Six theoretical overall stress scenarios have been set for Groupe BPCE and are calculated on a weekly basis. The components of these stress scenarios may be based on equity, interest-rate, credit, currency or commodity factors. Eleven historical stress scenarios have been devised for Groupe BPCE and are calculated on a weekly basis.

Description of the limit system and framework for the administration of procedures and limits

Trading book limits

The products authorised are those defined in the July 2014 asset-liability management reference guide and in the market risk reference guide approved on 1 October 2014. All instruments in this portfolio are marked-to-market in terms of their results and positions.

Limits on customer activities and non-trading book capital

The section on ALM in relation to global interest-rate and liquidity risk is provided in the section on overall interest-rate and liquidity risk management.

Exposure limits per bank counterparty

The list of banks with which the trading floor is authorised to deal is proposed by the finance division to the risk management division, which reviews the request in the light of BPCE rules on the delegation of authority.

Intra-day credit risk

Intra-day credit risk is monitored ex ante on new securities investments (corporate and banks) and in real time by the bank counterparty system. Special attention is paid to the securities portfolio's internal ratings and agency ratings. This monitoring is presented to the audit committee and to the audit and internal control committee.

Limit controls

Roles and responsibilities

Trading staff themselves conduct first-level permanent control of limits under individual limits restricting their actions. Desk managers and the head of finance have responsibility for first-level control.

The risk management division's market risk department performs second-level controls. The back office of the finance and banking production segment's banking production division is the final element in the organisational framework. It conducts permanent controls for administrative operations.

All financial transactions are covered by controls and limit monitoring. No new activities may be started up unless the limits and resources used to monitor them have been defined in advance.

Frequency of limit reviews in terms of market risks

Market risk limits are reviewed and adjusted at least once per year, together with limits for banks, countries and brokers. The brokers with which the Bank is authorised to work were approved by the group risk management division on 20 September 2011.

Possible breaches of limits

The risk management division makes sure breaches are rectified and informs the general management committee directly or via the audit and internal control, and finance committees, and the governing body via the audit committee.

Group-wide monitoring of controls on recommendations made by the Lagarde report

To ensure the best practices listed in the Lagarde report are applied by banks, specific controls are monitored by the risk management department. BPCE's risk management division follows up every quarter on the Lagarde report recommendations using a control grid prepared centrally.

Global interest-rate and liquidity risk

In accordance with group standards, Banque Palatine has an asset-liability management and finance committee.

Asset-liability management committee

The asset-liability management committee, chaired by the chief executive officer, meets at least once every quarter. This includes at the very least analysis and measurement of Banque Palatine's interest-rate and liquidity risk at the quarterly reporting date.

Finance committee

The role of the finance committee is to implement operationally the decisions of the asset-liability management committee.

General framework for managing and monitoring interest-rate risk

The institution formally records its controls in reporting on second-level risk control including details of the quality of the risk oversight framework, compliance with limits and monitoring of feedback on limits and analysis of changes in the balance sheet and risk indicators. These duties are carried out in conjunction with the group risk management division.

The limits monitored by the Bank are in line with those laid down in the July 2014 group asset-liability management standards.

Accordingly, the finance division's ALM department handles interest-rate risk management in concrete terms, and this is monitored by risk management division throughout preparation of the indicators through to implementation of the transactions decided on by the asset-liability management committee and its implementation by the finance committee.

Balance sheet management encompasses all on- and off-balance sheet transactions. Trading book activity subject to a VaR limit is excluded from the scope. The finance division, which is responsible for ALM metrics and management, systematically reconciles transactions recorded in the ALM tool and accounting system. This reconciliation is checked by the risk management division.

General framework for managing and monitoring liquidity risk

Liquidity risk analysis is performed on a quarterly basis by the ALM using scenarios based on a static maturity schedule reflecting the releasing rules recommended by the group and other alternative scenarios specific to Banque Palatine, using the same instruments as those used to assess the interest-rate risk (static and dynamic gaps) and the same ALM tool.

Limits are reviewed and adjusted annually. Where a breach occurs, the risk management division informs the general management committee and the control and audit division. The finance division is in charge of presenting as swiftly as possible an action plan tracked by the risk management division.

The governing body monitors the Bank's liquidity position via various committees – the finance committee, the asset-liability management committee and the audit and internal control committee on a quarterly basis. The audit committee is also kept informed of its liquidity risk exposure every quarter.

Operational risks

Operational risks and security committee

The operational risks and security committee chaired by the company secretary oversees operational risks. This committee has seven permanent members. A representative from the group risk management division's operational risk department attends.

The committee makes a proposal to executive management concerning implementation of the operational risk management policy and ensures the relevance and effectiveness of the framework for controlling these risks in relation to the Bank's risk profile. It steers operational risks and reviews any incidents catalogued before subsequently controlling the follow-up on the remedial measures decided upon. It reviews the contribution made by the risk department to the permanent controls plan, follows up on implementation of the business continuity plan (BCP) and makes any decisions required to enhance the framework.

A summary sheet is produced to facilitate data analysis and provide progress indicators, as well as precise follow-up on action plans introduced following the incidents detected.

The audit committee, via the audit and internal control committee, is informed of the key monitoring indicators for the operational risk framework.

Exposure to operational risks

The risk mapping was updated in 2014, paying particular attention to use of the Group's operational risk system since April 2013.

It focused on alignment of Banque Palatine's existing standards with the target standards. The Bank's specific activities were incorporated via the group standards committee.

The priorities for 2014 were guided by the change in operational risk system and were chiefly organised around three points of emphasis: deployment of the group standards and methods, the end of the validation by the activities of the risk coverage by the revised standards and implementation of the Key risk indicators (KRI) using Groupe BPCE's standards.

Compliance

The compliance and permanent controls division reports hierarchically to the chief executive officer and functionally to the Groupe BPCE's head of compliance and security.

Its role is to:

- prevent the risk of non-compliance within the meaning of Article 10-p of the decree of 3 November 2014 on internal control for credit institutions;
- safeguard the Bank's image and reputation among its customers, employees and partners;
- represent the Bank vis-à-vis regulatory authorities and national and international professional organisations in all its areas of expertise.

The head of compliance and permanent controls attends the Bank's various committees to perform his duties as effectively as possible.

The compliance and permanent controls division has four services:

- information system security;
- permanent controls;
- financial security and bank compliance;
- conformity of investment services.

Information system security

The information systems security officer proposes the security policy, implements it and adjusts it in conjunction with BPCE. He makes sure that it is applied properly within Banque Palatine.

He helps to build and implement a group reference framework within Banque Palatine and provides regular consolidated reporting to the group information systems security division on:

- the degree of compliance with the information systems security policy;
- the level of risk;
- the main security incidents and measures implemented.

The organisation changed with the creation of a service dedicated to information systems security and the addition of an information systems security controller.

The information systems security officer tracks implementation of all the measures safeguarding the security of the Bank's information systems against internal and external risks. He conducts or oversees regular audits of the information systems and participates at the operational risks committee in charge of information systems security incidents and projects. He ensures that information systems security policy is taken into account in projects, while contributing to risk analyses and leads the technology watch committee in charge of monitoring deployment of IT security patches.

The information systems security officer performs the second-level controls in areas within his remit and conducts a regulatory watch by working together with BPCE.

In 2014, he implemented the recommendations made the previous year based on a security analysis of file exchanges using the Ebics protocol and audit of the information system conducted by the audit division. Work also focused on across-the-board implementation of information system security analysis of the Group's banking business lines, the launch of two internal and external intrusion audits and monitoring of the measures resulting from other audits carried out in 2013.

The work also covered consolidation of permanent control monitoring and adjustments following the reorganisation of IT production under the first-level control plan.

Cybercrime risks are controlled in conjunction with the group's information systems security division, with surveillance of Banque Palatine's domain names, advance planning for damage to its image and attacks on customers and tighter security for banking apps on mobile devices.

Permanent control service

The role of the permanent control service is to control risks at all times and ensure the compliance of transactions and the way they are processed with the regulations and the Bank's procedures. The permanent control framework is built around implementation of formal annual control plans within each division of the Bank and regular reporting of the results of these controls to the audit and internal control committee.

The main improvements made in 2014 were as follows:

- deployment of the group permanent control monitoring standards in the following areas: safety of individuals and assets; accounting and risk reviews; deployment of a permanent control monitoring standard specific to the Bank covering market and securities back-office and trading floor middle-office activities;
- update and implementation of new controls adapted to the risks identified during the year and changes to the controls standards introduced by BPCE;
- update of procedures with the integration of first-level permanent controls.

Compliance service

Each operational division is responsible for managing non-compliance risks inherent in its area of activity and first-level controls.

This service contributes to:

- identification and control of the main non-compliance risks;
- assistance and advice for employees in the branch network and head office (training, memorandum drafting, validation of procedures);
- prevention of financial crime (prevention of money-laundering and terrorism financing, internal and external fraud, etc.);
- compliance controls (new product and marketing process, conflict of interest management, theme-based controls, etc.);
- centralisation of system failures (logging, monitoring and reporting).

It has two units:

- the **banking compliance unit**, which is responsible for ensuring compliance with the regulations, professional code of conduct and industry best practices in relation to new products and services and the conformity of documents sent to customers.

  It is also in charge of implementing a framework ensuring compliance with the regulations on essential outsourced services and data protection, as overseen by CNIL, the French watchdog.

  It also monitors implementation of the new rules based on the regulatory watch conducted by BPCE.

  In addition, it is involved in other areas such as cataloguing intermediaries used for banking transactions and payment services in relation to the private banking market, professional code of conduct (banking secrecy, management of conflicts of interest, whistleblowing), the approval of sales challenges, validation of procedures concerning it, competition as overseen by DGCCRF, the French competition authorities.

  What's more, it may oversee certain projects such as efforts to comply with FATCA regulations.

  Lastly, as it does every year, the banking compliance unit rated the non-compliance risks as part of a programme overseen by the group.

  New products and services are approved by a product and services approval committee chaired by the chief executive officer before they are launched in the marketplace. Compliance of the products and services with the regulations is studied systematically. In 2014, 28 products or partnerships were approved by the product and services approval committee, including 22 investment products.

- **the financial crime prevention unit**, which encompasses efforts to combat money-laundering, financing of terrorism and external and internal fraud, is responsible for the Bank's system of vigilance in these areas. This unit supervises detection of customer transactions that appear to be unusual based on a risk-based approach. Its role is to report to the Tracfin authority any movements of funds that may be part of a money-laundering (including tax fraud based on specific criteria) and/or terrorism financing operation. To this end, the unit analyses any suspicious activity reported by the branches and handles the daily and monthly reports for certain criteria and certain customer categories considered to be at risk. It ensures controls are performed on new accounts opened and flows with regard to the official lists embedded in the Bank's information system and the dedicated Fircosoft application.

In 2014, the financial crime prevention unit implemented the following measures:

- training in combating money-laundering and terrorism financing (AML-TF);
- awareness-raising about fraud for customer service executives;
- updates of the risk classification and the AML-TF framework procedure;
- deployment of an initial batch of queries in April 2014 for the Vigilab (pattern of behaviour-based vigilance), with the second batch due for roll-out in the first half of 2015.

Investment services service

This service, which reports directly to the head of compliance for investment services, is responsible in particular for compliance with the financial code of conduct by employees and by the Bank in all its investment service activities.

Its responsibility is to ensure observance of the rules for investment services falling within the scope of the French Monetary and Financial Code and the AMF's General Regulation, as well as the rules applicable to custodians and issuers.

In particular, this service is involved in:

- identifying and controlling the main non-compliance risks arising from investment services;
- assisting and advising branch network and head office staff;
- giving the go-ahead for commercial launches of new investment products to customers.

Following his appointment on 1 December 2014, the head of compliance and permanent controls performs the role of investment services compliance officer (RCSI) pending issuance of a professional licence by the AMF. He ensures that the function checking the compliance of investment services meets the organisational requirements in terms of:

- assessment of the non-compliance risk;
- implementation of a control programme;
- drafting of a compliance report;
- employee training.

To meet these requirements, further improvements were made to:

- participate in the regulatory projects carried out in project mode to facilitate coordination of business lines' actions to incorporate the compliance standards in information systems and procedures to be implemented;
- organise the securities surveillance framework and detection of suspicious transactions (market abuse);
- complete and update the RCSI's procedure standards;
- manage risks of conflicts of interest;
- adapt the approval procedure for new investment products and services to technical constraints arising from marketing periods.

As part of its regulatory obligations, the Bank returned to the AMF on 30 April 2014 the RCSI's annual questionnaire covering the 2013 financial year.

The RCSI's control plans are organised by themes incorporated in the PILCOP permanent control monitoring system to ensure that risks are covered properly from a group perspective.

Non-compliance risk measurement and control

Non-compliance risk is handled by the audit and internal control committee, which meets on a quarterly basis and spans the permanent control, periodic control and risk management functions. Among other factors, this helps to:

- prevent non-compliance risks, manage the correction of anomalies observed by making the appropriate decisions and following up on their implementation;
- making recommendations to ensure the alignment of the Bank's activities in the event of regulatory changes (legal or regulatory watch).

The compliance division endeavours to control the risks of non-compliance:

- before a product goes on sale via the product and services approval committee, which reviews the contractual and pre-contractual document provided to customers and the sales pitch;
- using any information received potentially affecting one of our customers:
  - when entering into a new relationship: through a notice concerning the highest-risk categories,
  - by taking preventative measures with the branch network and marketing on issues related to customer information and protection,
  - and by managing any complaints in conjunction with the customer relationship service;
- by implementing adequate procedures and controls.

Compliance controls are backed by the framework put in place for permanent controls. This includes mapping that catalogues for each activity all the controls and a quarterly reporting system to the permanent controls division. The compliance controls identified in these reference standards encompass areas including anti-money-laundering, employees' code of conduct, business line codes of conduct, control of investment services and AMF regulations, data protection, outsourced essential services and external fraud. They help to ensure compliance with all the rules applicable by the institution.

In addition, information about failings of any kind is centralised by the compliance division in several ways: logging it in an event database of requests or incidents reported by employees, reporting of customer complaints and follow-up action taken. Reporting on the main failings is provided to BPCE.

The compliance division analyses the conflicts of interest reported to it and takes the requisite measures.

Non-compliance risk surveillance

Non-compliance risk surveillance is organised around:

- the framework for quarterly reporting by correspondents underpinned by the mapping of controls in each business;
- reporting from the system of operational risks and complaints;
- the detection tools designed to combat money-laundering and fraud in particular;
- a vigilant approach by employees;
- early warnings by our correspondents;
- the whistleblowing system.

The audit committee is kept informed on a regular basis via activity reporting from the compliance and permanent controls division of the main failings and the remedial action taken.

Programme to combat money laundering and terrorism financing

The compliance division uses a framework to comply with the legislation in force in this area.

This framework has several different pillars, including:

- organisation of systematic training upon the recruitment and regular knowledge updates;
- pre-existing procedures: the procedure covering efforts to combat money-laundering and terrorism financing was updated in December 2014 and circulated to all employees;
- a policy of entering into new relationships only after meeting customers (except for Palatine Direct) and compliance with the collection of the requisite documents to satisfy the know-your-customer obligations. Customers considered as posing the greatest risks are approved by the compliance division;
- monthly and daily reports are made available to branches and compliance: these list the transactions meeting certain specific criteria and certain customer categories. Using a risk classification as a guide, certain types of transaction and customer categories are given closer scrutiny. Furthermore, the first tranche of the Vigilab project was deployed in April 2014;
- controls on account openings and international transfers (Swift) based on the official lists of individuals subject to asset freezes and countries under embargo, and an update is carried out with each new list or new country under embargo;
- monitoring of cheques (the compliance division controls cheques written and deposited into the accounts of customers subject to closer scrutiny);
- proposed suspicious activity reports made by branches and other employees are reviewed by the Tracfin correspondents, who analyse them and decide whether to pass them on to the Tracfin authorities.

Efforts to combat fraud risks (excluding bank cards) underwent further centralisation in 2014 to implement remedial measures in conjunction with the operational risk department.

Compliance with AMF requirements - financial code of conduct

The compliance division draws on a framework ensuring compliance with the regulations and in particular the AMF's General Regulation. In 2014, the investment services service managed the lists of individuals and lists of securities that could possibly be held and/or used in connection with privileged information. Obligations to detect market abuse gave rise to a declaration of suspicious activity potentially concerning insider trading that was sent to the AMF after thorough analysis.

Controls incorporated in the PILCOP permanent control monitoring system ensure compliance with the principal AMF obligations.

Procedures were updated on a regular basis to take into account the latest regulatory changes and especially any recommendations issued by the AMF or the Autorité de contrôle prudentiel et de résolution.

Banking compliance

The risk control framework covering banking compliance consists of:

- introduction of a regulatory watch based on the circulars sent by Groupe BPCE;
- rating of non-compliance risks every year;
- monitoring and controls on the various themes, such as essential outsourced services, data protection, intermediaries for banking transactions and payment services, challenges, approval of procedures, etc.;
- implementation of and/or updates to projects (FATCA, for example);
- validation of new products and processes under the aegis of the Bank's product and services approval committee. Compliance ensures regulations and sales and marketing rules are properly abided by, to protect customers.

The results of the controls carried out indicate these procedures have been applied properly. Regular reminders and awareness-raising programmes help to enhance control of non-compliance risks.

Periodic control

Internal audit assignments

Banque Palatine's internal audit activities operate within the organisational framework established for Groupe BPCE's internal audit function. It is responsible for verifying from time to time the operation of all the units within the scope of Banque Palatine. It upholds the quality, effectiveness, consistency and smooth operation of the permanent control framework and the risk administration and measurement framework at the Bank and its subsidiaries. It encompasses all risks and all activities, including those that may be outsourced.

Pursuant to the order of 3 November 2014 on internal control and the audit charter drafted by Groupe BPCE, the priority objectives of Banque Palatine's internal audit function are to assess and report in respect of all the units falling within its audit scope on:

- the quality of the financial position;
- the level of risk actually incurred;
- the quality of the organisation and management;
- the consistency, suitability and effectiveness of risk assessment and control frameworks;
- the reliability and integrity of accounting and management information;
- compliance with the law, regulations and rules applicable to Groupe BPCE or and entities belonging to Banque Palatine's scope;
- effective implementation of the recommendations issued at the end of its assignments and those performed within the scope of the Bank by Groupe BPCE's general inspection division and by regulators.

The internal audit division reports hierarchically to the Bank's chief executive officer and functionally via a strong tie to Groupe BPCE's general inspection division. This entire framework is intended to safeguard the independence required by the regulations vis-à-vis auditees. The strong functional ties with the Group's general inspection division are evident from factors including:

- the notice of compliance issued by Groupe BPCE's head of general inspection for the appointment and scrapping of the position of Banque Palatine's head of control and audit;
- approval by BPCE's general inspection division, prior to approval by the Bank's audit committee, of the resources allocated to the internal audit function, enabling it to perform its duties and to cover the audit scope with sufficient regularity;
- the existence of a single audit charter within BPCE, approved by the chairman of BPCE's management board on 7 December 2009;
- provision of suitable methods, training and tools for auditors to perform their tasks;
- communication of all the reports prepared by Banque Palatine's control and audit division to Groupe BPCE's general inspection division.

Scope of action

To fulfil its duties, Banque Palatine's internal audit function draws up and maintains an inventory of its audit scope corresponding to the division of the auditable scope established within Groupe BPCE's internal audit function.

This scope consists of the various units that make up Banque Palatine and its subsidiaries and the service providers it calls upon that make an essential contribution to its banking activities. This scope may also include processes, frameworks or themes that, owing to their significance, need to be audited from a cross-functional perspective in relation to the units that are involved in their execution, construction and/or data supply.

The internal audit function covers the entire scope by means of a cycle of full audits at a frequency determined based on the estimated level of risk for each unit within the scope using criteria set by Groupe BPCE's audit function and representing a risk mapping prepared by the internal audit function. In any event, the maximum frequency set within Groupe BPCE for audits of banking activities is four years.

In addition, the audit cycle agreed does not take into account inspections carried out within the Bank by Groupe BPCE's general inspection division or by regulators, complementing coverage of the scope by periodic control.

The annual and multi-year audit plans drawn up by the internal audit function to implement the cycle are determined, after their approval by the Bank's chief executive officer and Groupe BPCE's head of general inspection, as approved by the Bank's audit committee.

Reporting

Reports are prepared on the assignments performed by Banque Palatine's internal audit function under a process giving the audited party a right to reply. These reports set out the observations made and findings formulated during assignments, leading to the issuance of recommendations also presented in the report. Each recommendation is given a priority level determined using a scale laid down by Groupe BPCE's internal audit function. The level of priority set is determined based on the underlying importance of the finding leading to the recommendation and takes into account the risks of any kind the Bank needs to guard against.

Reports are circulated to the heads of the audited units, the chief executive officer and members of the general management committee, as well as to the head of risk management and head of compliance and permanent controls.

Implementation of the stated recommendations is followed up on a quarterly basis.

The internal audit function reports to the Bank's audit committee every quarter:

- assignments performed by it in connection with implementation of its audit plan;
- implementation within the agreed time frames of the recommendations stated at the end of its assignments at the Bank and its subsidiaries and also of those performed by Groupe BPCE's general inspection division and by regulators on the same scope.

The internal audit function ensures proper implementation of the stated recommendations and is authorised to refer the matter to the audit committee where remedial action is not taken within the agree time frame.

Representation on Banque Palatine's governing bodies

To be in a position to fulfil his duties and promote a control-based culture, the head of internal audit, a member of the Bank's executive committee, participates without having the right to vote at meetings of its key committees.

More generally, he is invited to attend all of Banque Palatine's existing committees and may be represented by another person at them.

Relations with permanent control divisions

The head of internal audit maintains regular contact with the heads of the Bank’s permanent control functions (head of risk management, head of compliance and permanent controls).

They should inform the head of control and audit rapidly of any major incident that comes to their attention. They themselves are aware of the control and audit function’s audit plan and receive all the reports issued by the control and audit division.

Work performed in 2014 and future plans

The 2014 audit plan was given the go-ahead by the group general inspection division and presented to the audit committee on 19 November 2013. In accordance with this plan and including the key decisions made during the year, the following units were audited:

- 8 units in the auditable head office scope established by the group general inspection function;
- 19 commercial units in the commercial network;
- Palatine Asset Management (wholly-owned subsidiary of Banque Palatine);
- 2 subsidiaries;
- 2 essential outsourced services;
- 8 specific themes;
- 3 cases of fraud/code of conduct-related matters.

At the same time, the Autorité de contrôle prudentiel et de résolution (ACPR) reviewed the Bank’s management of the TRICP system as part of a theme-specific assignment.

After being given the go-ahead by the chief executive officer and head of group general inspection, the 2015 audit plan was presented to the audit committee on 3 December 2014. It includes:

- 22 units in the auditable head office scope established by the group general inspection;
- 12 commercial units in the commercial network;
- the Matignon branch and the large corporate and institutionals department;
- Palatine Asset Management (wholly-owned subsidiary of Banque Palatine);
- 2 essential outsourced services;
- 3 assignments covering the Bank’s information system;
- 3 assignments coordinated by group general inspection.

Other permanent control functions

Management of legal risk

The legal affairs division is responsible for preventing and controlling Banque Palatine’s legal risks and litigation risks. It also helps to prevent image risks. In this role, it helps to manage the institution’s legal risk.

Organisation of the legal affairs service

The legal affairs service has five staff overseen by the head of legal affairs, which is part of the Bank’s corporate secretariat.

No employee specialises in a particular area, with each one having to draw on a wide array of skills to fulfil the duties required of the service.

For the service to operate smoothly, priority skills units have been set up.

Within the team, three employees are primarily tasked with handling legal consultations.

The main role of one employee and the head of legal affairs is to handle major projects and the legal watch.

Lastly, following the transfer to the legal affairs service of the complaints and claims brought by lawyers against the Bank, the person who was in charge of this activity in litigation continues to oversee it with other service employees, while helping to respond to consultations.

Given their respective workloads, every employee may act on behalf of other skills units.

Duties of the legal affairs service

The main responsibilities of the service are as follows:

- provide legal assistance to Banque Palatine's various units;
- monitor changes in the regulations and case law that may affect Banque Palatine's activities;
- draft legal circulars and master and specific contracts used by Banque Palatine;
- study and negotiate from a legal perspective the contracts proposed by customers and/or service providers;
- review the new commercial products that the Bank envisages circulating to its customers;
- repudiate the financial guarantees issued to regulated professions;
- give a legal opinion on complaints made by customers;
- manage complaints brought by lawyers and claims made against the Bank.

Organisation of legal watch activities

Any changes in the legislation, regulations or case law with potential implications for the Bank are analysed to determine whether a specific procedure needs to be drafted or whether new documents used by the Bank need to be drafted or existing documents amended.

Legal watch findings are circulated within the Bank in three ways:

- general or targeted information as soon as possible to certain Bank employees concerning new legislation, regulations and case law (special emails sent to employees in a business line group);
- publication of new or amended circulars when there are changes in the legislative, regulatory or case law environment;
- alignment with the standards of document frameworks following these changes.

Consultations

Aside from conducting its legal watch, major projects, telephone consultations and direct conversations with user services, the legal affairs service answered 1,480 questions in 2014.

In this role, it provides a legal and regulatory watch, information, assistance and advice for all the institution's employees.

In conjunction with the compliance and permanent controls division, it also plays a role in ensuring the consistency and effectiveness of controls on non-compliance risks arising from laws and regulations specific to banking and financial activities.

Under the aegis of the products and services approval committee, it is solicited for its opinion on any legal risks potentially arising from new products and services that the Bank is considering marketing.

The legal affairs division operates independently of the operational divisions.

Information systems security

Banque Palatine continues its efforts to mitigate and control information systems risk, which revolves around its information systems security policy. As a result, its information systems security procedures have been tightened up, it has participated in watch activities arranged by Groupe BPCE, with special emphasis on the vulnerability of systems and networks, and it has carried out awareness-raising campaigns.

The main measures taken to enhance information system security include further efforts to take into account Groupe BPCE's new permanent controls mapping, which covers all aspects of security.

At year-end 2014, first-level controls were assigned to and taken over by the information system technical, quality and security officer, who had recently been appointed in the IT and networking department. This paved the way for an increase in the completion rate to almost 100% in the fourth quarter of 2014, with a conformity rate of 81.80%, resulting in a second-level conformity rate of 72.44% in 2014 in the Pilcop permanent control monitoring system based on group requirements.

Security watch

The cybercrime watch continues covering both the surveillance of domain names and fraud and malicious acts, including new domain names linked to the projects carried out in 2014.

In 2014, Banque Palatine had to contend with three types of cybercrime attacks:

- fraud targeting the chairmen;
- fraud based on “internal” faxes;
- a phishing campaign using a phony Palatine website.

None of these attacks led to any losses for the Bank, which tightened up its systems (secure messaging system for executive committee members, manual authentication procedure for internal faxes, transition to an internal secure ScanToMail system).

Actions taken to mitigate risks

In 2014, Banque Palatine continued to align its information system with the rules of its information system security policy, which is itself based on the Groupe BPCE’s information system security policy.

It launched an in-depth compliance analysis together with business line experts.

It set in motion an overhaul of the operational risk mapping for information system security under the Group’s electronic payment and consumer finance programmes.

The implementation of a solution managing identities and permissions, making for tighter verification of the Bank’s information system credentials, will be rolled out in the first quarter of 2015.

Newly hired employees are educated about information system security as part of their induction programme. Event-based campaigns are also organised in connection with special occasions.

During 2011, Banque Palatine conducted intrusion testing on its remote access sites. An action plan was drawn up containing the recommendations made following this audit, and the requisite adjustments were finalised in 2014.

Implementation of the recommendations made after the security audit of the electronic banking service was fully completed in the second half of 2014, with measures having been taken progressively since 2012.

Patches to remedy security flaws on workstations and Windows and Linux servers are made as part of a recurring review and correction process. Controls on actual application of these patches need to be tightened up further.

Implementation of the security audit recommendations for the eBICS server was not completed, but will be finalised during the first quarter of 2015.

Certain projects were launched following Ernst & Young’s general audit commissioned by executive management without waiting for the final report and forthcoming recommendations, including:

- control of administrators’ access (cyberark tool);
- tighter control over logs (splunk tool);
- control over access to domain controllers and the email system (Change Auditor tool).

The progress made on these projects did not live up to expectations, and efforts will have to be stepped up in 2015.

Business continuity

The IT business continuity plan exercise was unable to go ahead in 2014 and was rescheduled for 2015 with executive management’s approval.

Areas for improvement identified

Banque Palatine plans to take the following actions to mitigate its exposure to IT risks in 2015:

- further mapping of operational risks related to information system security under the group's programme to cover all its activities;
- integration of Groupe BPCE's 2015 control plan;
- deployment of a non-replayable authorisation system on the remote banking site for private banking clients, which was delayed until 2015;
- further efforts on tools controlling access to sensitive resources using the cyberark, splunk and Change Auditor tools;
- advance planning for the end of maintenance support for the Windows software still present on the information system:
    - Windows XP workstation in April 2014;
    - Windows Server 2003 in July 2015;
- tighter controls on actual deployment of security patches.

Business continuity planning

Bodies and participants in charge of business continuity planning

Banque Palatine's business continuity planning is conducted by a business continuity unit consisting of the head of business continuity planning, the business line BCP correspondents and the support BCP correspondents.

Under the business continuity charter published in 2010, the group's guide to best business continuity practices was provided to help institutions prepare their business continuity plan.

Banque Palatine's business continuity planning and the action plan for the current year are prepared and approved by the BCP steering committees in line with the guide to best practices drawn up by the group.

The BCP steering committees, which are integrated with the operational risks and security committee, meet every six months. In the event of an urgent decision, an exceptional committee may be held in connection with a quarterly operational risks and security committee. The operational risks and security committee is chaired by the member of the general management committee responsible for the corporate secretariat.

Organisation of the business continuity framework

Banque Palatine's business continuity planning consists of the following plans:

- the crisis management plan covering continuity of service and resumption of normal service;
- internal and external communication plans under which crisis communications tools are launched;
- hosting and repopulation plans ensuring that backup sites are properly equipped and organised;
- the IT recovery plan to get IT hardware started up again;
- the business line activity continuity plans establishing bypass procedures for each mission-critical activity and for the crisis scenarios outlined, e.g. IT systems unavailable, premises unavailable, skills unavailable;
- the through-life maintenance plan laying down the policy for reviewing cross-functional and business line plans.

Monitoring and steering

A detailed progress update is given at the operational risks and security committee.

Every year, a through-life maintenance campaign by all the business line correspondents makes sure that business line planning is monitored.

Twice a year, based on a questionnaire covering the Group's best practice rules, a status report is produced by the Group's security and business continuity division. This ranks the Bank relative to other institutions and provides guidance for its action plan.

Every year, the second-level business continuity permanent controls campaign organised by Group's security and business continuity division is conducted by business continuity planning using the PILCOP permanent control monitoring tool.

Highlights of the year and areas for improvement identified

In 2014, further improvements were made and business continuity planning was tightened up by embracing the best possible practices in accordance with Groupe BPCE's guide to best business continuity practices.

The highlights included:

- successful implementation of a business continuity plan involving end users:

  The aim of the BCP exercise was to test the "premises unavailable" scenario with the transfer and resumption of activities by around 80 staff at the Noisy-Le-Grand back-up site (IBM);

- training of newcomers to the BCP function;
- educational initiatives for the function's employees concerning business continuity and deployment of the group awareness-raising module for all employees;
- addition of three new activities to the framework.

The action plan for 2015 also includes:

- preparing the plan for managing human impacts with the support of the human resources division and improving adjustments required for the scenario of skills being unavailable;
- continuing to improve monitoring of business continuity planning by external service providers in charge of mission-critical activities by conducting business continuity tests;
- going ahead with 1 business continuity exercise with a transfer of users and 1 business continuity exercise with the resumption of activity on back-up site's IT infrastructure, with user involvement;
- educating all employees and new additions to the staff about business continuity.

Quality controls on accounting and financial information

Accounting and financial information is prepared and processed by the financial function, which is headed up by the executive vice-president, finance and banking production.

The main functions involved in preparing and publishing accounting and financial information are accounting, management control and communication.

Accounting

Main duties of the accounting division

- Preparing individual financial statements;
- Preparing the Palatine Group's consolidated financial statements in accordance with the standards applicable to Groupe BPCE;
- Overseeing production of regulatory reports and ratios;
- Defining accounting schemes by ensuring compliance with group accounting standards and guides;
- Performing first-level controls on accounting and regulatory aspects, which help to verify the compliance of transactions processed with the accounting standards and procedures in force;
- Identifying and assessing the accounting consequences of implementing the corporate projects;
- Providing its expertise for the development of the accounting information system;
- Maintaining accounts receivable and paying supplier invoices.

Presentation of the accounting division's internal control framework

Banque Palatine prepares IFRS consolidated financial statements on a quarterly basis and also publishes interim financial statements. Data is consolidated based on the financial statements of each entity in the scope of consolidation.

Data is added to a central database and consolidation adjustments are then made. Banque Palatine uses the group system based at and maintained by the central body, which ensures the internal consistency of the various scopes, charts of accounts, processes and analysis across the Palatine Group's and Groupe BPCE's entire scope of consolidation.

Banque Palatine's internal control framework plays an instrumental role in risk management and contributes to the quality of its accounting and regulatory information.

It is organised in accordance with the legal and regulatory requirements arising from the French Monetary and Financial Code and the order of 3 November 2014 on internal control.

The control framework is governed in terms of the quality of accounting and financial information by the accounting and regulatory review charter approved by BPCE's management board on 10 May 2010. This charter is unique to Groupe BPCE and applies to all entities subject to monitoring on a consolidated basis.

Application of the control framework to accounting and financial data

Within Banque Palatine

Accounting and regulatory controls are carried out by various internal and external parties to maintain the segregation of tasks in line with a three-level control hierarchy:

- a basic level, i.e. first-level controls relating to operational services and embedded in accounting treatment processes;

  First-level controls on accounting and regulatory aspects help to verify the compliance of transactions processed with the accounting standards and procedures in force. As far as possible, they rely on enterprise resource planning systems.

  All operational services and/or divisions are responsible for the first-level controls on activities within their scope and responsible for maintaining and demonstrating the audit trail, from the original document through to the corresponding entry in the relevant internal accounts. First-level control is completed with the process of justifying internal accounts.

  Justification of the internal accounts now takes place in the Group's Comptabase system. This tool was introduced gradually during the first six months of 2014.

  Given his responsibility in this framework, the head of accounting coordinates first-level accounting and regulatory controls by all the process participants.

- an intermediate level, i.e. second-level controls organised and executed under the responsibility of a dedicated function within the accounting division–accounting review.

  Accounting review conducts second-level independent permanent controls to enhance the reliability of processes and reinforce the quality of accounting and regulatory disclosures.

  The role of accounting review is focused predominantly on three areas:

  - control of the parent-company financial statements;
  - control of the prudential and regulatory reports;
  - organisation of the internal control framework.

  Accounting review is gradually introducing a reference framework for first- and second-level controls so that it can build its second-level controls on the first-level controls.

  Given the nature of its assignments, which require accounting expertise and a high level of proficiency in operational accounting processes, accounting review is performed by the accounting division with a reporting line to the executive vice-president, finance and banking production.

  The head of accounting review reports:

  - hierarchically to the head of accounting;
  - functionally to the compliance and permanent controls division. To this end, the audit and internal control committee approves the annual control plan and apprises itself of the results of the accounting review;
  - functionally to Groupe BPCE's financial review department.

- a top third-level control covering:

  - periodic controls organised under the authority of the internal audit function or Groupe BPCE's general inspection;
  - controls performed by external parties from outside the group (statutory auditors and the Autorité de contrôle prudentiel et de résolution).

Within BPCE

Within the central body, the group finance division coordinates the permanent framework for accounting and regulatory reporting as part of an accounting and regulatory review function, with rules laid down in the accounting and regulatory review charter.

Within the group finance division, the process is coordinated by the financial review function. Its head, who reports to the executive vice-president, has the power to set the standards for the function. In addition, the head of financial review is a standing member of the group internal control coordination committee, which is chaired by the chairman of the management board and includes the management board members in charge of finance and operations and the heads of the permanent and periodic control functions.

In conjunction with the shareholding institutions and group subsidiaries, the main role of the financial review division is to maintain a strong functional link between the function within the group institutions and that of the central body in order to safeguard the quality of Groupe BPCE's accounting information and regulatory reporting.

Management control

The management control function is responsible for preparing management information. The management control function is governed within Groupe BPCE by an operating charter stating the duties performed by management control.

Within Banque Palatine, the function is performed by the management control division, the head of which reports to the executive vice-president, finance and banking production.

Its main duties are as follows:

- support strategic oversight and earnings management.

  This task is performed on behalf of Banque Palatine's executive management. It extends to financial planning, earnings management and the publication of financial information.

  It draws on the planning cycle established centrally by BPCE's management control unit, incorporating medium- to long-term projections (strategic plan), a one-year horizon (budget) and mid-year updates (reforecasts/estimates).

  It also includes occasional studies to enrich management discussions concerning the merits of setting up new activities or to decide between investment options.

  It aims to produce the most relevant information in the form of performance indicators for executive management (e.g. commercial briefings, financial dashboard);

- measure, analyse and help to optimise performance.

  This role encompasses shedding light on contributions to group results made by each business line, product and sales network. It uses valuation and income and expense apportionment methods and techniques deriving from management accounting in line with the agreements in force at Groupe BPCE.

- design new management and systems for the group.

  Management control has a standard-setting role, devising and implementing management indicators. It is responsible for the reliability of the management data contained in reporting and financial releases. It is involved in the preparation of activity and management reporting used to steer the group.

Communication

The communication division, which reports to the company secretary, is responsible for financial information, which is published and made available to financial analysts and institutional investors, on Banque Palatine's website and in documents and updates filed with the Autorité des marchés financiers.

The validation process implemented is geared to the nature of each individual publication.

The communication function's duties in relation to accounting and financial information are to coordinate and prepare presentations of the Bank's results and developments concerning it to give third parties an idea of its financial strength, profitability and outlook.

Jean-Yves Forel

Chairman of the board of directors

1 Parent-company financial statements at 31 December 2014

1.1 Balance sheet and off-balance sheet

Assets

(in millions of euros)	Notes	31 Dec. 2014	31 Dec. 2013
Cash, central banks		313.9	35.0
Treasury bills and similar securities	3.3	1,061.0	132.8
Loans and advances due from credit institutions	3.1	5,663.2	5,331.7
Transactions with customers	3.2	7,465.5	7,175.4
Bonds and other fixed-income securities	3.3	640.6	578.0
Equities and other variable-income securities	3.3	2.5	4.5
Investments in subsidiaries and other long-term equity investments	3.4	3.9	3.0
Investments in associates	3.4	9.9	10.8
Intangible assets	3.6	115.6	114.9
Property, plant and equipment	3.6	22.4	25.4
Other assets	3.8	183.4	62.8
Accrual accounts	3.9	126.4	112.3
TOTAL ASSETS		**15,608.2**	**13,586.5**

Off-balance sheet items

(in millions of euros)	Notes	31 Dec. 2014	31 Dec. 2013
Commitments given			
Financing commitments	4.1	2,570.4	1,626.3
Guarantee commitments	4.1	1,111.2	1,135.4
Commitments on securities		0.0	37.6

Equity and liabilities

(in millions of euros)	Notes	31 Dec. 2014	31 Dec. 2013
Amounts due to credit institutions	3.1	2,448.1	2,089.7
Transactions with customers	3.2	8,135.8	7,829.7
Debt securities	3.7	3,903.8	2,547.3
Other liabilities	3.8	34.0	49.8
Accrual accounts	3.9	114.8	133.9
Provisions	3.10	60.1	58.5
Subordinated debt	3.11	120.5	120.6
Fund for general banking risks (FGBR)	3.12	1.3	1.3
Total equity (excl. FGBR)	3.13	789.7	755.9
Issued capital		538.8	538.8
Share premium		56.7	56.7
Reserves		39.4	37.5
Retained earnings		101.2	85.1
Net income/(loss) for the year		53.5	37.7
TOTAL EQUITY AND LIABILITIES		**15,608.2**	**13,586.5**

Off-balance sheet items

(in millions of euros)	Notes	31 Dec. 2014	31 Dec. 2013
Commitments received			
Financing commitments	4.1	613.2	1,196.7
Guarantee commitments	4.1	386.5	474.9
Commitments on securities		1.8	2.8

1.2 Statement of income

(in millions of euros)	Notes	2014	2013
Interest and similar income	5.1	372.0	349.1
Interest and similar expenses	5.1	(153.0)	(137.5)
Income from variable-income securities	5.3	9.4	8.9
Fee and commission income	5.4	67.0	67.9
Fee and commission expenses	5.4	(5.1)	(8.1)
Net gains or losses on trading book transactions	5.5	7.9	6.3
Net gains or losses on available-for-sale securities and similar items	5.6	0.8	2.5
Other banking income	5.7	2.9	1.8
Other banking expenses	5.7	(2.6)	(1.4)
NET BANKING INCOME		**299.2**	**289.5**
Operating expenses	5.8	(170.4)	(163.8)
Depreciation, amortisation and impairment of property, plant & equipment and intangible assets		(10.8)	(11.2)
GROSS OPERATING INCOME		**118.0**	**114.5**
Cost of risk	5.9	(41.9)	(59.7)
OPERATING INCOME		**76.1**	**54.8**
Gains or losses on long-term investments	5.10	(0.8)	1.6
INCOME BEFORE TAX		**75.4**	**56.4**
Income taxes	5.12	(21.9)	(18.7)
NET INCOME		**53.5**	**37.7**

2 Notes to the parent-company annual financial statements

NOTE 1 General background

1.1 Groupe BPCE

Groupe BPCE comprises the Banque Populaire network, the Caisse d'Epargne network, the BPCE central body and its subsidiaries.

Two banking networks – the Banque Populaire banks and the Caisses d'Epargne

Groupe BPCE is a cooperative group, and its members own the two local retail banking networks – the 18 Banque Populaire banks and the 17 Caisses d'Epargne. Both networks own an equal share in BPCE, the group's central body.

The Banque Populaire network consists of the Banque Populaire banks and the mutual guarantee companies granting them the exclusive benefit of their guarantees.

The Caisse d'Epargne network consists of the Caisses d'Epargne and the local savings companies (LSCs).

The Banque Populaire banks are wholly-owned by their cooperative members.

The capital of the Caisses d'Epargne is wholly-owned by the local savings companies. Local savings companies are cooperative structures with open-ended share capital owned by cooperative members. They are tasked with coordinating the cooperative membership base, in line with the general objectives set by the individual Caisse d'Epargne with which they are affiliated, and they cannot perform banking transactions.

BPCE

BPCE, a central body as defined by French banking law and a credit institution licensed to operate as a bank, was created pursuant to law no. 2009-715 of 18 June 2009. BPCE was incorporated as a French société anonyme with a management board and a supervisory board. Its share capital is owned jointly and equally by the 18 Banque Populaire banks and the 17 Caisses d'Epargne.

In its role, BPCE has to abide at all times by the cooperative principles of the Banque Populaire banks and the Caisses d'Epargne.

Specifically, BPCE represents the interests of its various affiliates in dealings with the supervisory authorities, defines the range of products and services offered by them, takes steps to ensure depositor protection, approves appointments of senior executives and oversees the smooth operation of the group's institutions.

As a holding company, BPCE acts as the ultimate controlling party and holds the joint ventures between the two networks in retail banking, corporate banking and financial services, and their production units. It also defines the group's corporate strategy and growth and expansion policies.

BPCE's main subsidiaries are organised around three major segments:

- Natixis, a 71.51%-owned listed company that encompasses Wholesale Banking, Investment Solutions and Specialised Financial Services;
- Commercial Banking and Insurance (including Crédit Foncier, Banque Palatine and BPCE International et Outre-mer);
- subsidiaries and equity interests.

In parallel, BPCE is responsible for centralised management of surplus funds, for the execution of any financial transactions required to develop and fund the group, and for choosing the most appropriate counterparty for these transactions in the broader interests of the group as part of its general oversight of financial activities. BPCE also provides banking services to the other group entities.

Banque Palatine

Banque Palatine is a société anonyme (French limited liability corporation) with a board of directors, wholly owned by the BPCE central body. Its head office is at 42 rue d'Anjou 75008 Paris (France).

Banque Palatine's main subsidiaries and investments are active in three segments:

- financial services and asset management;
- property services (i.e. transactions, sales, development and promotion, consulting & expertise/asset management);
- insurance.

1.2 Guarantee mechanism

In accordance with Article L. 512-107-6 of the French Monetary and Financial Code, the guarantee and solidarity mechanism aims to ensure the liquidity and capital adequacy of the group and BPCE's affiliates, and to organise financial support within the Banque Populaire and Caisse d'Epargne networks.

BPCE is tasked with taking all requisite measures to guarantee the capital adequacy of the group and each of the networks. This includes implementing the appropriate internal financing mechanisms within the group and establishing a mutual guarantee fund common to both networks, for which it determines the operating rules, the conditions for the provision of financial support to the existing funds of the two networks, as well as the contributions from affiliates to the fund's initial capital endowment and reconstitution.

BPCE manages the Banque Populaire Network Fund, the Caisse d'Epargne Network Fund and the Mutual Guarantee Fund.

The **Banque Populaire Network Fund** was endowed with a €450 million deposit by the banks that was recorded by BPCE as a 10-year term account renewable in perpetuity.

The **Caisse d'Épargne Network Fund** consists of a €450 million deposit made by the Caisses d'Epargne that was recorded by BPCE as a 10-year term account renewable in perpetuity.

The **Mutual Guarantee Fund** was formed through deposits made by the Banque Populaire banks and the Caisses d'Epargne. These deposits were booked by BPCE in 10-year term accounts renewable in perpetuity. The deposits by network amounted to €180.2 million at 31 December 2014, and the fund will be topped up each year by an amount equivalent to 5% of the contributions made by the Banque Populaire banks, the Caisses d'Epargne, and their subsidiaries to the group's consolidated income.

The total amount of deposits placed with BPCE in the Banque Populaire Network Fund, the Caisse d'Epargne Network Fund and the Mutual Guarantee Fund may be no lower than 0.15% and may not exceed 0.3% of the group's total risk-weighted assets.

Each deposit made by a Banque Populaire bank or Caisse d'Epargne gives rise to the allocation of an equivalent amount to the fund for general banking risks of the institution in question, solely in respect of the guarantee and solidarity mechanism.

The mutual guarantee companies (sociétés de caution mutuelle), the sole corporate purpose of which is to guarantee loans issued by Banque Populaire banks, are covered by the liquidity and capital adequacy guarantee of the Banque Populaire banks with which they are jointly licensed in accordance with Article R. 515-1 of the French Monetary and Financial Code.

The liquidity and capital adequacy of the Caisses de Crédit Maritime Mutuel are guaranteed in respect of each individual Caisse by the Banque Populaire bank that is its core shareholder and provider of technical and operational support to the Caisse.

The liquidity and capital adequacy of the local savings companies are secured at the level of each individual local savings company by the Caisse d'Epargne in which the relevant local savings company is a shareholder.

BPCE's management board holds all the requisite powers to use the financial resources of the various contributors immediately and in the agreed order pursuant to prior authorisations given to BPCE by the contributors.

1.3 Significant events

Banque Palatine made two changes in estimates during 2014:

- one concerning the assessment of counterparty risk for derivatives (or CVA – Credit Valuation Adjustment) (see Notes 2.3.10 and 3.10.1);
- the other concerning the parameter used to calculate discounting effects on amounts due from customers (see Notes 3.2.2 and 5.9).

In addition, Banque Palatine conducted an impairment test of the value of shares in its Ariès Assurance subsidiary. This test led to a €0.9 million impairment in the value of these shares (see Notes 3.4 and 5.10).

1.4 Post-balance sheet events

No events liable to have a material effect on the 2014 financial statements occurred after the balance sheet date.

Note 2 Accounting principles and methods

2.1 Measurement and presentation methods

Banque Palatine's parent-company financial statements are prepared and presented in accordance with rules laid down by BPCE pursuant to Regulation no. 2014-07 of the Autorité des normes comptables (ANC – French Accounting Standards Authority).

The parent-company financial statements are based on the financial statements at 31 December 2014. They were approved by the board of directors on 13 February 2015. They will be presented to the annual general meeting on 20 May 2015.

2.2 Changes in accounting methods

Since 1 January 2014, Banque Palatine has applied the provisions of ANC recommendation no. 2013-02 of 7 November 2013 on rules for measuring and recognising pension and similar benefits. These rules permit partial application of IAS 19 (revised) as adopted by the European Union in June 2012 and applicable from 1 January 2013 (method 2). As such, the corridor method is applied to actuarial gains and losses and the impact of the ceiling on assets is taken to income.

As under IAS 19, past service costs are immediately recognised in income and expected returns on plan assets are determined based on the discount rate used to measure the employee benefit obligation.

The impact on equity (retained earnings) of the change in accounting method at 1 January 2014 was a €0.3 million reduction as a result of accumulated actuarial gains and losses.

2.3 Accounting principles and basis of measurement

The financial statements for the year are presented in an identical format to those for the previous financial year. Generally accepted accounting principles have been applied in compliance with the conservatism principle based on the following principles:

- the going concern principle;
- the consistency of accounting methods from one period to the next;
- the accrual principle;

and in accordance with the general rules on preparation and presentation of the annual financial statements.

The basic method for valuing accounting entries is the historical cost method, and all balance sheet items are presented, as appropriate, net of depreciation and amortisation, provisions and allowances for impairment.

The principal methods used are as follows:

2.3.1 Foreign currency transactions

Income and expense relating to foreign currency transactions is determined in accordance with ANC regulation no. 2014-07.

Foreign currency receivables, payables and off-balance sheet commitments are translated at the exchange rate ruling at the end of the year. Definitive or unrealised foreign exchange gains and losses are recognised in income. Income and expense paid or received in foreign currencies is recognised at the exchange rate at the transaction date.

Property, plant and equipment, intangible assets and investments in subsidiaries denominated in foreign currencies but financed in euros are stated at acquisition cost.

Unsettled spot foreign exchange transactions are stated at the exchange rate at year-end.

Discounts or premiums on currency forwards and futures used for hedging purposes are recognised in income on a pro rata basis. Other currency forwards and futures and financial forwards and futures denominated in foreign currencies are marked to market. Outright currency forwards and futures and those hedged by forwards, futures and options, are remeasured over the remaining term. Foreign exchange swaps are recognised as combined spot purchase/forward sale transactions. Currency swaps are subject to the provisions of ANC regulation no. 2014-07.

2.3.2 Transactions with credit institutions and customers

Loans and advances due from credit institutions cover all loans and advances made in connection with banking transactions with the exception of those represented by a security. They also include securities received under repurchase agreements, regardless of the type of underlying, and loans and advances relating to securities repurchase agreements. They are broken down into demand loans and deposits, and term loans and deposits. Loans and advances due from credit institutions are stated on the balance sheet at their nominal value, with the exception of buybacks of customer receivables, which are carried at cost, plus accrued interest not yet due and net of any impairment charges recognised for credit risk.

Loans and advances to customers include loans to entities other than credit institutions, with the exception of debt securities issued by customers, securities received under repurchase agreements and loans and advances relating to securities repurchase agreements. They are broken down into commercial loans, customer accounts in debit and other loans. Loans and advances due from customers are recorded on the balance sheet at their nominal value, with the exception of buybacks of customer receivables, which are carried at cost, plus accrued interest not yet due and net of any impairment charges recognised for credit risk. Deferred marginal transaction costs and fees are included in the relevant loan.

Amounts due to credit institutions are recorded according to their initial term under demand deposits and current accounts or term deposits and borrowings. Amounts due to customers are classified into regulated savings accounts and other customer deposits. Depending on the counterparty involved, these items include securities and other assets sold under repurchase agreements. Accrued interest is recorded under the accrued interest line item.

Guarantees received are recorded as an off-balance sheet item. They are remeasured on a regular basis. The total carrying amount of all collateral received for a single loan may not exceed the outstanding amount of the loan.

Restructured loans

Within the meaning of ANC regulation no. 2014-07, restructured loans are doubtful loans and advances the initial characteristics (term, interest rate) of which have been altered to enable counterparties to repay the amounts due.

A discount is taken on restructured loans to reflect the difference between the present value of the contractual cash flows expected at inception and the present value of expected principal and interest repayments after restructuring. The discount rate used for fixed-rate loans is the initial effective interest rate, and the discount rate used for variable-rate loans is the most recent effective interest rate prior to the restructuring date. The effective rate is the contractual rate. This discount is expensed to “Cost of risk” and offset against the corresponding outstanding on the balance sheet. It is written back to net interest income in the income statement over the life of the loan using an actuarial method.

A restructured loan may be reclassified as performing when the new repayment dates are observed. When a loan that has been reclassified becomes overdue, regardless of the restructuring terms agreed, the loan is downgraded to doubtful.

Doubtful loans and advances

Doubtful loans and advances consist of all outstanding amounts (whether or not they are due, guaranteed or other), where at least one commitment made by the debtor is subject to an incurred credit risk, classified as such on an individual basis. A risk is considered to have been “incurred” when it is probable that the group will not collect all or part of the sums owed under the terms of the commitments made by the counterparty, notwithstanding any guarantees or collateral.

Doubtful loans are identified in compliance with ANC regulation no. 2014-07, particularly in the case of loans past due for over three months, over six months for real estate loans, and over nine months for loans to local authorities.

Doubtful loans are considered to be irrecoverable when full or partial collection is deemed to be highly unlikely and a write-off is considered. Loans and advances with terms that have lapsed, terminated lease financing agreements, and perpetual loans that have been rescinded, are considered as irrecoverable. The existence of collateral covering nearly all risks, along with the conditions for classification as doubtful loans and advances, must be taken into consideration when qualifying a doubtful loan as irrecoverable and assessing the associated impairment. A debt that has been classified as doubtful for more than one year is assumed to be irrecoverable, unless a write-off is not considered. Reclassification of a debt from doubtful to irrecoverable does not automatically entail the reclassification of the counterparty’s other doubtful loans and commitments as irrecoverable.

For doubtful loans and advances, accrued interest or interest due but not received is recognised in banking income and impaired accordingly. For irrecoverable loans and advances, accrued interest due but not received is not recognised.

Doubtful loans and advances are reclassified as performing once the debtor resumes regular payments in accordance with the original repayment schedule, provided that the counterparty is no longer considered to be at risk of default.

Repurchase agreements

Collateralised repurchase agreements are recognised in accordance with ANC regulation no. 2014-07, complemented by Instruction no. 94-06 issued by the French Banking Commission.

The collateralised assets remain on the balance sheet of the vendor, which records the amount collected under liabilities, representing its debt vis-à-vis the purchaser. The purchaser records the amount paid under assets, representing the amount due to the vendor. At each balance sheet date, the collateralised assets, as well as the debt vis-à-vis the purchaser or the amount due to the vendor, are stated according to the rules appropriate for each of these transactions.

Impairment

An impairment loss is recognised on loans and advances to cover the risk of loss where the prospects of recovery are uncertain. Impairment losses are calculated on a case-by-case basis, taking into account the present value of guarantees received. Impairment losses are determined at least every quarter and are based on available collateral and a risk analysis. Impairment losses cover at the very least the interest not received on doubtful loans.

Impairment for probable incurred losses includes all impairment charges, calculated as the difference between the principal outstanding and the projected cash flows discounted at the initial effective interest rate. Projected cash flows are determined based on the type of loans on the basis of historical losses and/or expert appraisals and are positioned over time using debt schedules based on collection histories.

Impairment charges and reversals booked for the risk of non-recovery are recorded under “Cost of risk” except for impairments for interest on doubtful loans and advances, which are recorded as impaired interest under “Interest and similar income”.

The reversal of the impairment related to the passage of time alone is recorded under “Cost of risk”.

A provision is set aside under liabilities when the credit risk is identified based on a portfolio of loans with similar risk characteristics, rather than on an individual basis, with the information available pointing to a risk of default and losses at maturity.

Irrecoverable loans and advances are written off as losses and the corresponding impairment allowances are reversed.

2.3.3 Finance and operating leases

Banque Palatine does not enter into this type of transaction.

2.3.4 Investment securities

“Investment securities” covers interbank market securities, treasury bills and negotiable debt securities, bonds and other fixed-income instruments, and equities and other variable-income securities.

For accounting purposes, securities transactions are governed by ANC regulation no. 2014-07, which sets out the general recognition and measurement rules applicable to investment securities and the rules concerning specific transfers such as securities lending transactions.

Investment securities are classified in the following categories: investments in subsidiaries and associates, other long-term equity investments, held-to-maturity securities, equity securities available for sale in the medium term, available-for-sale securities, and trading securities.

Provisions for counterparties with incurred default risks, the impact of which can be separately identified are recognised in the form of impairment charges on trading securities, available-for-sale securities, debt securities held to maturity, and equity securities available for sale in the medium term. Changes in impairment are recorded under the cost of risk.

Trading securities

These are securities acquired or sold with the intention to resell or repurchase them after a short holding period. To be eligible for this category, the securities must be tradable on an active market at the date of their initial recognition and their market prices must be accessible, representing actual arm’s length transactions regularly occurring in the market. They may be either fixed- or variable-income securities.

Trading securities are recorded in the accounts at cost on their acquisition date, less transaction costs and including accrued interest, where applicable. In the event of a short sale, the debt is recorded under liabilities in the amount of the selling price of the securities, less transaction costs.

They are marked to market at the end of the fiscal year based on the market price on the most recent trading day. The overall balance of differences resulting from fluctuations in prices is taken to income. For UCITS and investment funds, market value corresponds to net asset values reflecting available market information at the balance sheet date.

Securities classified as trading securities cannot be transferred to another accounting category (except in exceptional market situations requiring a change of strategy or in the absence of an active market for fixed-income securities), and the rules for their presentation and measurement continue to apply until they are sold, redeemed in full or written off.

Available-for-sale securities

Securities that do not qualify for recognition in any other category are considered as available-for-sale securities.

Available-for-sale securities are recognised at cost on their acquisition date, less transaction costs.

Where applicable, for fixed-income securities, accrued interest is recognised in income under “Interest and similar income”.

Any difference between acquisition cost and redemption value (premium or discount) for fixed-income instruments is recognised in income over the remaining term of the security using the actuarial method.

Available-for-sale securities are measured at the lower of cost or market value. For UCITS and investment funds, market value corresponds to net asset values reflecting available market information at the balance sheet date.

Unrealised capital losses are subject to an impairment provision that may be estimated using homogeneous groups of securities and may not be offset by capital gains recorded on other categories of securities.

Any gains generated by hedging instruments as defined in Article 2514-1 of ANC regulation no. 2014-07, are taken into account in the calculation of impairment. Unrealised gains are not recognised.

Gains and losses on disposals of available-for-sale securities, as well as impairment charges and reversals are recognised in “Net gains or losses on available-for-sale securities and similar items”.

Held-to-maturity securities

These include fixed-income securities with a fixed maturity that were acquired or have been reclassified from “Trading securities” or “Available-for-sale securities” and which the company intends and is able to hold to maturity. The securities should not be subject to an existing legal or constructive restriction, which may have an adverse effect on the company’s intent to hold the securities to maturity. Classification as held-to-maturity securities is not incompatible with their designation as items hedged against interest rate risk.

Held-to-maturity securities are recorded in the accounts at cost at their acquisition date, less transaction costs. When previously classified as available for sale, they are carried at cost and the previously recognised impairment charges are reversed over the residual life of the relevant securities.

The difference between acquisition cost and redemption value of the securities, and the corresponding interest are recognised using the same rules as those applicable to fixed-income available-for-sale securities.

An impairment loss may be recognised if there is a strong probability that the bank will not hold the securities to maturity due to new circumstances or if there is a risk of default by the issuer. Unrealised gains are not recognised.

Held-to-maturity securities cannot be sold or transferred into another category of securities, with certain exceptions.

However, pursuant to the provisions of ANC regulation no. 2014-07, trading securities or available-for-sale securities reclassified into the category of held-to-maturity securities as a result of market illiquidity may be sold when the market on which they are traded becomes active again.

Equity securities available for sale in the medium term

Equity securities available for sale in the medium term comprise securities invested in with the sole objective of obtaining capital gains in the medium term without the intent of long-term investment to develop the investee’s business activities or to participate actively in its operational management. In theory, these are always variable-income securities. This investment activity has to be significant and continuous, carried out in a structured framework, and must generate regular returns derived primarily from capital gains on disposals.

Equity securities available for sale in the medium term are recognised at cost on their acquisition date, less transaction costs.

At the balance sheet date, they are carried at the lower of historical cost or value in use. An impairment charge is recognised for any unrealised capital losses. Unrealised gains are not recognised.

Securities recorded under equity securities available for sale in the medium term cannot be transferred to any other accounting category.

Investments in subsidiaries and associates

Securities in this category are those deemed to be useful for the activity of the company if held over the long term, in particular by providing significant influence or control over the governance bodies of the issuing companies.

Investments in subsidiaries and associates are stated at cost, including transaction costs, where material.

They are measured individually at the balance sheet date at the lower of acquisition cost or value in use. Value in use is determined, in particular, on the basis of criteria such as the strategic nature of the investment, the intention to provide assistance or retain the investment, share price performance, net assets or remeasured net assets and forecasts. Impairment is recognised for any unrealised capital losses on securities on a line-by-line basis and is not offset against unrealised capital gains. Unrealised gains are not recognised.

Investment securities recorded under investments in subsidiaries and associates cannot be transferred to any other accounting category.

Other long-term equity investments

Other long-term equity investments are securities acquired with the intention of promoting the development of lasting business relationships, by creating special ties with the investee, without taking an active part in its management owing to the small percentage of voting rights that the investment represents.

Other long-term equity investments are recognised at acquisition cost, less transaction costs.

They are included on the balance sheet at the lower of historical cost or value in use. Value in use is determined for listed and non-listed securities on the basis of the amount the company would agree to pay to obtain the securities, given its investment objective, if it were to acquire them.

An impairment charge is recognised for any unrealised capital losses. Unrealised gains are not recognised.

Securities classified as other long-term equity investments may not be transferred to any other accounting category.

Reclassification of financial assets

To harmonise accounting practices and ensure consistency with IFRS, ANC regulation no. 2014-07 reiterates the provisions of opinion no. 2008-19 of 8 December 2008 related to the reclassification of securities previously accounted for as “trading securities” or “available-for-sale securities”.

Reclassification of trading securities as available-for-sale securities or as held-to-maturity securities is now permitted in the following two cases:

- in exceptional market circumstances necessitating a change of strategy;
- where fixed-income securities are no longer, after their acquisition, quoted in an active market, and provided that the company has the intent and ability to hold them in the foreseeable future or until they reach maturity.

Reclassifications of available-for-sale securities as held-to-maturity securities are effective from the reclassification date in either of the following conditions:

- in exceptional market circumstances necessitating a change of strategy;
- where fixed-income securities are no longer quoted in an active market.

In a press release dated 23 March 2009, the Conseil national de la comptabilité (CNC - French National Accounting Board) stated that “the possibility of portfolio transfers, in particular from available-for-sale securities portfolios to held-to-maturity securities portfolios as stipulated in Article 19 of CRBF regulation no. 90-01 before it was updated by CRC regulation no. 2008-17, remains in force and has not been repealed by ANC regulation no. 2014-07.

Since CRC regulation no. 2008-17, replaced by ANC regulation no. 2014-07, provided for additional possibilities of transfers between portfolios, these new transfer options extend those previously available from the date of the entry into force of the regulation on 1 July 2008.

As a consequence, reclassification of the available-for-sale securities portfolio as held-to-maturity securities remains possible upon a mere change of intent if, at the date of the transfer, all of the criteria for a held-to-maturity portfolio are met.

2.3.5 Intangible assets and property, plant and equipment

The recognition rules for intangible assets and property, plant and equipment are laid down in:

- CRC regulation no. 2004-06 covering the recognition and measurement of assets; and
- CRC regulation no. 2002-10 covering asset depreciation, amortisation and impairment.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are carried at cost (purchase price including costs). These assets are amortised over their estimated useful life.

In particular, software is amortised over a period of no more than five years.

Goodwill is not amortised but is tested for impairment, where appropriate.

Leasehold rights are amortised on a straight-line basis over the residual term of the lease and, if necessary, are tested for impairment relative to market value.

Property, plant and equipment

Property, plant and equipment is a physical asset that is: (a) held for use in the production or supply of goods and services, for rental to others or for administrative purposes; and (b) expected to be used over more than one financial year.

Insofar as buildings are assets consisting of a number of components that have different uses at the outset, each component is recognised separately at cost and a depreciation schedule specific to each component is used.

The depreciable amount is the gross value less the residual value where the latter is material, prolonged and can be measured reliably. The main components of buildings are depreciated to reflect the pattern of use of the asset's expected economic benefits, which generally matches the asset's useful life:

- buildings: 30 years;
- plant and equipment: 20 years;
- fixtures and fittings: 10 years;
- furniture and special equipment: 4 to 10 years;
- computer equipment: 3 to 5 years.

Other property, plant and equipment is carried at cost, production cost or remeasured cost. The cost of assets denominated in foreign currencies is translated into euros at the exchange rate ruling at the transaction date. These assets are depreciated to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity, which generally corresponds to the asset's useful life.

Where applicable, an impairment may be recognised on property, plant and equipment.

Investment property consists of non-operating property, plant and equipment and is accounted for using the component method.

2.3.6 Debt securities

Debt securities are classified according to the nature of the underlying: retail certificates of deposit, interbank and negotiable debt securities, bonds and other debt securities, other than subordinated debt, which is recorded separately in a specific line item under liabilities.

Accrued interest not yet due on these securities is recognised under accrued interest as a balancing entry to the income statement.

Issue premiums are recognised in full during the period or on a straight-line basis over the life of the corresponding borrowings. Issue and redemption premiums are recognised on a straight-line basis over the life of the borrowing via a deferred expenses account.

In line with the conservatism principle, only the certain portion of structured debt interest and/or principal payments is recognised. Unrealised capital gains are not recognised. Unrealised losses are provided for.

2.3.7 Subordinated debt

Subordinated debt consists of the proceeds from issues of term and perpetual subordinated debt securities, plus mutual guarantee deposits. Should the debtor be liquidated, subordinated debt may be redeemed only after the claims of all the other creditors have been satisfied.

Accrued interest payable on subordinated debt is disclosed separately as a balancing entry to the income statement.

2.3.8 Provisions

This item includes provisions set up to cover contingencies and losses that are clearly identifiable but of uncertain timing or amount, that are either directly related or unrelated to banking transactions as laid down in Article L. 311-1 and related transactions as laid down in Article L. 311-2 of the French Monetary and Financial Code. Unless covered by a specific text, such provisions may be recognised only if the company has an obligation to a third party at the end of the financial year and no equivalent consideration is expected in return, in accordance with CRC regulation no. 2000-06.

In particular, this item includes a provision for employee benefit obligations and a provision for counterparty risk.

Employee benefits

Employee benefits are accounted for in accordance with ANC recommendation no. 2013-R-02. Employee benefits are classified into four categories:

Short-term benefits

Short-term employee benefits mainly include wages, salaries, paid annual leave, incentive schemes, profit-sharing, and bonuses payable within 12 months of the end of the period in which the employee renders the service. They are expensed in the period, including amounts remaining due at the balance sheet date.

Long-term benefits

Long-term employee benefits are generally linked to seniority, accruing to current employees and payable 12 months or more after the end of the period in which the employee renders the related service. In most cases, they are long-service awards. A provision is set aside covering the amount of these obligations at the year-end.

Post-employment benefit obligations are measured using an actuarial method that takes account of demographic and financial assumptions such as age, length of service, the likelihood of the employee being on the payroll at retirement and the discount rate. The calculation allocates costs over the service life of each employee (projected unit credit method).

Termination benefits

Termination benefits are granted to employees on termination of their employment contract before the normal retirement date, either as a result of a decision by the group to terminate a contract or a decision by an employee to accept voluntary redundancy. A provision is set aside for termination benefits. Termination benefits payable more than 12 months after the balance sheet date are discounted to present value.

Post-employment benefits

Post-employment benefits include lump-sum retirement bonuses, pensions and other post-employment benefits.

These benefits can be classified into two categories: defined-contribution plans, which do not give rise to an obligation for the group, and defined-benefit plans, which give rise to an obligation for the group and are therefore measured and provided for.

Employee benefit obligations not funded by contributions charged to income and paid out to pension funds or insurance companies are provided for.

Post-employment benefits are measured in the same manner as long-term employee benefits.

The measurement of these obligations reflects the value of plan assets as well as previously unrecognised actuarial gains and losses.

Actuarial gains and losses on post-employment benefits arising from changes in actuarial assumptions (early retirement, discount rate, etc.) or experience adjustments (return on plan assets, etc.) are amortised using the corridor approach, which applies to gains or losses exceeding 10% of the greater of the defined-benefit obligation or the fair value of plan assets.

The annual expense in respect of defined-benefit plans includes the current service cost, interest cost (the effect of discounting the net obligation), the past service cost and the amortisation of any previously unrecognised actuarial gains and losses.

Provisions for regulated home savings products

Regulated home savings accounts (comptes d'épargne logement - CEL) and regulated home savings plans (plans d'épargne logement-PEL) are retail products marketed in France governed by the 1965 law on home savings plans and accounts, and subsequent implementing decrees.

Regulated home savings products generate two types of commitments for institutions marketing these products:

- a commitment to grant a loan to the customer at a future date at a rate set at inception of the contract (for PEL products) or at a rate contingent on the savings phase (for CEL products);
- a commitment to pay interest on the savings at a future date at a rate set at inception of the contract for an indefinite period (for PEL products) or at a rate set on a semi-annual basis according to an indexation formula regulated by law (for CEL products).

Commitments with potentially adverse consequences for the group are measured for each generation of regulated home savings plans and for all regulated home savings accounts.

A provision is recognised for the associated risks by discounting future potential income from at-risk outstandings:

- at-risk savings correspond to the uncertain future level of savings for plans in existence at the date the provision is calculated. They are estimated on a statistical basis for each future period taking account of savers' historical patterns of behaviour and reflect the difference between the probable and minimum expected savings volumes;
- at-risk loans correspond to the loans outstanding granted but not yet due at the calculation date plus statistically probable future loans outstanding based on customers' historical patterns of behaviour as well as vested and projected rights from regulated home savings accounts and plans.

Income in future periods from the savings phase is estimated, for a given generation of contracts, on the basis of the difference between the regulated rate offered and the expected interest accruing on a rival savings product.

Income in future periods from the loan phase is estimated using the difference between the fixed rate agreed at inception for PEL contracts or a rate contingent on the savings phase for CEL contracts, and the expected interest rate accruing on home loans in the non-regulated sector.

Where the sum of the group's estimated future commitments arising from the savings and loan phases of a single generation of contracts indicates a potentially unfavourable situation, a provision is set aside, with no offsetting taking place between different generations. The commitments are estimated using the Monte Carlo method to reflect the uncertainty of future interest rate trends and their impact on customer behaviour models and at-risk outstandings.

The provision is recognised under liabilities on the balance sheet, and changes are recognised in net banking income.

2.3.9 Fund for general banking risks

This fund is intended to cover risks inherent in the Company's banking activities, in accordance with the provisions of Article 3 of CRBF regulation 90-02.

2.3.10 Futures and options

Trading and hedging transactions in interest rate, currency or equity futures and options are recognised in accordance with the provisions of ANC regulation no. 2014-07.

Commitments arising from these instruments are recorded off-balance sheet at the notional value of the contracts. At the balance sheet date, the amount recognised in respect of these commitments represents the volume of unwound forward transactions at the balance sheet date.

The accounting policies applied vary depending on the type of instrument and the original purpose of the transaction.

Article 5 of CRBF 9015 (included in Article 25252 of ANC regulation no. 201407 of 26 November 2014) states that the market value of a future or option should take counterparty risk into account where market value is used for recognition purposes.

The group measures the fair value of an asset or liability using the same assumptions that market participants would use to set the price of the asset or liability. These assumptions include for derivatives an assessment of counterparty risk (or CVA – Credit Valuation Adjustment).

Accordingly, Groupe BPCE adjusted its valuation inputs for the CVA during 2014. These valuation adjustments are now measured using market inputs. This gave rise to a €1.4 million expense for Banque Palatine in respect of the CVA.

Forwards and futures

Interest rate swaps and similar contracts (forward rate agreements, collars, etc.) are classified as follows based on their initial purpose:

- micro-hedging (assigned hedges);
- macro-hedging (global asset and liability management);
- speculative positions/isolated open positions;
- for use with a trading book.

Amounts received or paid in respect of the first two categories are recognised in income on a pro rata basis.

Income and expense related to instruments used for hedging an asset or a homogeneous group of assets is recognised in income in the same manner and period as the income and expense from the hedged items. Gains and losses on hedging instruments are recognised in the same line item as the income and expense from the hedged item under "Interest and similar income" and "Interest and similar expenses". The "Net gains or losses on trading book transactions" line item is used when the hedged items are in the trading book.

Should overhedging be identified, a provision may be set aside to cover the overhedged portion of the hedging instrument, if the instrument shows an unrealised loss. In this case, the charge to provisions is made with a corresponding adjustment to "Net gains or losses on trading book transactions".

Income and expense related to futures and options instruments used for hedging purposes or for managing global interest rate risk is recognised in income on a pro rata basis under "Interest and similar income" and "Interest and similar expenses". Unrealised gains and losses are not recorded.

Gains and losses on contracts classified as isolated open positions are taken to income either when the contracts are unwound or over the life of the contract, depending on the type of instrument.

Unrealised capital gains or losses are determined based on the type of market involved (organised, other markets considered as organised, or over-the-counter).

Any unrealised losses on over-the-counter options (including transactions processed by a clearing house) based on their market value are provided for. Unrealised capital gains are not recognised.

Instruments traded in organised markets or other markets considered as organised are continuously quoted and liquid enough to justify being marked to market.

Contracts classified as specialised asset management contracts are measured after applying a discount to take account of the counterparty risk and the net present value of future management costs, if these valuation adjustments are material. Derivatives that are traded with a counterparty that is a member of Groupe BPCE's share support mechanism (see Note 1.2.) are not subject to these valuation adjustments. Changes in value from one accounting period to another are recognised immediately in the income statement under "Net gains or losses on trading book transactions".

Balances on terminations or transfers are recognised as follows:

- transactions classified under specialised asset management or isolated open positions are recognised immediately in income;
- for micro-hedging and macro-hedging transactions, balances are amortised over the remaining term of the initially hedged item or taken immediately to income.

Options

The notional amount of the underlying asset of an option or forward or futures contract is recognised by distinguishing between hedging contracts and contracts traded as part of capital market transactions.

For transactions involving interest rate, currency, or equity options, the premiums paid or received are recognised in a suspense account. At the end of the period, any options traded in an organised or similar market are measured and recognised in income. For over-the-counter (OTC) options, provisions are set aside for capital losses, but unrealised capital gains are not recognised. When an option is sold, repurchased, exercised or lapses, the corresponding premium is recognised immediately in income.

Income and expense arising from hedging instruments are recognised in the same manner and period as those arising on the hedged item. Written options are not eligible for classification as macro-hedging instruments.

Over-the-counter markets may be treated as organised markets when market makers ensure continuous quotations with spreads that reflect market practice or when the underlying financial instrument is itself quoted in an organised market.

2.3.11 Interest and similar commission income

Interest and similar commission income is recognised on a pro rata basis.

Commissions and fees related to the grant or acquisition of a loan are treated as additional interest accruing over the effective life of the loan on a pro rata basis according to the outstanding amount due.

Other commission income is recognised according to the type of service provided as follows:

- commission received for an ad hoc service is recognised on completion of the service;
- commission received for an ongoing or discontinued service paid for through several instalments is recognised over the period that the service is provided for.

2.3.12 Income from securities

Dividends are recognised when the right to receive payment has been decided by the relevant body. They are recognised under "Income from variable-income securities".

The portion of income received during the year from bonds or negotiable debt securities is also recognised. The same applies to perpetual deeply subordinated notes meeting the definition of a Tier-1 regulatory capital instrument. The group considers that these revenues are similar in nature to interest.

2.3.13 Income tax

Since 2009, the Caisses d'Épargne and Banques Populaires networks have applied the provisions of Article 91 of the amended French Finance Act for 2008, which extends the tax consolidation regime to the networks of mutual banks. This option is modelled on the tax consolidation for mutual insurers and takes into account consolidation criteria other than ownership interest (the scheme is usually available if at least 95% of the share capital of a subsidiary is owned by a parent company).

Banque Palatine signed a tax consolidation agreement with its parent company, under which it recognises in its financial statements any tax liabilities that it would have had to pay had it not been part of a mutual tax consolidation group.

The tax charge appearing in the income statement for the period is the corporate income tax due in respect of the period and the provision for the tax liabilities of the EIGs.

Note 3 Information on the balance sheet

Unless stated otherwise, explanatory notes for balance sheet items are presented net of depreciation, amortisation, impairment and provisions.

Certain credit risk disclosures required under ANC regulation no. 2014-07 are provided in the risk management report. This information forms an integral part of the financial statements audited by the Statutory Auditors.

3.1 Interbank transactions

(in millions of euros) **Assets**	**31 Dec. 2014**	**31 Dec. 2013**
Current accounts	*55.1*	*42.4*
Overnight loans	*680.7*	*43.6*
Demand accounts	**735.8**	**85.9**
Term accounts and loans	*4,899.8*	*5,216.6*
Subordinated and participating loans	*2.5*	*2.5*
Term accounts	**4,902.3**	**5,219.1**
Accrued interest	**25.1**	**26.7**
TOTAL	**5,663.2**	**5,331.7**

Receivables arising from transactions with the network break down into €689 million in demand accounts and €4,655.8 million in term accounts at 31 December 2014, compared with €61.4 million and €4,981.3 million respectively at 31 December 2013.

The funds collected for Livret A and LDD accounts and held centrally by Caisse des dépôts et consignations amounted to €248 million at 31 December 2014, up from €245 million at 31 December 2013.

(in millions of euros) **Liabilities**	**31 Dec. 2014**	**31 Dec. 2013**
Current accounts in credit	*266.3*	*399.8*
Overnight deposits	*75.0*	*0.0*
Other amounts due	*12.7*	*9.5*
Accrued interest on demand accounts	0.2	0.4
Demand accounts	**354.1**	**409.8**
Term accounts and loans	*2,051.6*	*1,481.7*
Securities sold under term repurchase agreements	*37.6*	*189.1*
Accrued interest payable on term loans	4.9	9.1
Term accounts	**2,094.0**	**1,679.9**
TOTAL	**2,448.1**	**2,089.7**

Payables arising from transactions with the network break down into €71.7 million in demand accounts and €1,833.2 million in term accounts at 31 December 2014, compared with €59.7 million and €1,302.2 million respectively at 31 December 2013.

3.2 Customer transactions

3.2.1 Customer transactions

(in millions of euros) **Assets**	**31 Dec. 2014**	**31 Dec. 2013**
Current accounts with overdrafts	**391.7**	**348.4**
Commercial loans	**199.7**	**203.5**
Export loans	*87.6*	*92.9*
Short-term and consumer credit facilities	*1,266.1*	*1,275.1*
Equipment loans	*1,647.3*	*1,504.8*
Home loans	*1,739.8*	*1,690.6*
Other customer loans	*1,718.0*	*1,683.6*
Subordinated loans	*4.4*	*3.7*
Other	*101.8*	*70.6*
Other facilities granted to customers	**6,565.0**	**6,321.4**
Accrued interest	**20.7**	**20.7**
Doubtful loans and advances	**541.5**	**512.4**
Impairment of loans and advances to customers	**(253.0)**	**(231.1)**
TOTAL	**7,465.5**	**7,175.4**
o/w restructured loans	*155.7*	*106.8*
o/w restructured loans reclassified as performing	*2.0*	*23.9*

Loans and advances to customers eligible for central bank refinancing where the bank is established amounted to €613.2 million.

(in millions of euros) **Liabilities**	**31 Dec. 2014**	**31 Dec. 2013**
Regulated savings accounts	990.1	1,005.9
Livret A savings accounts	*162.7*	*158.7*
PEL/CEL regulated accounts	*282.7*	*276.6*
Other regulated savings accounts	*544.7*	*570.6*
Other accounts and loans from customers(1)	7,104.3	6,786.7
Other amounts due	33.6	26.6
Accrued interest	7.7	10.5
TOTAL	**8,135.8**	**7,829.7**

(1) Breakdown of accounts and loans from customers:

			31 Dec. 2014			**31 Dec. 2013**
(in millions of euros)	**Demand**	**Term**	**Total**	**Demand**	**Term**	**Total**
Current accounts in credit	5,783.0		5,783.0	5,065.8		5,065.8
Other accounts and loans		1,321.3	1,321.3		1,720.9	1,720.9
TOTAL	**5,783.0**	**1,321.3**	**7,104.3**	**5,065.8**	**1,720.9**	**6,786.7**

3.2.2 Breakdown of outstanding loans by sector

(in millions of euros)	Performing loans and advances	Doubtful loans and advances		o/w Irrecoverable doubtful loans and advances	
	Gross	Gross	Specific impairment	Gross	Specific impairment
Non-financial companies	5,971.7	450.5	210.5	277.1	170.5
Self-employed customers	7.7	0.6	0.3	0.4	0.2
Individual customers	1,180.2	89.0	41.6	54.8	33.7
Non-profit institutions	17.3	1.3	0.6	0.8	0.5
Government and social security institutions	0.3	0.0	0.0	0.0	0.0
Other	0.1	0.0	0.0	0.0	0.0
TOTAL AT 31 DECEMBER 2014	**7,177.4**	**541.5**	**253.0**	**333.0**	**204.9**
TOTAL AT 31 DECEMBER 2013	**6,894.1**	**512.4**	**231.1**	**295.2**	**185.2**

3.3 Treasury bills, bonds, equities and other fixed- and variable-income securities

3.3.1 Securities portfolio

(in millions of euros)	31 Dec. 2014			31 Dec. 2013		
	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Gross	994.9	49.8	1,044.6		129.6	129.6
Accrued interest	15.4	1.1	16.5		3.2	3.2
Impairment	(0.1)		(0.1)			
Treasury bills and similar securities	**1,010.1**	**50.9**	**1,061.0**		**132.8**	**132.8**
Gross	218.4	419.0	637.4	156.9	404.2	561.1
Accrued interest	3.6	6.7	10.3	12.9	11.1	24.0
Impairment	(7.1)	0.0	(7.1)	(6.9)	(0.1)	(7.1)
Bonds and other fixed-income securities	**214.9**	**425.7**	**640.6**	**162.8**	**415.2**	**578.0**
Gross	2.5		2.5	4.5		4.5
Equities and other variable-income securities	**2.5**		**2.5**	**4.5**		**4.5**
TOTAL	**1,227.5**	**476.6**	**1,704.1**	**167.3**	**548.0**	**715.2**

The market value of held-to-maturity securities stood at €484.2 million.

Changes in treasury bills and similar securities stemmed mainly from purchases of sovereign issues (Finland, Belgium, Austria, Netherlands and Spain) as part of the liquidity investment policy.

Banque Palatine does not hold any European sovereign securities issued by Greece, Ireland, Portugal, Cyprus, Hungary or Italy.

Treasury bills, bonds and other fixed-income securities

(in millions of euros)	31 Dec. 2014			31 Dec. 2013		
	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Listed securities	994.8	49.8	1,044.5	88.0	355.1	443.1
Unlisted securities	0.0	0.0	0.0	60.9	48.9	109.8
Doubtful loans and advances				1.1		1.1
Accrued interest	15.4	1.1	16.5	12.9	11.1	24.0
TOTAL	**1,010.1**	**50.9**	**1,061.0**	**162.8**	**415.2**	**578.0**
o/w subordinated notes	*4.9*		*4.9*	*2.9*		*2.9*

Unrealised capital losses subject to an impairment provision on available-for-sale securities amounted to €7.2 million at 31 December 2014, compared with €6.9 million at 31 December 2013.

Unrealised capital gains on held-to-maturity securities amounted to €9.2 million at 31 December 2014. Unrealised capital gains on held-to-maturity securities amounted to €3.6 million at 31 December 2013.

Unrealised capital losses on held-to-maturity securities came to €0.1 million at 31 December 2014, stable compared with the €0.1 million recorded at 31 December 2013.

Equities and other variable-income securities

(in millions of euros)	31 Dec. 2014 Available-for-sale securities	31 Dec. 2013 Available-for-sale securities
Listed securities	2.5	4.5
TOTAL	**2.5**	**4.5**

At 31 December 2014, equities and other variable-income securities included €2.5 million in accumulation funds (compared with €4.5 million in accumulation funds at 31 December 2013).

3.3.2 Changes in held-to-maturity securities

(in millions of euros)	31 Dec. 2013	Purchases	Redemptions	Discount/premium	Other changes	31 Dec. 2014
Treasury bills	132.8	0.0	(80.0)	0.1	(2.0)	50.9
Bonds and other fixed-income securities	415.3	202.0	(187.1)	(0.5)	(3.9)	425.7
TOTAL	**548.0**	**202.0**	**(267.1)**	**(0.4)**	**(5.9)**	**476.6**

3.3.3 Reclassifications of assets

Reclassification owing to market illiquidity (CRC regulation no. 2008-17, replaced by ANC regulation no. 2014-07)

In October 2008, Banque Palatine reclassified assets pursuant to the provisions of CRC regulation no. 2008-17 of 10 December 2008, which permits the transfer of securities out of the “Trading securities” and “Available-for-sale securities” categories.

Type of reclassification (in millions of euros)	Residual amount reclassified at the end of 2013	Securities that matured during 2014	Residual amount reclassified at the end of 2014	Unrealised capital gains and losses that would have been recognised without the reclassifications	Unrealised capital loss that would have been provided for without the reclassifications	Gains and losses during the period on the reclassified securities
From Available-for-sale securities to Held-to-maturity securities	14.8	4.8	10.0	0.0		0.6

No reclassification took place in 2014.

3.4 Investments in subsidiaries and associates, and other long-term equity investments

3.4.1 Changes in investments in subsidiaries and associates, and in other long-term equity investments

(in millions of euros)	31 Dec. 2013	Increase	Decrease	31 Dec. 2014
Investments in subsidiaries and other long-term equity investments	3.1	1.0	(0.2)	4.0
Investments in associates	10.8	0.0	0.0	10.8
Gross	**13.8**	**1.0**	**(0.2)**	**14.7**
Investments in subsidiaries and other long-term equity investments	(0.1)	0.0	0.1	(0.0)

Investments in associates	0.0	(0.9)	0.0	(0.9)
Impairment	**(0.1)**	**(0.9)**	**0.1**	**(0.9)**
TOTAL	**13.8**	**0.2**	**(0.1)**	**13.9**

3.4.2 Subsidiaries and investments

The amounts shown are stated in millions of euros.

Subsidiaries and investments	Share capital at 31 Dec. 2014	Equity other than share capital incl. fund for general banking risks, as appropriate at 31 Dec. 2014	% interest held at 31 Dec. 2014	Carrying amount of shares held at 31 Dec. 2014	
				Gross	Net
A. DETAILED INFORMATION CONCERNING EACH SECURITY WITH GROSS VALUE EXCEEDING 1% OF THE PARENT COMPANY'S CAPITAL					
Subsidiaries (over 50%-owned)					
SA Palatine Asset Management 42 rue d'Anjou – 75008 Paris	1.9	16.0	100%	5.8	5.8
B. GENERAL INFORMATION CONCERNING OTHER INSTRUMENTS WITH A GROSS VALUE EQUIVALENT TO 1% OR LESS OF THE PARENT COMPANY'S CAPITAL					
French subsidiaries (together)				5.0	4.2
Investments in French companies				3.9	3.9

Subsidiaries and investments	Loans and advances granted by the parent company and not yet redeemed (incl. perpetual subordinated notes) in 2014	Guarantees and endorsements given by the parent company in 2014	Net revenue before tax in the year to 31 Dec. 2014	Net income for the year to 31 Dec. 2014	Dividends received by the parent company in 2014	Observations
A. DETAILED INFORMATION CONCERNING EACH SECURITY WITH GROSS VALUE EXCEEDING 1% OF THE PARENT COMPANY'S CAPITAL						
Subsidiaries (over 50%-owned)						
SA Palatine Asset Management 42 rue d'Anjou – 75008 Paris	0.0	0.0	33.1	9.3	8.3	0.0
B. GENERAL INFORMATION CONCERNING OTHER INSTRUMENTS WITH A GROSS VALUE EQUIVALENT TO 1% OR LESS OF THE PARENT COMPANY'S CAPITAL						
French subsidiaries (together)	0.0	0.1			0.4	0.0
Investments in French companies	0.0	0.0			0.7	0.0

3.4.3 Subsidiary ventures with unlimited liability

Ventures with unlimited liability

Corporate name	Head office	Legal form
Domaine du Grand Duc	20 avenue André Prothin – 92060 Paris La Défense	SNC - partnership
GIE Tadorne Aviation	88 avenue de France – 75013 Paris	Economic Interest Grouping
GIE Caisse d'Épargne Syndication Risque	50 avenue Pierre Mendès France – 75013 Paris	Economic Interest Grouping
BPCE Services Financiers	50 avenue Pierre Mendès France – 75013 Paris	Economic Interest Grouping
IT-CE	50 avenue Pierre Mendès France – 75013 Paris	Economic Interest Grouping
BPCE Achats	12-20 rue Fernand Braudel – 75013 Paris	Economic Interest Grouping
GIE GDS	42 rue d'Anjou – 75008 Paris	Economic Interest Grouping
GIE GDS 24	7 rue Pierre Brun – 77000 Melun	Economic Interest Grouping

3.4.4 Related-party transactions

	31 Dec. 2014			31 Dec. 2013
(in millions of euros)	**Credit institutions**	**Other businesses**	**Total**	**Total**
Receivables	**1.0**	**0.0**	**1.0**	**1.1**
Liabilities	**0.5**	**0.1**	**0.5**	**0.3**
Guarantee commitments given	**0.0**	**0.1**	**0.1**	**0.1**

No material transactions took place with a related party on terms other than at an arm's length.

3.5 Finance and operating leases

Banque Palatine does not enter into this type of transaction.

3.6 Intangible assets and property, plant and equipment

3.6.1 Intangible assets

(in millions of euros)	31 Dec. 2013	Increase	Decrease	Other movements	31 Dec. 2014
Leasehold rights and commercial goodwill	106.5	0.1	0.0		106.6
Software	26.8	5.9	(5.3)	0.0	27.4
Other	1.5	0.0	0.0	(0.4)	1.2
Gross	**134.8**	**6.0**	**(5.3)**	**(0.4)**	**135.1**
Leasehold rights and commercial goodwill	1.1		0.0		1.1
Software	18.7	4.8	(5.2)	0.0	18.4
Amortisation and impairment	**19.8**	**4.8**	**(5.2)**	**0.0**	**19.5**
TOTAL NET VALUE	**114.9**	**1.2**	**(0.1)**	**(0.4)**	**115.6**

3.6.2 Property, plant and equipment

(in millions of euros)	31 Dec. 2013	Increase	Decrease	Other movements	31 Dec. 2014
Land	22.6	2.9	(4.1)	(0.9)	20.5
Other	44.5	4.5	(5.3)	(0.4)	43.4
Property, plant & equipment used in operations	67.1	7.4	(9.3)	(1.3)	63.9
Property, plant & equipment not used in operations	***0.0***	***0.0***	***0.0***	***1.0***	***1.0***
Gross	**67.1**	**7.4**	**(9.3)**	**(0.3)**	**64.9**
Land	13.8	0.7	(1.2)		13.2
Other	27.9	5.3	(3.9)	(0.6)	28.7
Property, plant & equipment used in operations	41.7	6.0	(5.2)	(0.6)	41.9
Property, plant & equipment not used in operations	0.0			0.6	0.6
Depreciation and impairment	**41.7**	**6.0**	**(5.2)**	**0.0**	**42.5**
TOTAL NET VALUE	**25.4**	**1.5**	**(4.2)**	**(0.3)**	**22.4**

3.7 Debt securities

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Certificates of deposit and savings bonds	0.2	0.3
Interbank market instruments and money market instruments	3,845.6	2,484.0
Bonds	0.0	10.0
Other debt securities	52.8	49.5
Accrued interest	5.2	3.5
TOTAL	**3,903.8**	**2,547.3**

The increase in this line item stemmed chiefly from the certificates of deposit issued during the period.

3.8 Other assets and other liabilities

	31 Dec. 2014		31 Dec. 2013	
(in millions of euros)	Assets	Liabilities	Assets	Liabilities
Tax and social security receivables and liabilities	0.2	14.6	0.4	13.9
Security deposits paid and received	162.3	0.4	38.5	13.6
Other non-trade receivables, other accounts payable	20.9	18.9	23.8	22.3
TOTAL	**183.4**	**34.0**	**62.8**	**49.8**

Guarantee deposits paid reflect the €153.7 million in cash collateral payments at 31 December 2014.

3.9 Accrual accounts

	31 Dec. 2014		31 Dec. 2013	
(in millions of euros)	Assets	Liabilities	Assets	Liabilities
Foreign exchange commitments	1.9	0.0	0.0	4.3
Deferred gains and losses on forwards, futures and options used for hedging purposes	0.1	2.9	0.0	0.0
Prepaid expenses and unearned income	1.5	3.1	2.7	4.0
Accrued income/expenses(1)	23.7	67.2	27.4	59.8
Items in process of collection	31.1	33.5	26.5	58.6
Other(2)	68.0	8.1	55.7	7.1
TOTAL	**126.4**	**114.8**	**112.3**	**133.9**

(1) Accrued expenses at 31 December 2014 included €26.9 million in payroll costs (paid leave, reduction in working hour allocations, work-time

management plans, payroll charges), €27.2 million in accrued interest on financial instruments (interest-rate swaps, caps, floors).

(2) The Other line item chiefly included loans that matured at the balance sheet date that have yet to be unwound.

3.10 Provisions

3.10.1 Changes in provisions

(in millions of euros)	31 Dec. 2013	Charges	Reversals	Uses	Carried forward	31 Dec. 2014
Provisions for counterparty risk	**23.7**	**7.5**	**(4.5)**	**(0.4)**	**0.0**	**26.3**
Provisions for employee benefit obligations	**14.6**	**0.4**	**0.0**	**0.0**	**0.3**	**15.3**
Provisions for PEL/CEL regulated accounts	**7.7**	**0.0**	**(3.9)**	**0.0**	**0.0**	**3.8**
Securities portfolio and forwards, futures and options	0.0	1.4	0.0	0.0	0.0	1.4
Provisions for taxes	0.3	0.0	0.0	0.0	0.0	0.3
Litigation	2.4	0.3	0.0	0.0	0.0	2.7
Provisions for contingencies	7.8	0.4	(1.1)	0.0	0.0	7.1
Other	1.9	1.2	0.0	0.0	0.0	3.1
Other provisions for contingencies	**12.5**	**3.3**	**(1.1)**	**0.0**	**0.0**	**14.7**
TOTAL	**58.5**	**11.2**	**(9.5)**	**(0.4)**	**0.3**	**60.1**

Groupe BPCE adjusted its valuation inputs for the CVA and DVA during 2014. These valuation adjustments are now measured using market inputs. These changes gave rise to a €1.4 million charge in respect of the CVA to Banque Palatine's income, which was recorded in "Securities portfolio and forwards, futures and options". The DVA is not recorded in the parent-company financial statements.

3.10.2 Provisions and impairment for counterparty risks

(in millions of euros)	31 Dec. 2013	Charges	Reversals	Uses	Translation	31 Dec. 2014
Impairment of loans and advances to customers	223.9	62.3	(26.2)	(16.4)	0.3	243.9
Impairment of other loans and advances	3.1					3.1
Impairment of assets	**227.0**	**62.3**	**(26.2)**	**(16.4)**	**0.3**	**247.0**
Provisions for off-balance sheet commitments(1)	7.0	7.5	(2.7)	(0.4)	0.0	11.5
Provisions for customer credit risk(2)	16.7		(1.9)			14.8
Provisions for counterparty risk recognised as liabilities	**23.7**	**7.5**	**(4.5)**	**(0.4)**	**0.0**	**26.3**
TOTAL	**250.6**	**69.8**	**(30.8)**	**(16.8)**	**0.3**	**273.2**

(1) Including provisions for performance risks related to commitments.

(2) A provision for contingencies is set aside for non-doubtful exposures, whether on- or off-balance sheet, where the available information points to a risk of default and loss at maturity.

3.10.3 Provisions for employee benefit obligations

Post-employment benefits related to defined-contribution plans

Defined-contribution plans refer to mandatory social security pension schemes as well as those managed by the AGIRC and ARRCO pension funds and the supplementary pension schemes to which the Caisses d'Epargne and the Banque Populaire banks belong. Banque Palatine's obligations under these schemes are confined to the payment of contributions (€11.3 million in 2014).

Post-employment benefits related to defined-benefit plans and long-term employee benefits

Banque Palatine's obligations in this regard relate to the following schemes:

- pensions and other post-employment benefits such as termination benefits and other benefits granted to retirees;
- other benefits such as long-service awards and other long-term employee benefits.

These commitments are computed in accordance with ANC recommendation no. 2013-R-02.

Analysis of assets and liabilities recorded on the balance sheet

(in millions of euros)	2014				2013			
	Post-employment benefits under defined-benefit plans		Other long-term benefits		Post-employment benefits under defined-benefit plans		Other long-term benefits	
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total
Actuarial liabilities	0.6	13.1	2.5	16.3	0.6	12.1	2.3	15.0
Unrecognised actuarial gains/(losses)	0.0	(0.9)	0.0	(0.9)	0.0	0.0	0.0	0.0
NET AMOUNT REPORTED ON THE BALANCE SHEET	**0.6**	**12.2**	**2.5**	**15.3**	**0.6**	**12.1**	**2.3**	**15.0**
Employee benefits, liabilities	0.6	12.2	2.5	15.3	0.6	12.1	2.3	15.0
Employee benefits, assets				0.0				0.0

Analysis of normalised expense for the period

(in millions of euros)	Post-employment benefits under defined-benefit plans		Other long-term benefits	2014	2013
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Total
Service cost	(0.1)	(0.7)	(0.2)	(1.0)	(0.8)
Interest cost	0.0	(0.3)	(0.1)	(0.4)	(0.4)
Benefits paid	0.1	0.9	0.2	1.2	1.1
Actuarial gains and losses	(0.1)	0.0	(0.2)	(0.2)	(0.6)
TOTAL EXPENSE FOR THE PERIOD	**(0.1)**	**(0.1)**	**(0.2)**	**(0.4)**	**(0.7)**

Main actuarial assumptions

	2014			2013		
	Post-employment benefits under defined-benefit plans		Other long-term benefits	Post-employment benefits under defined-benefit plans		Other long-term benefits
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Supplementary pension benefits and other	Termination benefits	Long-service awards
Discount rate	1.50%	1.50%	1.50%	2.60%	2.60%	2.60%
Inflation/wage growth rate	1.20%	1.20%	1.20%	2.00%	2.00%	2.00%

The discount rate of 1.50% was taken from the composite AA Bloomberg EUR curve for 10-year zero-coupon issues.

The mortality tables used are those prepared by INSEE for men and women in 2002 (TF00/02).

The retirement age was calculated for each employee based on the number of quarters needed to claim a full-rate basic pension and the assumption of a start-of-career age of 24 for managerial-grade and 21 for non-managerial employees.

These calculations also take into account the effects of the most recent pension reform – the increase in the contribution period equal to one quarter every three years from 2020, leading to a total contribution period of 43 years by 2035 (excluding the effect of the Fillon law of August 2003).

3.10.4 Provisions for PEL/CEL regulated products

Deposit account balances

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Deposits held in PEL regulated home savings plans		
• less than 4 years	85.5	65.4
• more than 4 years and less than 10 years	43.4	77.8
• more than 10 years	135.1	116.3
Deposits held in PEL regulated home savings plans	**264.0**	**259.5**
Deposits held in CEL regulated home savings accounts	**18.6**	**19.3**
TOTAL	**282.7**	**278.8**

Loans granted

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Loans granted		
• in respect of PEL regulated home savings plans	0.1	0.2
• in respect of CEL regulated home savings accounts	0.5	0.6
TOTAL	**0.6**	**0.8**

Provisions for commitments related to PEL and CEL regulated home savings plans and accounts

(in millions of euros)	31 Dec. 2013	Net charges/reversals	31 Dec. 2014
Provisions for PEL regulated home savings plans			
• less than 4 years		0.7	0.7
• more than 4 years and less than 10 years	0.2	0.1	0.3
• more than 10 years	7.2	(4.8)	2.5
Provisions set aside in respect of PEL regulated home savings plans	**7.5**	**(4.0)**	**3.5**
Provisions set aside in respect of CEL regulated home savings accounts	**0.2**	**0.1**	**0.3**
TOTAL	**7.7**	**(3.9)**	**3.8**

3.11 Subordinated debt

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Term subordinated debt	40.0	40.0
Perpetual subordinated debt	80.0	80.0
Accrued interest	0.5	0.6
TOTAL	**120.5**	**120.6**

These borrowings have the following characteristics:

Currency	Issue date	Outstanding amount at 31 Dec. 2014 (in millions of euros)	Issue price (in millions of euros)	Rate	Interest step-up in basis points[1]	Date of call or interest step-up	Mandatory payment	Maturity date if not determined
EUR	29 June 2005	15.0	15.0	3.90%			yes	18 February 2017
EUR	15 December 2005	25.0	25.0	3-month Euribor + 0.40%			yes	20 February 2016
EUR	28	15.0	15.0	3-month Euribor	1%	28 December	no[2]	

	December 2004			+ 1%		2014	
EUR	20 December 2005	65.0	65.0	3-month Euribor + 0.92%	1%	20 December 2015	no(2)
TOTAL		**120.0**	**120.0**				

(1) Above 3-month Euribor.

(2) contracts state the possibility of partial or full early repayment of these loans solely at the borrower's discretion and subject to the prior agreement of the French Banking Commission.

3.12 Fund for general banking risks

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Fund for general banking risk	1.3	1.3
TOTAL	**1.3**	**1.3**

3.13 Shareholders' equity

(in millions of euros)	Share capital	Share premium	Reserves/other	Retained earnings	Net income	Total equity excl. FGBR
Total at 31 December 2012	**538.8**	**56.7**	**35.3**	**61.3**	**46.0**	**738.1**
Movements in the year	0.0	0.0	2.2	23.8	(8.3)	17.8
Total at 31 December 2013	**538.8**	**56.7**	**37.5**	**85.1**	**37.7**	**755.9**
Impact of the change in accounting method(1)				(0.3)		(0.3)
Appropriation of 2013 income			1.9	16.4	(18.3)	0.0
Dividend payments					(19.4)	(19.4)
Net income for the period					53.5	53.5
TOTAL AT 31 DECEMBER 2014	**538.8**	**56.7**	**39.4**	**101.2**	**53.5**	**789.7**

(1) Since 1 January 2014, Banque Palatine has applied the provisions of ANC recommendation no. 2013-02 of 7 November 2013 on rules for measuring and recognising pension and similar benefits (Note 2.2).

3.14 Residual maturity of loans and borrowings

Sources and uses of funds with pre-set due dates are presented by residual maturity and include accrued interest.

	31 Dec. 2014						
(in millions of euros)	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No fixed maturity	Total
Treasury bills and similar securities	2.3	6.4	47.6	1,004.7			1,061.0
Loans and advances due from credit institutions	1,454.4	414.5	1,806.2	1,327.7	660.5		5,663.2
Transactions with customers	1,050.1	475.6	729.4	2,853.1	2,056.0	301.4	7,465.5
Bonds and other fixed-income securities	24.4	23.8	19.4	370.1	202.9		640.6
Total uses of funds	**2,531.2**	**920.3**	**2,602.6**	**5,555.6**	**2,919.3**	**301.4**	**14,830.3**
Amounts due to credit institutions	493.7	159.8	260.2	1,482.9	51.6		2,448.1
Transactions with customers	6,746.3	455.7	501.9	425.1	6.9		8,135.8
Debt securities	503.2	1,741.0	1,589.2	14.0	56.4		3,903.8
Subordinated debt	0.5	0.0	0.0	40.0	0.0	80.0	120.5
Total sources of funds	**7,743.7**	**2,356.5**	**2,351.3**	**1,962.0**	**114.8**	**80.0**	**14,608.3**

Note 4 Off-balance sheet items and similar transactions

4.1 Commitments given and received

4.1.1 Financing commitments

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Financing commitments given		
To credit institutions	1,100.0	0.0
Documentary credits	115.3	131.6
Other confirmed credit lines	1,313.0	1,462.0
Other commitments	42.1	32.8
To customers	1,470.4	1,626.3
TOTAL FINANCING COMMITMENTS GIVEN	**2,570.4**	**1,626.3**
Financing commitments received		
From credit institutions	613.2	1,196.7
TOTAL FINANCING COMMITMENTS RECEIVED	**613.2**	**1,196.7**

4.1.2 Guarantee commitments

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Guarantee commitments given		
• Confirmed documentary credit lines	75.1	54.6
• Other guarantees	10.6	12.2
To credit institutions	**85.6**	**66.8**
• Real estate guarantees	120.6	105.1
• Government and tax guarantees	73.5	86.3
• Other guarantees given	831.5	877.1
To customers	**1,025.6**	**1,068.6**
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,111.2**	**1,135.4**
Guarantee commitments received from credit institutions	386.5	474.9
TOTAL GUARANTEE COMMITMENTS RECEIVED	**386.5**	**474.9**

4.1.3 Other commitments not recognised off-balance sheet

	31 Dec. 2014		31 Dec. 2013	
(in millions of euros)	Commitments given	Commitments received	Commitments given	Commitments received
Other securities pledged as collateral to credit institutions	613.2	0.0	1,318.3	0.0
Other securities pledged as collateral received from customers	0.0	4,656.1	0.0	4,539.5
TOTAL	**613.2**	**4,656.1**	**1,318.3**	**4,539.5**

At 31 December 2014, receivables pledged as collateral under funding arrangements included €550.3 million in securities and loans provided to the Banque de France as part of the TRICP system, compared with €945.8 million at 31 December 2013.

No other major commitments were given by Banque Palatine as collateral for its own commitments or for those of third parties.

Moreover, Banque Palatine has not received a significant amount of assets as collateral.

4.2 Forwards, futures and options transactions

4.2.1 Financial instruments and currency futures and options

(in millions of euros)	31 Dec. 2014 Hedge	Fair value	31 Dec. 2013 Hedge	Fair value
Forwards and futures				
Interest rate contracts	2.5		3.6	0.0
Currency contracts	2.6	0.0	0.0	0.0
Transactions in organised markets	**5.1**		**3.6**	**0.0**
Interest rate swaps	3,382.9	5.0	4,478.0	5.0
Currency swaps	5,423.0	0.0	1,294.5	0.0
Other forward and futures	29.2	0.0	29.2	0.0
Over-the-counter transactions	**8,835.2**	**5.0**	**5,801.7**	**5.0**
TOTAL FORWARDS AND FUTURES	**8,840.3**	**5.0**	**5,805.3**	**5.0**
Options				
Other options	32.2	0.0	0.0	0.0
Transactions in organised markets	**32.2**	**0.0**	**0.0**	**0.0**
Interest rate options	1,818.5	0.5	1,917.9	0.3
Currency options	1,663.5	0.0	1,069.9	1.8
Over-the-counter transactions	**3,482.0**	**0.5**	**2,987.8**	**2.1**
TOTAL OPTIONS	**3,514.2**	**0.5**	**2,987.8**	**2.1**
TOTAL FINANCIAL INSTRUMENTS AND CURRENCY FUTURES AND OPTIONS	**12,354.5**	**5.5**	**8,793.0**	**7.1**

The notional amounts of contracts listed in this table are solely intended to provide an indication of the volume of Banque Palatine's activities involving financial instruments at the balance sheet date and do not reflect the market risk associated with these instruments.

Commitments on interest rate instruments traded over the counter mainly consisted of interest rate swaps and FRAs for futures and forwards, and interest rate guarantees for options.

Commitments on foreign exchange instruments traded over the counter mainly consisted of currency swaps.

4.2.2 Breakdown of over-the-counter interest rate instruments by type of portfolio

(in millions of euros)	31 Dec. 2014 Micro-hedge	Macro-hedge	Total	31 Dec. 2013 Micro-hedge	Macro-hedge	Total
Forward rate agreements (FRA)						
Interest rate swaps	5,986.4	1,010.1	6,996.5	3,461.3	1,020.2	4,481.5
Currency swaps	1,814.6		1,814.6	1,294.5		1,294.5
Other interest rate forwards	29.2		29.2	29.2		29.2
Forwards and futures	**7,830.2**	**1,010.1**	**8,840.3**	**4,785.1**	**1,020.2**	**5,805.3**
Interest rate options	3,514.2		3,514.2	2,987.8		2,987.8
Options	**3,514.2**	**0.0**	**3,514.2**	**2,987.8**	**0.0**	**2,987.8**
TOTAL	**11,344.5**	**1,010.1**	**12,354.5**	**7,772.8**	**1,020.2**	**8,793.0**

No transactions were transferred to another portfolio during the period.

(in millions of euros)	31 Dec. 2014 Micro-hedge	Macro-hedge	Total	31 Dec. 2013 Micro-hedge	Macro-hedge	Total
Fair value	5.5	0.0	5.5	5.3	0.0	5.3

4.2.3 Commitments on forwards, futures and options by maturity

(in millions of euros)	31 Dec. 2014 Less than 1 year	1 to 5 years	Over 5 years	Total
Transactions in organised markets	4.9	0.3		5.1
Over-the-counter transactions	3,281.8	4,514.0	29.2	7,825.0
Forwards and futures	**3,286.7**	**4,514.3**	**29.2**	**7,830.2**

Transactions in organised markets	0.0	0.0		0.0
Over-the-counter transactions	1,374.9	2,093.0	46.3	3,514.2
Options	**1,374.9**	**2,093.0**	**46.3**	**3,514.2**
TOTAL	**4,661.5**	**6,607.3**	**75.6**	**11,344.4**

4.3 Breakdown of assets and liabilities by currency

	31 Dec. 2014		31 Dec. 2013	
(in millions of euros)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Euro	15,221.5	15,214.7	13,363.1	13,301.0
Dollar	350.5	311.0	200.9	271.8
Pound sterling	24.0	71.3	13.4	8.6
Swiss franc	2.8	1.5	5.0	1.0
Yen	1.6	1.1	2.3	0.7
Other	7.9	8.5	1.8	3.4
TOTAL	**15,608.2**	**15,608.2**	**13,586.5**	**13,586.5**

4.4 Foreign currency transactions

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Spot foreign exchange transactions		
Currencies receivable not received	38.4	119.7
Currencies deliverable not delivered	38.4	119.6
TOTAL	**76.8**	**239.3**

Note 5 Information on the income statement

5.1 Interest and similar income and expense

	2014			2013		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Transactions with credit institutions	72.9	(34.8)	38.2	79.7	(38.4)	41.3
Transactions with customers	220.2	(69.0)	151.2	212.7	(73.8)	138.9
Bonds and other fixed-income securities	63.5	(45.8)	17.7	41.1	(20.6)	20.5
Subordinated debt	0.0	(1.7)	(1.7)	0.0	(1.7)	(1.7)
Other	15.3	(1.8)	13.5	15.7	(2.9)	12.7
TOTAL	**372.0**	**(153.0)**	**219.0**	**349.1**	**(137.5)**	**211.7**

Interest income from transactions with credit institutions include income from the Livret A, LDD and LEP passbook savings accounts, which are deposited centrally with Caisse des Dépôts et Consignations.

In 2014, €3.9 million in provisions for the regulated home savings accounts and plans were reversed, compared with a charge of €0.3 million in 2013.

5.2 Leasing income and expense

Banque Palatine does not enter into any leasing transactions.

5.3 Income from variable-income securities

(in millions of euros)	2014	2013
Investments in subsidiaries and long-term equity investments	0.1	0.2

Investments in associates	9.4	8.6
TOTAL	**9.4**	**8.9**

Including €8.3 million in dividends received from its Palatine Asset Management subsidiary.

5.4 Fees and commission

	2014			2013		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Cash and interbank transactions	0.0	(0.1)	(0.1)	0.0	(0.3)	(0.3)
Transactions with customers	36.8	(0.3)	36.5	35.9	(0.2)	35.7
Securities transactions	6.7	0.0	6.7	9.0	(2.5)	6.6
Payment services	8.8	(4.6)	4.2	9.3	(5.1)	4.2
Financial services	12.2	0.0	12.2	11.5	(0.0)	11.5
Other fee and commission income(1)	2.5	0.0	2.5	2.2	0.0	2.2
TOTAL	**67.0**	**(5.1)**	**61.9**	**67.9**	**(8.1)**	**59.8**

(1) This consists of financial engineering fees.

5.5 Net gains or losses on trading book transactions

(in millions of euros)	2014	2013
Foreign exchange transactions	3.8	3.8
Forwards, futures and options	4.1	2.5
TOTAL	**7.9**	**6.3**

5.6 Net gains or losses on available-for-sale securities and similar items

	2014	2013
(in millions of euros)	**Available-for-sale securities**	**Available-for-sale securities**
Impairment		
Charges	(0.2)	0.0
Reversals	0.1	1.8
Net gain/(loss) on disposal	0.9	0.7
TOTAL	**0.8**	**2.5**

5.7 Other banking income and expense

			2014			2013
(in millions of euros)	**Income**	**Expense**	**Total**	**Income**	**Expense**	**Total**
Rebilling of banking income and expense	1.4	0.0	1.4	1.5	0.0	1.5
Miscellaneous other activities	1.6	(2.6)	(1.1)	0.3	(1.4)	(1.1)
TOTAL	**2.9**	**(2.6)**	**0.3**	**1.8**	**(1.4)**	**0.3**

5.8 Operating expenses

(in millions of euros)	2014	2013
Wages and salaries	(63.5)	(62.1)
Pension costs and similar obligations	(7.1)	(6.5)
Other social security charges	(25.5)	(24.6)
Employee incentive scheme	(5.5)	(3.6)

Employee profit-sharing scheme	(0.6)	(0.4)
Payroll taxes	(11.5)	(9.9)
TOTAL SALARY AND EMPLOYEE BENEFIT EXPENSE	**(113.8)**	**(107.1)**
Taxes other than on income	(7.7)	(7.3)
Other operating expenses	(49.0)	(49.5)
TOTAL OTHER OPERATING EXPENSES	**(56.7)**	**(56.8)**
TOTAL	**(170.4)**	**(163.8)**

The average headcount during the year, broken down by professional category, was as follows: 770 managers and 423 non-managers, representing a total of 1,193 persons.

The employment and competitiveness tax credit (CICE), which amounted to €1.1 million, was deducted from payroll costs.

The use made of this tax credit is presented in the "Social, environmental and societal information" section of the registration document.

5.9 Cost of risk

	2014					**2013**				
(in millions of euros)	**Charges**	**Reversals and uses of funds**	**Losses**	**Recoveries of bad debts written off**	**Total**	**Charges**	**Reversals and uses of funds**	**Losses**	**Recoveries of bad debts written off**	**Total**
Impairment of assets										
Customers	(62.3)	26.2	(5.1)	1.9	(39.3)	(72.3)	26.7	(13.5)	1.6	(57.5)
Securities portfolio and other receivables						(1.1)				(1.1)
Provisions										
Off-balance sheet commitments	(7.5)	2.7		0.0	(4.8)	(4.7)	1.3			(3.4)
Provisions for customer credit risks	(0.3)	2.6	0.0		2.3	(2.1)	4.4			2.2
TOTAL	**(70.1)**	**31.5**	**(5.1)**	**1.9**	**(41.9)**	**(80.2)**	**32.4**	**(13.5)**	**1.6**	**(59.7)**
o/w:										
• reversals of obsolete impairment charges		*26.2*					*26.7*			
• reversals of impairment losses used		*16.4*					*9.6*			
• reversals of obsolete provisions		*5.2*					*5.7*			
• reversals of provisions used		*0.4*					*1.5*			
• losses covered by provisions		*(16.8)*					*(11.1)*			
Net reversals		*31.5*					*32.4*			

5.10 Gains or losses on long-term investments

	2014	2013
(in millions of euros)	**Investments in subsidiaries and other long-term equity investments**	**Investments in subsidiaries and other long-term equity investments**
Impairment		
Charges	(0.9)	0.0
Reversals	0.1	0.4
Net gain/(loss) on disposal	0.0	1.3
TOTAL	**(0.8)**	**1.6**

The consolidated investment in Ariès was written down by €0.9 million during the year.

5.11 Non-recurring items

No non-recurring items were recorded in 2014.

5.12 Income tax

5.12.1 Breakdown of income tax in 2014

Banque Palatine is a member of the consolidated tax group set up by BPCE. It also heads the consolidated tax sub-group formed of its subsidiaries Palatine Asset Management (PAM), Ariès Assurances, Société Immobilière d'Investissement (SII) and Société Foncière d'Investissement (SFI).

Income tax paid to the head company of the group, which can be broken into income before non-recurring items and non-recurring items, can be analysed as follows:

(in millions of euros)	2014
Tax bases at rates of	**33.33%**
Tax on income before non-recurring items	55.1
Tax bases	**55.1**
Corresponding tax expense	18.4
+ 3.3% contributions	0.6
+ 10.7% surcharge (amended French finance act 2014)	2.0
Tax expense reported	**20.9**
Provisions for taxes	1.0
TOTAL	**21.9**

5.12.2 Breakdown of 2014 taxable income – reconciliation from book to taxable income

(in millions of euros)	2014	2013
Net income per the financial statements (A)	**53.5**	**37.7**
Corporate tax (B)	**21.9**	**18.7**
Add-backs (C)	**13.9**	**21.5**
Impairment losses on property, plant and equipment and intangible assets	0.9	0.0
Other impairment losses and provisions	12.7	10.0
Other	0.3	11.5
Deductions (D)	**34.2**	**29.2**
Long-term capital gains exempt from tax	0.0	0.3
Reversals of impairment losses and provisions	24.1	11.0
Dividend payments	8.9	8.2
Other	1.2	9.7
Tax base at standard rate (A)+(B)+(C)-(D)	**55.1**	**48.7**

This table analyses Banque Palatine's individual taxable income.

Note 6 Other information

6.1 Consolidation

Pursuant to Article 4111-1 of ANC regulation no. 2014-07, and in accordance with Article 1 of CRC regulation no. 99-07, Banque Palatine prepares its consolidated financial statements in line with international accounting standards.

Its individual financial statements are included in the consolidated financial statements of Groupe BPCE.

6.2 Remuneration, advances, loans and commitments

Total remuneration paid in 2014 to members of the management bodies came to €1.5 million.

The management bodies have not received any advances or loans from Banque Palatine.

6.3 Statutory auditors' fees

(in thousands of euros)	Total				PricewaterhouseCoopers Audit				KPMG			
	2014		2013		2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
AUDIT												
Statutory audit, review of the parent-company and consolidated financial statements	373	91%	383	89%	181	99%	187	96%	192	85%	196	83%
Other procedures and services directly linked to the Statutory Auditors' duties	35	9%	49	11%	2	1%	8	4%	33	15%	41	17%
TOTAL	**408**	**100%**	**432**	**100%**	**183**	**100%**	**195**	**100%**	**225**	**0%**	**237**	**100%**
Change (%)				(6%)				(6%)				(5%)

6.4 Operations in non-cooperative countries

Article L. 511-45-I of the French Monetary and Financial Code and the decree of 6 October 2009 issued by the French minister of the economy require credit institutions to disclose in the notes to their annual financial statements information about their presence and activities in countries and territories that have not entered into an administrative assistance agreement with France for the exchange of information to combat tax fraud and tax evasion.

These obligations fit within the broader scope of global action against uncooperative tax havens, which were defined at OECD meetings and summits, and are also intended to prevent money laundering and terrorism financing.

Since its foundation, Groupe BPCE has adopted a prudent approach. It ensures that entities belonging to its networks are regularly informed of updates to the OECD list of territories that are considered as uncooperative as regards the effective exchange of information for tax purposes as well as about the potential consequences of maintaining operations in uncooperative territories. In addition, lists of non-cooperative territories were added in part to the ERP systems used in the fight against money laundering with a view to ensuring appropriate level of vigilance for transactions with non-cooperative countries and territories (implementation of decree no. 2009-874 of 16 July 2009). An inventory of the group's locations and activities in uncooperative territories was drawn up by the central body to keep management bodies informed.

This statement is based on the list of countries named in the 21 August 2013 decree, made in application of Article 238-0-A of the French Tax Code.

At 31 December 2014, Banque Palatine had no offices or activities in uncooperative tax havens.

3 IFRS consolidated financial statements of the Palatine group at 31 December 2014

3.1 Consolidated balance sheet

Assets

(in millions of euros)	Notes	31 Dec. 2014	31 Dec. 2013
Cash, central banks	5.1	313.9	35.0
Financial assets at fair value through profit or loss	5.2.1	67.7	39.0
Hedging derivatives	5.3	11.7	11.5
Available-for-sale financial assets	5.4	1,444.9	425.9
Loans and advances due from credit institutions	5.6.1	5,675.7	5,338.9
Loans and advances due from customers	5.6.2	7,748.9	7,321.4
Held-to-maturity investments	5.7	92.7	175.0
Current tax assets		0.0	0.3
Deferred tax assets	5.9	17.5	21.3
Accrued income and other assets	5.10	298.8	161.1
Investments in associates	5.11	4.4	4.7
Investment property	5.12	0.4	0.0
Property, plant and equipment	5.13	20.5	23.9
Intangible assets	5.13	20.9	20.3
Goodwill	5.14	3.8	4.1
TOTAL ASSETS		**15,721.8**	**13,582.4**

The first-time adoption of IFRS 10 and IFRS 11 had no impact on the Palatine Group's scope of consolidation and thus on the comparative figures for 2013 (see Note 2.3 – First-time adoption of IFRS 10, IFRS 11 and IFRS 12).

Equity and liabilities

(in millions of euros)	Notes	31 Dec. 2014	31 Dec. 2013
Financial liabilities at fair value through profit or loss	5.2.2	61.9	33.5
Hedging derivatives	5.3	146.3	50.0
Amounts due to credit institutions	5.15.1	2,452.3	2,089.7
Amounts due to customers	5.15.2	8,141.9	7,834.3
Debt securities	5.16	3,903.0	2,547.3
Current tax liabilities		0.6	2.1
Deferred tax liabilities	5.9	1.9	1.9
Accrued expenses and other liabilities	5.17	107.1	151.0
Provisions	5.18	45.5	42.9
Subordinated debt	5.19	40.5	40.5
Equity		**820.8**	**789.2**
Equity attributable to equity holders of the parent		**820.8**	**789.2**
Share capital and share premium		595.5	595.5
Retained earnings		172.2	153.8
Gains and losses recognised directly in equity		0.3	1.0
Net income for the period		52.7	38.9
Non-controlling interests (minority interests)		**0.0**	**0.0**
TOTAL EQUITY AND LIABILITIES		**15,721.8**	**13,582.4**

The first-time adoption of IFRS 10 and IFRS 11 had no impact on the Palatine Group's scope of consolidation and thus on the comparative figures for 2013 (see Note 2.3 – First-time adoption of IFRS 10, IFRS 11 and IFRS 12).

3.2 Consolidated income statement

(in millions of euros)	Notes	2014	2013
Interest and similar income	6.1	373.8	351.0
Interest and similar expenses	6.1	(150.0)	(135.7)
Fee and commission income	6.2	97.9	97.3
Fee and commission expenses	6.2	(12.0)	(14.7)
Net gains or losses on financial instruments at fair value through profit or loss	6.3	8.9	9.1
Net gains or losses on available-for-sale financial assets	6.4	1.1	2.2
Income from other activities	6.5	1.9	0.7
Expenses from other activities	6.5	(3.4)	(2.2)
NET BANKING INCOME		**318.2**	**307.7**
Operating expenses	6.6	(177.5)	(172.1)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		(10.8)	(11.2)
GROSS OPERATING INCOME		**129.9**	**124.4**
Cost of risk	6.7	(46.6)	(63.0)
OPERATING INCOME		**83.3**	**61.4**
Share in net income of associates	6.8	0.5	0.3
Change in value of goodwill	6.9	(0.3)	0.0
INCOME BEFORE TAX		**83.5**	**61.7**
Income tax	6.10	(30.8)	(22.8)
NET INCOME		**52.7**	**38.9**
Non-controlling interests (minority interests)		0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**52.7**	**38.9**

The first-time adoption of IFRS 10 and IFRS 11 had no impact on the Palatine Group's scope of consolidation and thus on the comparative figures for 2013 (see Note 2.3 – First-time adoption of IFRS 10, IFRS 11 and IFRS 12).

3.3 Net gains and losses recognised directly in equity

(in millions of euros)	**2014**	**2013**
NET INCOME	**52.7**	**38.9**
Remeasurement gains and losses on defined-benefit plans	(1.5)	0.1
Tax impact of remeasurement gains and losses on defined-benefit plans	0.5	0.0
ITEMS THAT CANNOT BE RECLASSIFIED IN INCOME	**(1.0)**	**0.1**
Change in the value of available-for-sale financial assets	1.1	(2.3)
Changes in the value of hedging derivatives	(0.6)	0.2
Income taxes	(0.2)	0.8
ITEMS THAT CAN BE RECLASSIFIED IN INCOME	**0.3**	**(1.3)**
GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY (NET OF TAX)	**(0.7)**	**(1.2)**
NET INCOME AND GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY	**52.0**	**37.7**
Attributable to equity holders of the parent	52.0	37.7
Non-controlling interests (minority interests)	0.0	0.0

The first-time adoption of IFRS 10 and IFRS 11 had no impact on the Palatine Group's scope of consolidation and thus on the comparative figures for 2013 (see Note 2.3 – First-time adoption of IFRS 10, IFRS 11 and IFRS 12).

3.4 Statement of changes in equity

	Share capital and share premium				Gains and losses recognised directly in equity								
							Change in fair value of financial instruments						
(in millions of euros)	Share capital	Share premium	Retained earnings	Perpetual deeply subordinated notes	Retained earnings	Translation differences	Available-for-sale financial assets	Hedging derivatives	Remeasurement gains and losses on employee benefits	Net income attributable to equity holders of the parent	Total equity attributable to equity holders of the parent	Equity attributable to non-controlling interests (minority interests)	Total consolidated equity
EQUITY AT 1 JAN. 2013	**538.8**	**56.7**	**141.8**	**80.0**	**(47.6)**	**(0.1)**	**2.5**	**(0.1)**	**0.1**	**0.0**	**772.1**	**0.0**	**772.1**
Dividend payments			(19.9)								(19.9)		(19.9)
Interest on deeply subordinated notes					(0.6)						(0.6)		(0.6)
Gains and losses recognised directly in equity							(1.5)	0.1			(1.4)		(1.4)
Income										38.9	38.9		38.9
Other changes					0.1						0.1		0.1
EQUITY AT 31 DEC. 2013	**538.8**	**56.7**	**121.9**	**80.0**	**(48.1)**	**(0.1)**	**1.0**	**0.0**	**0.1**	**38.9**	**789.2**	**0.0**	**789.2**
Appropriation of 2013 net income			37.7		1.2					(38.9)	0.0		0.0
EQUITY AT 1 JAN. 2014	**538.8**	**56.7**	**159.6**	**80.0**	**(46.9)**	**(0.1)**	**1.0**	**0.0**	**0.1**	**0.0**	**789.2**	**0.0**	**789.2**
Dividend payments			(19.4)								(19.4)		(19.4)
Interest on deeply subordinated notes					(0.5)						(0.5)		(0.5)
Gains and losses recognised directly in equity							0.7	(0.4)	(1.0)		(0.7)		(0.7)
Income										52.7	52.7		52.7
Other changes			0.4		(0.9)						(0.5)		(0.5)
EQUITY AT 31 DEC. 2014	**538.8**	**56.7**	**140.6**	**80.0**	**(48.3)**	**(0.1)**	**1.7**	**(0.4)**	**(0.9)**	**52.7**	**820.8**	**0.0**	**820.8**

3.5 Cash flow statement

(in millions of euros)	**2014**	**2013**
Income before tax	**82.9**	**61.7**
Net depreciation and amortisation of property, plant and equipment, and intangible assets	10.8	11.2
Goodwill impairment	0.6	0.0
Net charge to provisions and impairment losses	19.4	37.5
Share in net income of associates	0.2	(0.0)
Net gains/losses on investing activities	(4.0)	(6.7)
Other movements	(131.4)	73.1
Total non-cash items included in net income before tax	**(104.4)**	**115.1**
Net increase or decrease arising from transactions with credit institutions	738.3	(1,185.0)
Net increase or decrease arising from transactions with customers	(139.8)	628.1
Net increase or decrease arising from transactions affecting financial assets and liabilities	515.4	(123.0)
Net increase or decrease arising from transactions affecting non-financial assets and liabilities	(134.2)	31.5
Tax paid	(28.0)	(15.5)
Net increase or decrease in assets and liabilities generated by operating activities	**951.7**	**(663.9)**
NET CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A)	**930.2**	**(487.1)**
Net increase or decrease related to financial assets and investments	85.1	(32.4)
Net increase or decrease related to property, plant and equipment, and intangible assets	(8.4)	(7.1)
NET CASH FLOWS GENERATED BY INVESTING ACTIVITIES (B)	**76.6**	**(39.5)**
Net increase or decrease arising from transactions with shareholders[1]	(19.4)	(19.9)
NET CASH FLOWS GENERATED BY FINANCING ACTIVITIES (C)	**(19.4)**	**(19.9)**
EFFECT OF EXCHANGE RATE FLUCTUATIONS ON EXCHANGE RATES (D)	**0.0**	**0.0**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**987.4**	**(546.5)**
Cash and net balance of accounts with central banks	35.0	455.6
Cash and net balance of accounts with central banks (assets)	*35.0*	*455.6*
Net balance of demand transactions with credit institutions	(313.8)	(188.0)
Current accounts with overdrafts[2]	*42.4*	*46.8*
Demand accounts and loans	*43.6*	*28.2*
Demand accounts in credit	*(399.9)*	*(263.0)*
Opening cash and cash equivalents	**(278.9)**	**267.6**
Cash and net balance of accounts with central banks	313.9	35.0
Cash and net balance of accounts with central banks (assets)	*313.9*	*35.0*
Net balance of demand transactions with credit institutions	394.6	(313.8)
Current accounts with overdrafts[2]	*55.2*	*42.4*
Demand accounts and loans	*680.7*	*43.6*
Demand accounts in credit	*(341.3)*	*(399.9)*
Closing cash and cash equivalents	**708.5**	**(278.9)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**987.4**	**(546.5)**

(1) Cash flows from or to the shareholders mainly include dividend payouts.

(2) Current accounts with overdrafts do not include Livret A, LDD and LEP savings accounts centralised with the Caisse des Dépôts et Consignations.

The first-time adoption of IFRS 10 and IFRS 11 had no impact on the Palatine Group's scope of consolidation and thus on the comparative figures for 2013 (see Note 2.3 – First-time adoption of IFRS 10, IFRS 11 and IFRS 12).

4 Notes to the consolidated financial statements of the Palatine Group

Note 1 General background

1.1 Groupe BPCE and Banque Palatine

Groupe BPCE comprises the Banque Populaire network, the Caisse d'Epargne network, the BPCE central body and its subsidiaries.

Two banking networks – the Banque Populaire banks and the Caisses d'Epargne

Groupe BPCE is a cooperative group, and its members own two local retail banking networks – the 18 Banque Populaire banks and the 17 Caisses d'Epargne. Each of the two networks owns an equal share in BPCE, the Group's central body.

The Banque Populaire network consists of the Banque Populaire banks and the mutual guarantee companies granting them the exclusive benefit of their guarantees.

The Caisse d'Epargne network consists of the Caisses d'Epargne and the local savings companies (LSCs).

The Banque Populaire banks are wholly-owned by their cooperative members.

The share capital of the Caisses d'Epargne is wholly-owned by the local savings companies. Local savings companies are cooperative entities with open-ended share capital owned by cooperative members. They are tasked with coordinating the cooperative membership, in line with the general objectives laid down for the individual Caisse d'Epargne with which they are affiliated, and they cannot perform banking transactions.

BPCE

BPCE, a central body as defined by French banking law and a credit institution licensed to operate as a bank, was created pursuant to law no. 2009-715 of 18 June 2009. BPCE was incorporated as a French société anonyme with a management board and a supervisory board. Its share capital is owned jointly and equally by the 18 Banque Populaire banks and the 17 Caisses d'Epargne.

In its role, BPCE has to abide at all times by the cooperative principles of the Banque Populaire banks and the Caisses d'Epargne.

Specifically, BPCE represents the interests of its various affiliates in dealings with the supervisory authorities, determines the range of products and services offered by them, takes steps to ensure depositor protection, approves appointments of senior executives and oversees the smooth operation of the Group's institutions.

As a holding company, BPCE acts the ultimate controlling party of the Group and holds the joint ventures between the two networks in retail banking, corporate banking and financial services, and their production units. It defines the Group's corporate strategy and growth and expansion policies.

BPCE's main subsidiaries are organised around three major segments:

- Natixis, a 71.51%-owned listed company that encompasses Wholesale Banking, Investment Solutions and Specialised Financial Services;
- Commercial Banking and Insurance (including Crédit Foncier, Banque Palatine and BPCE International et Outre-mer);
- subsidiaries and equity interests.

In parallel, BPCE is responsible for centralised management of surplus funds, for the execution of any financial transactions required to develop and fund the Group, and for choosing the most appropriate counterparty for these transactions in the broader interests of the Group as part of its general oversight of financial activities. BPCE also provides banking services to the other Group entities.

Banque Palatine

Banque Palatine is a société anonyme (French limited liability corporation) with a board of directors, wholly owned by the BPCE central body. Its head office is at 42 rue d'Anjou 75008 Paris (France).

Its main subsidiaries and affiliates are active in two segments:

- financial services and asset management;
- insurance.

1.2 Guarantee mechanism

In accordance with Article L. 512-107-6 of the French Monetary and Financial Code, the guarantee and solidarity mechanism aims to safeguard the liquidity and capital adequacy of the Group and its affiliates, and to organise financial support within the Banque Populaire and Caisse d'Epargne networks.

BPCE is tasked with taking all the requisite measures to guarantee the capital adequacy of the Group and each of the networks. This includes implementing the appropriate internal financing mechanisms within the Group and establishing a mutual guarantee fund common to both networks, for which it determines the operating rules, the conditions for the provision of financial support to the existing funds of the two networks, as well as the contributions of affiliates to the fund's initial capital endowment and its reconstitution.

BPCE manages the Banque Populaire Network Fund and the Caisse d'Epargne Network Fund and sets up the Mutual Guarantee Fund.

The **Banque Populaire Network Fund** was endowed with a €450 million deposit by the Banks that was recorded by BPCE as a 10-year term account renewable in perpetuity.

The **Caisse d'Épargne Network Fund** consists of a €450 million deposit made by the Banks that was recorded by BPCE as a 10-year term account renewable in perpetuity.

The **Mutual Guarantee Fund** was formed through deposits made by the Banque Populaire banks and the Caisses d'Epargne. These deposits were booked by BPCE in the form of 10-year term accounts renewable in perpetuity. The deposits by network amounted to €180.2 million at 31 December 2014, and the fund will be topped up each year by an amount equivalent to 5% of the contributions made by the Banque Populaire banks, the Caisses d'Epargne, and their subsidiaries to the Group's consolidated income.

The total amount of deposits made with BPCE in the Banque Populaire Network Fund, the Caisse d'Epargne Network Fund and the Mutual Guarantee Fund may be no lower than 0.15% and may not exceed 0.3% of the Group's total risk-weighted assets.

When deposits are recorded in the institutions' individual accounts under the guarantee and solidarity system, an item of an equivalent amount is recorded under a dedicated capital heading.

BPCE's management board holds all the requisite powers to use the financial resources of the various contributors immediately and in the agreed order pursuant to prior authorisations given to BPCE by the contributors.

1.3 Significant events

The Palatine Group made two changes in estimates during 2014:

- one concerning the assessment of counterparty risk (or CVA – Credit Valuation Adjustment) and the risk of non-performance (or DVA – Debit Valuation Adjustment) for derivatives (see Notes 4.1.5 – Fair value measurement and 6.3 – Net gains or losses on financial instruments at fair value through profit or loss);
- the other concerning the parameter used to calculate discounting effects on amounts due from customers (see Note 5.6.2 – Amounts due from customers).

1.4 Post-balance sheet events

No events liable to have a material effect on the 2014 financial statements occurred after the reporting date.

Note 2 Applicable accounting standards and comparability

2.1 Regulatory framework

In accordance with EC regulation no. 1606/2002 of 19 July 2002 on the application of international accounting standards, the Palatine Group prepared its consolidated financial statements for the financial year ended 31 December 2014 under International Financial Reporting Standards (IFRS) as adopted for use by the European Union and applicable at that date, thereby excluding certain provisions of IAS 39 relating to hedge accounting[1].

2.2 Standards

The standards and interpretations used and outlined in the annual financial statements at 31 December 2014 were complemented by standards, amendments and interpretations, application of which is mandatory for reporting periods starting on or after 1 January 2014, and, more specifically:

- new consolidation standards IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”.

  On 11 December 2012, the European Commission adopted EU regulation no. 1254/2012 on IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities” and on 4 April 2013 it adopted EU regulation no. 313/2013 concerning the transition measures applicable to these new standards. In terms of disclosures for unconsolidated structured entities, the amendments remove the obligation to present comparative data for periods preceding that in which IFRS 12 was applied for the first time.

  IFRS 10 and IFRS 11 have been applied retrospectively. Since the first-time adoption of these standards did not have any impact on Group’s scope of consolidation, the financial information has not been restated.

  The impact of the first-time adoption of IFRS 10 and IFRS 11 on the financial statements at 31 December 2013 is presented in Note 2.3 – First-time adoption of IFRS 10, IFRS 11 and IFRS 12.

  As a result of these new standards, on 11 December 2012 the European Commission adopted the amendment to EC regulation no. 1126/2008 concerning IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”.

  IFRS 12 aims to promote enhanced disclosures concerning subsidiaries, joint arrangements, associates and structured entities. The application of IFRS 12 in the financial statements for the year ended 31 December 2014 led to enhanced disclosure of the Group’s interests in unconsolidated structured entities and other entities. The main enhancements are presented in Note 2.3 – First-time adoption of IFRS 10, IFRS 11 and IFRS 12.

  The European Commission also adopted on 20 November 2013 regulation no. 1174/2013 concerning amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and the revised IAS 27 “Separate Financial Statements”;

- amendment to IAS 32 “Presentation – Offsetting Financial Assets and Financial Liabilities”.

  On 13 December 2012, the European Commission adopted EU regulation no. 1256/2012, amending EC regulation no. 1126/2008 and in particular adopting amendments to IAS 32. These amendments applicable retrospectively from 1 January 2014 clarify the rules governing the disclosure conditions for offsetting financial assets and liabilities on the balance sheet.

  These clarifications in particular cover the concepts of the “legally enforceable right to offset” and “simultaneous settlement”.

- amendment to IAS 39 and IFRS 9 “Novation of Derivatives and Continuation of Hedge Accounting”.

  On 19 December 2013, the European Commission adopted EU regulation no. 1375/2013, amending EC regulation no. 1126/2008 and in particular adopting amendments to IAS 39. These amendments, applicable from 1 January 2014, permit in exceptional circumstances the continuation of hedge accounting in the event that a derivative designated as a hedging instrument is transferred by novation from a counterparty to a central counterparty owing to legislative or regulatory provisions. This amendment did not have a material impact on the Group’s financial statements.

The other standards, amendments and interpretations adopted by the European Union did not have a material impact on the Group’s financial statements.

The Palatine Group did not elect for early adoption of IFRIC 21 “Levies” in 2014. This interpretation of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” outlines how to account for a debt related to public authority levies.

The entity should recognise this debt only at the date on which the activity that triggers its payment, in accordance with legislation, takes place. The liability is recognised progressively over the same period if the obligating event occurs over a period of time. Finally, if the obligation to pay is triggered by reaching a minimum threshold, the liability is recognised only when that minimum threshold is reached.

The Palatine Group will apply the IFRIC 21 “Levies” interpretation in its consolidated financial statements for the year beginning on 1 January 2015. Applying this standard from 1 January 2014 would have had an estimated impact on equity net of deferred taxes of €0.5 million in respect of the C3S social security and solidarity contribution. The impact of this levy on 2014 net income was €0.5 million.

[1] *These standards are available on the website of the European Commission at the following URL: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm*

In addition, the standards, amendments to existing standards and interpretations adopted by the European Union, the application of which is not mandatory in periods beginning on 1 January 2014 were not adopted early and in particular:

- on 24 July 2014, the IASB published the final version of "IFRS 9 – Financial Instruments", which is to be applied from 1 January 2018.

  IFRS 9 is intended to overhaul IAS 39. IFRS 9 - Phase 1 lays down the new rules for classifying and measuring financial assets and liabilities. It will be supplemented by methodology for credit risk impairments of financial assets (IFRS 9 – Phase 2, currently being drafted by the IASB) and by arrangements for accounting for hedging transactions (IFRS 9 – Phase 3, see below).

  Financial assets will be classified into three categories (amortised cost, fair value through profit or loss and fair value through equity) based on characteristics of their contractual cash flows and how the entity manages its financial instruments (business model).

  Debt instruments (loans, advances or debt securities) will be measured at amortised cost provided that they are held to collect the contractual cash flows and have standard characteristics (the cash flows should be solely payments of principal and interest on the principal amount outstanding). All other debt instruments should be measured at fair value through profit or loss.

  Equity instruments are to be measured at fair value through profit or loss, except for those for which the entity has irreversibly elected to recognise changes in fair value in equity (provided these instruments are not held for trading and classified as such in financial assets at fair value through profit or loss) with no subsequent reclassification in income.

  Embedded derivatives will no longer be separated from the host contracts where the latter are financial assets, and so the entire hybrid instrument will have to be recognised at fair value through profit or loss.

  The classification and measurement rules for financial liabilities that existed in IAS 39 are not modified in IFRS 9, except for financial liabilities that the entity designates as at fair value through profit or loss (fair value option) where the remeasurement gains and losses arising from changes in own credit risk will be recorded as gains and losses recognised directly in equity without subsequent reclassification in income.

  The framework in IAS 39 on the derecognition of financial assets and liabilities is adopted without any changes in IFRS 9.

- IFRS 15 "Revenue from Contracts with Customers" applies retroactively from periods beginning on or after 1 January 2017.

  The two accounting standard-setting bodies identified a single five-step model framework to recognise a product:

  - identify the contract(s) with a customer,
  - identify the performance obligations in the contract,
  - determine the transaction price,
  - allocate the transaction price to the performance obligations in the contract,
  - recognise revenue when the entity satisfies a performance obligation.

Lastly, the financial statements presented do not reflect any new standards, amendments to existing standards or interpretations published by the IASB, but not adopted for use by the European Union at the reporting date.

2.3 First-time adoption of IFRS 10, IFRS 11 and IFRS 12

IFRS 10 replaces the section of IAS 27 – "Consolidated and Separate Financial Statements" on consolidated financial statements and SIC 12 interpretation "Consolidation - Special Purpose Entities". It lays down a single control model applicable to all entities, whether or not they are structured entities. Control of an investee is now assessed based on three cumulative criteria: power over the investee's relevant activities, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's variable returns.

IFRS 11 supersedes IAS 31, "Interests in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Joint arrangements are recognised based on their substance, which necessitates an analysis of the rights and obligations of the joint agreement.

The adoption of IFRS 10 and IFRS 11 had no impact on the Palatine Group's scope of consolidation and thus on the comparative figures for 2013.

The Group also reviewed the information presented in the notes to the consolidated financial statements and made certain amendments to meet the disclosure obligations provided for in IFRS 12.

Note 3.3 – Basis of consolidation indicates, where applicable, the situation of consolidated entities having a reporting date different from that of the consolidating entity.

Likewise, Note 5.11 – Investments in associates and Note 15 – Scope of consolidation were amended and supplemented in accordance with IFRS 12.

New notes were added concerning non-controlling interests (Note 5.21 – Non-controlling interests) and interests in unconsolidated structured entities (Note 16 – Nature of interests in unconsolidated structured entities).

2.4 Use of estimates

Preparation of the financial statements requires management to make estimates and assumptions in certain areas with regard to uncertain future events.

These estimates are based on the judgment of the individuals preparing these financial statements and the information available at the reporting date.

Actual future results may differ from these estimates.

In the financial statements for the annual period ended 31 December 2014, the accounting estimates involving assumptions were mainly used for the following measurements:

- the fair value of financial instruments determined using valuation techniques (Note 4.1.5 – Fair value measurement);
- the amount of impairment of financial assets, and more specifically prolonged impairment of available-for-sale assets and impairment losses applicable to loans and receivables assessed specifically or collectively (Note 4.1.6 – Impairment of financial assets);
- provisions recorded under liabilities on the balance sheet and more specifically the provision for regulated home savings products (Note 4.4 – Provisions) and provisions for litigation;
- calculations of the cost of pensions and future employee benefits (Note 4.8 – Employee benefits);
- deferred tax assets and liabilities (Note 4.9 – Deferred taxes);
- goodwill impairment testing (Note 3.3.3 – Business combinations).

2.5 Presentation of the consolidated financial statements and reporting date

As no specific format is required under IFRS, the presentation used by the Group for summarised statements follows Recommendation no. 2013-04 issued by the Autorité des Normes Comptables (ANC – French national accounting standards authority) on 7 November 2013.

The consolidated financial statements are based on the financial statements at 31 December 2014. The Palatine Group's consolidated financial statements for the period ended 31 December 2014 were approved by the board of directors on 13 February 2015. They will be presented to the annual general meeting on 20 May 2015.

NOTE 3 Basis of consolidation

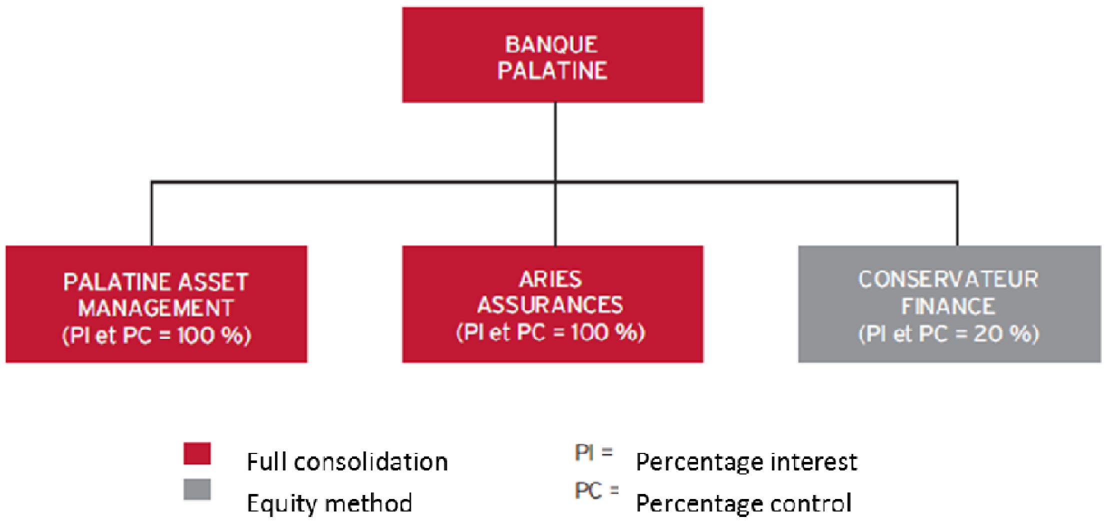
3.1 Consolidating entity

Banque Palatine is the Palatine Group's consolidating entity.

3.2 Scope of consolidation, consolidation and measurement methods

The Group's financial statements include the financial statements of all the entities over which it exercises control or significant influence, when their consolidation has a material impact on the aforementioned financial statements.

The structure of the Palatine Group is as follows:



3.2.1 Control

The subsidiaries controlled by Banque Palatine are fully consolidated.

Definition of control

Control exists when the Group has the power to govern an entity's key activities, it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control. These potential voting rights may derive, for example, from call options on ordinary shares traded on the market, debt instruments that are convertible into ordinary shares, or equity warrants attached to other financial instruments. However, potential voting rights are not taken into account in calculating percentage ownership.

Exclusive control is presumed to exist when the Group holds directly or indirectly either the majority of the subsidiary's voting rights, or at least half of an entity's voting rights and a majority within the management bodies, or is able to exercise significant influence.

Specific case of structured entities

Entities described as structured entities are those organised in such a way that voting rights are not a dominant factor in deciding who controls the entity. This is the case in particular when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

A structured entity frequently has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective, For example, implementing a tax-efficient lease, carrying out research and development, providing an entity with a source of capital or funding, or providing investors with investment options by transferring associated risk and advantages to the structured entity's assets;

- insufficient equity to permit the structured entity to finance its activities without subordinated financial support;
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit risk or other risks (“tranches”).

As structured entities, the Group therefore may use collective investment vehicles as defined in the French Monetary and Financial Code and equivalent bodies governed by foreign law.

Prior to the introduction of the new consolidation standards, the Group had exclusive control when it was in a position to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This definition applied to all entities, except special purpose entities for which SIC 12 introduced control indicators. Control was assessed based on voting rights under IAS 27, while SIC 12 placed great emphasis on rights to the majority of economic benefits and exposures to the majority of risks of the special purpose entity.

Full consolidation

A subsidiary in the Group’s consolidated financial statements is fully consolidated from the date on which the Group takes control until it relinquishes control of the entity.

A non-controlling interest is an interest not directly or indirectly attributable to the Group.

Income and all components of other comprehensive income (gains and losses recognised in equity) are apportioned between the Group and non-controlling interests. The comprehensive income of subsidiaries is apportioned between the Group and non-controlling interests, even where this results in the allocation of a loss to non-controlling interests.

Changes to the percentage ownership of subsidiaries that do not lead to a change in control are recognised as transactions affecting equity. The effects of such transactions are recognised in equity at their amount net of tax and therefore do not impact consolidated net income attributable to equity holders of the parent.

Exclusion from the scope of consolidation

Non-material controlled entities are excluded from the scope of consolidation in accordance with the principle outlined in Note 15 – Scope of consolidation.

Employee pension funds and supplementary health insurance plans are excluded from the scope of consolidation insofar as IFRS 10 does not apply to either post-employment benefit funds or other long-term employee benefit plans to which IAS 19 – “Employee Benefits”, applies.

Likewise, interests acquired with a view to their subsequent short-term disposal are recorded as available for sale and recognised in accordance with the provisions of IFRS 5 “Non-current assets held in view of sale and discontinued activities”.

3.2.2 Investments in associates and joint ventures

Definitions

An associate is entity over which the Group holds significant influence. Significant influence is the power to participate in the entity’s financial and operating policy decisions, but not control them. It is presumed to exist if the Group holds, directly or indirectly, 20% or more of the voting rights.

A joint venture is a joint arrangement whereby the parties that have joint control of the entity have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control over a company which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Equity accounting

Income, assets and liabilities of investments in associates and joint ventures are accounted for in the Group’s consolidated financial statements using the equity method.

An investment in an associate or a joint venture is initially recognised at cost and adjusted thereafter for the Group’s share in the income and other comprehensive income of the associate or joint venture.

The equity method is applied from the date on which the entity becomes an associate or a joint venture. On the acquisition of an associate or a joint venture, the difference between the cost of investment and the Group’s share in the net fair value of the entity’s identifiable assets and liabilities is recognised as goodwill. When the net fair value of the entity’s identifiable assets and liabilities is higher than the cost of investment, the difference is recognised in income.

The share in net income of entities accounted for under the equity method is included in the Group’s consolidated income.

When a Group entity carries out a transaction with a Group joint venture or associate, the profit and loss resulting from this transaction is recognised in interests held by third parties in the associate or joint venture.

The provisions of IAS 39 – Financial Instruments: Recognition and Measurement are applied to determine whether its investment in an associate or joint venture should be tested for impairment. If necessary, the total carrying amount of the investment (including goodwill) is tested for impairment according to the provisions of IAS 36 “Impairment of Assets”.

Exception to the equity method

When an investment is held by a venture capital organisation, mutual fund, unit trust or similar entities including investment-linked insurance funds, the investor may elect not to account for the investment in the associate using the equity method. Revised IAS 28 permits the investor to recognise the investment at its fair value (with changes in fair value recognised in income) in accordance with IAS 39.

These investments are therefore recognised as “Financial assets at fair value through profit or loss”.

3.2.3 Investments in joint operations

Definition

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Accounting for joint operations

An investment in a joint operation is accounted for including all the interests held in the joint operation, i.e. the Group’s share in each of its assets and liabilities, income and expense. These interests are allocated by nature to the various lines of the consolidated balance sheet, consolidated income statement and the statement of net income and gains and losses recognised directly in equity.

Before the introduction on the new consolidation standards, jointly-controlled companies were proportionally consolidated.

3.3 Consolidation rules

The consolidated financial statements are prepared using consistent accounting policies for reporting similar transactions in comparable circumstances. Where material, consolidation adjustments are made to ensure the consistency of the measurement methods applied by consolidated entities.

3.3.1 Foreign currency translation

The consolidating entity’s financial statements are presented in euros.

The consolidated subsidiaries are all domiciled in France and the financial statements are prepared in euros.

3.3.2 Elimination of intra-group transactions

The impact of intercompany transactions on the consolidated balance sheet and consolidated income statement is eliminated. Dividends, as well as gains and losses on intercompany asset disposals, are also eliminated. Where appropriate, capital losses from asset disposals resulting in impairment are maintained.

3.3.3 Business combinations

Transactions completed prior to 1 January 2010

All business combinations are accounted for by applying the purchase method, except business combinations involving two or more mutual insurers or entities under joint control, as these transactions are explicitly excluded from the scope of the previous version of IFRS 3.

The cost of a business combination is the aggregate amount of the fair values at the date of acquisition of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the entity, plus any costs directly attributable to the business combination.

All identifiable assets, liabilities, and contingent liabilities of the acquiree are recognised at fair value at the acquisition date. The initial measurement may be adjusted within 12 months of the acquisition date.

Goodwill represents the difference between the cost of the business combination and the acquirer’s share in the assets, liabilities and contingent liabilities at fair value. Goodwill is recognised in the acquirer’s balance sheet and negative goodwill is recognised immediately in income.

In the event that the Group changes its interest in an entity it already controls, the transaction gives rise to the recognition of additional goodwill, which is determined by comparing the cost of the shares with the Group’s share of the net assets acquired.

Goodwill is recognised in the functional currency of the acquiree and is translated at the exchange rate at the reporting date.

At the acquisition date, goodwill is allocated to one or more cash-generating units (CGUs) likely to derive benefits from the acquisition. Cash-generating units were defined around the Group’s main business lines so as to represent the lowest level within an activity used by management to monitor ROI.

Goodwill is tested for impairment at least once a year, or more frequently if events or changes in circumstances indicate that it may be impaired.

Impairment tests consist in comparing the carrying amount of each CGU or group of CGUs (including allocated goodwill) with its recoverable amount, i.e. the higher of the unit's market value and value in use.

Market value is defined as fair value less costs to sell in a transaction between knowledgeable, willing parties in an arm's length transaction. This estimate is based on available market information and takes account of any specific circumstances. Value in use is calculated using the most appropriate method, although generally based on the present value of estimated future cash flows.

Permanent impairment is recognised in income if the carrying amount of the CGU exceeds its recoverable amount.

Transactions completed after 1 January 2010

The accounting arrangements presented above amended as follows by the revised IFRS 3 and IAS 27:

- combinations between mutual insurers are now included in the scope of IFRS 3;
- costs directly associated with business combinations are now recognised in income for the period;
- earn-outs are now included in the acquisition cost at their fair value at the time of the business combination, even when they are contingent in nature. Depending on the settlement method, earn-outs are recognised with a corresponding adjustment in:
  - equity and subsequent price adjustments are not accounted for,
  - or debt, and subsequent price adjustments are recognised in income (financial liabilities) or according to the appropriate standards (other financial liabilities outside the scope of IAS 39);
  - at the time of the business combination, non-controlling interests may be measured at:
  - fair value (method resulting in the allocation of a share of the goodwill to non-controlling interests),
  - their share of the fair value of the identifiable assets and liabilities of the entity acquired (method similar to that applicable to transactions prior to 31 December 2009).

  One of these methods must be chosen for each business combination.

  Irrespective of the method chosen at the time of the business combination, increases in the percentage ownership of an entity already controlled will be recognised systematically in equity:

  - any share previously held by the Group at the time of the business combination should be remeasured at fair value through profit or loss. Consequently, in the event of a step acquisition, goodwill is determined with reference to fair value at the time of the business combination;
  - when the Group relinquishes control of a consolidated company, any share previously held by the Group should be remeasured at fair value through profit or loss.

3.3.4 Reporting date

The reporting date for entities in the scope of consolidation 31 December.

Note 4 Accounting principles and basis of measurement

4.1 Financial assets and liabilities

4.1.1 Loans and advances

Loans and advances include amounts due from credit institutions and customers and certain investment securities not quoted in an active market (see Note 4.1.2 – Investment securities).

Loans and advances are initially recorded at fair value plus any costs directly related to their issue, less any proceeds directly attributable to the issue. Subsequently, they are measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows (payments or receipts) to the value of the loan at inception. This rate includes any transaction income or costs directly related to the issue of the loans, which are treated as an adjustment to the effective yield on the loan. No other internal costs are included in the calculation of amortised cost.

External costs consist primarily of commission paid to third parties in connection with the arrangement of loans. They essentially comprise commission paid to business partners.

Income directly attributable to the issuance of new loans principally comprises set-up fees charged to customers, rebilled costs and commitment fees (if it is more likely than unlikely that the loan will be drawn down). The loan commitment fees received that will not result in any drawdowns are apportioned on a straight-line basis over the life of the commitment.

Expenses and income arising on loans with a term of less than one year at inception are deferred on a pro rata basis with no recalculation of the effective interest rate. For floating- or adjustable rate loans, the effective interest rate is calculated at each fixing date.

4.1.2 Investment securities

Investment securities are classified into four categories as defined by IAS 39:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets.

Financial assets and liabilities at fair value through profit or loss

This category consists of:

- financial assets and liabilities held for trading, i.e. securities acquired or issued principally for the purpose of selling or repurchasing them in the near term; and
- financial assets and liabilities that the Group has designated on initial recognition as one to be recognised at fair value through profit or loss using the fair value option in IAS 39.

These assets are measured at fair value at the date of initial recognition and at each reporting date. Changes in fair value over the period, interest, dividends, gains or losses on disposals on these instruments are recognised in “Net gains or losses on financial instruments at fair value through profit or loss”.

Held-to-maturity investments

Held-to-maturity (HTM) financial assets are investment securities with fixed or determinable payments and fixed maturity that the Group intends and is able to hold to maturity.

IAS 39 does not permit the sale or transfer of these investment securities before maturity except in certain specific circumstances. In the event that the securities are sold before maturity, all of its other held-to-maturity investments should be reclassified, and the held-to-maturity category cannot be used for the current and next two reporting years. Exceptions to the rule apply if there is:

- a significant deterioration in the issuer’s creditworthiness;
- a change in tax law that eliminates or significantly reduces the tax-exempt status of interest on the held-to-maturity investments:
- a major business combination or major disposition (such as the sale of segment) that necessitates the sale or transfer of held-to-maturity investments to maintain the entity’s existing interest rate risk position or credit risk policy;
- a change in the statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of particular types of investments, thereby causing an entity to dispose of a held-to-maturity investment.
- a significant increase in the industry’s regulatory capital requirements that causes the entity to downsize by selling held-to-maturity investments;

- a significant increase in the risk weights of held-to-maturity investments used for regulatory risk-based capital purposes.

In the exceptional cases outlined above, income from the disposal is recorded under “Net gains or losses on available-for-sale financial assets”.

Instruments contracted to hedge these investment securities against interest rate risk are not permitted. However, hedges of the currency risk or the inflation component of certain held-to-maturity investments are permitted.

Held-to-maturity investments are measured at fair value on initial recognition, plus any transaction costs directly attributable to their acquisition. They are subsequently measured at amortised cost using the effective interest method, including any premiums, discounts and acquisition fees, where material.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Furthermore, loans and receivables must not be exposed to the risk of substantial losses other than because of credit deterioration.

Certain investment securities not quoted in an active market may be classified in this portfolio. They are initially recognised at fair value, plus any transaction costs and less any transaction income. Investment securities classified in this category comply with the rules for recognition, measurement and impairment applicable to loans and receivables.

When a financial asset recorded under loans and receivables is sold before its maturity, the income from the disposal is recorded under “Net gains or losses on available-for-sale financial assets”.

Available-for-sale financial assets

This category consists of financial assets that do not belong to one of the previous three categories.

Available-for-sale financial assets are measured at fair value on initial recognition, plus any transaction costs.

At the reporting date, they are measured at their fair value, and changes in fair value are recorded in “Gains and losses recognised directly in equity” (except for foreign currency money market assets, with changes in the fair value of their foreign currency component being recognised in income). The principles used to determine fair value are outlined in Note 4.1.5 – Fair value measurement.

If they are sold, these changes in fair value are transferred to income.

Interest income accrued or received on fixed-income investment securities is recorded under “Interest or similar income”. Interest income accrued or received on variable-income securities is recorded under “Net gains or losses on available-for-sale financial assets”.

Date of recognition

Investments are recorded on the balance sheet on the settlement/delivery date.

Rules applicable to partial disposals

The first-in, first-out (FIFO) method is applied to any partial disposals of investments.

4.1.3 Debt and equity instruments

Financial instruments issued by the Group are classified as debt or equity instruments depending on whether or not the issuer has a contractual obligation to deliver cash or another financial asset to the holder of the instrument, or to exchange the instrument under conditions that are potentially unfavourable to the Group. This obligation must arise from specific contractual terms and conditions, not merely economic constraints.

In addition, when an instrument is classified as equity:

- any income is treated as a dividend, and therefore impacts equity, along with the tax relating to such income;
- the instrument cannot be an underlying eligible for hedge accounting;
- if the issue is in a foreign currency, the instrument is kept at its historical value resulting from its conversion to euros at its initial date of transfer to equity.

Lastly, when these instruments are issued by a subsidiary, they are included in “non-controlling interests”. When their income is cumulative in nature, it is charged to “net income attributable to equity holders of the parent” and increases the income of “non-controlling interests”. However, when their remuneration is not cumulative, it is drawn from retained earnings attributable to equity holders of the parent.

Financial liabilities at fair value through profit or loss

These are financial liabilities held for trading or designated by the entity as belonging to this category upon initial recognition under the fair value option provided for under IAS 39.

These liabilities are measured at fair value upon initial recognition and at each reporting date. Changes in fair value over the period, interest, gains or losses on these instruments are recognised in “Net gains or losses on financial instruments at fair value through profit or loss”.

Issues of debt securities

Issues of debt securities (which are not classified as financial liabilities at fair value through profit or loss or as equity) are initially recognised at fair value less any transaction costs. They are subsequently measured at amortised cost at each reporting date using the effective interest method.

These instruments are recognised under “Amounts due to credit institutions”, “Amounts due to customers” or “Debt securities”.

Subordinated debt

Subordinated debt differs from other debt, receivables and bonds in that it is repaid only after all the senior and unsecured creditors, but before the repayment of participating loans and securities and deeply subordinated notes.

The subordinated debt that the issuer is obliged to repay is classified as debt and initially recognised at fair value less transaction costs and thereafter at amortised cost at the reporting date.

4.1.4 Derivatives and hedge accounting

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 a specific interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, this variable may not be specific to one of the parties to the contract;
- 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 have a similar response to changes in market factors; and
- it is settled at a future date.

All derivative financial instruments are recognised on the balance sheet at the trade date and are measured at fair value at inception. They are remeasured at their fair value at each reporting date irrespective of whether they were acquired for trading or hedging purposes.

Changes in the fair value of derivatives are recognised in income for the period, except for derivatives qualifying as cash flow hedges for accounting purposes or as hedges of a net investment in a foreign operation.

Derivatives are classified into the following two categories:

Trading derivatives

Trading derivatives are recognised on the balance sheet in “Financial assets at fair value through profit or loss” when their market value is positive, and in “Financial liabilities at fair value through profit or loss” when their market value is negative. Realised and unrealised gains and losses on derivatives held for trading are taken to income on the “Net gains or losses on financial instruments at fair value through profit or loss” line.

Hedging derivatives

The hedging relationship qualifies for hedge accounting if, at the inception of the hedge, there is formal documentation of the hedging relationship identifying the hedging strategy, the type of risk hedged, the designation and characteristics of the hedged item and the hedging instrument. In addition, the effectiveness of the hedge must be demonstrated at inception and verified retrospectively.

Derivatives used in hedging relationship are designated according to the intended purpose of the hedge.

Fair value hedges

Fair value hedges are intended to reduce exposure to changes in the fair value of an asset or liability carried on the balance sheet, or a firm commitment, in particular the interest rate risk on fixed-rate assets and liabilities.

The remeasurement gain or loss on hedging instruments is recognised in income in the same manner and period as the gain or loss on the hedged item attributable to the risk being hedged. The ineffective portion of the hedge, if any, is recognises in income under “Net gains or losses on financial instruments at fair value through profit or loss”.

Accrued interest on the hedging instrument is taken to income in the same manner and period as the accrued interest on the hedged item.

Where identified assets or liabilities are hedged, the remeasurement of the hedged component is recognised on the same line of the balance sheet as the hedged item.

The ineffective portion relating to the dual-curve valuation of collateralised derivatives is taken into account when calculating the effectiveness of a hedge.

If a hedging relationship ceases (investment decision, failure to fulfil effectiveness criteria, or because the hedged item is sold before maturity), the hedging derivative is transferred to the trading book. The remeasurement gain or loss recorded on the balance sheet in respect of the hedged item is amortised over the residual life of the initial hedge. If the hedged item is sold before maturity or redeemed early, the cumulative amount of the remeasurement gain or loss is recognised in income for the period.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable future transaction (hedge of interest rate risk on floating-rate assets and liabilities, hedge of conditions relating to future transactions such as future fixed interest rates, future prices, exchange rates, etc.).

The effective portion of the changes in fair value is recognised on a separate line of “Gains and losses recognised directly in equity”, and the ineffective portion is recognised in income under “Net gains or losses on financial instruments at fair value through profit or loss”.

Accrued interest on the hedging derivative is recognised in interest income in the same manner and period as the accrued interest on the hedged item.

The hedged items are accounted for using the rules applicable to their specific asset category.

If a hedging relationship ceases (because the hedge no longer meets the effectiveness criteria, the derivative is sold or the hedged item ceases to exist), the cumulative amounts recognised in equity are transferred to income as and when the hedged item impacts profit or loss, or immediately if the hedged item ceases to exist.

Specific cases of portfolio hedging (macro-hedging)

Documentation of cash flow hedges

Portfolios of assets and liabilities that may be hedged are assessed in each maturity band by considering:

- floating-rate assets and liabilities. The entity incurs a risk of variability in future cash flows from floating-rate assets or liabilities insofar as future interest rate levels from forthcoming fixings are not known in advance;
- future transactions regarded as highly probable (forecasts). Assuming the portfolio remains unchanged, the entity is exposed to a risk of variability in future cash flows on a future fixed-rate loan insofar as the level of the interest rate at which the future loan will be granted is not known. Likewise, the entity may consider that it is exposed to a risk of variability in future cash flows on a refinancing transaction that it will have to carry out in the market.

Under IAS 39, hedges of an overall net position per maturity band do not qualify for hedge accounting. The hedged item is therefore deemed to be equivalent to a share in one or more portfolios of identified floating-rate instruments (portion of deposit outstandings or floating-rate loans). The effectiveness of the hedges is measured by creating a mortgage instrument for each maturity band, with changes in its fair value since inception being compared against those for the documented hedging derivatives.

The characteristics of this instrument model those of the hedged item. Effectiveness is then assessed by comparing the changes in value of the hypothetical instrument with the actual hedging instrument. This method requires preparation of a maturity schedule.

Hedge effectiveness must be demonstrated prospectively and retrospectively.

The hedge is effective prospectively if, for each target maturity band, the nominal amount of items to be hedged is higher than the notional amount of the hedging instruments.

The retrospective test calculates the retrospective effectiveness of a hedge initiated at various reporting dates.

At each reporting date, changes in the fair value of hedging instruments, excluding accrued interest, are compared against those of hypothetical derivatives. The ratio of their respective changes should be between 80% and 125%.

If the hedged item is sold or the future transaction is no longer highly probable, the cumulative unrealised gain or loss recognised in equity is transferred immediately to income.

When the hedging relationship ceases, if the hedged item is still shown on the balance sheet, or if it remains highly probable, cumulative unrealised gains and losses are recognised in equity on a straight line basis. If the derivative has not been cancelled, it is reclassified as a trading derivative, and subsequent changes in its fair value are recognised in income.

Documentation as fair value hedges

Macro-hedges of interest rate risk as fair value hedges apply the so-called carve-out arrangements under IAS 39 as adopted by the European Union.

The version of IAS 39 adopted for use by the European Union does not include certain hedge accounting provisions that appear incompatible with the strategies implemented by European banks to reduce global interest rate risk. In particular, the carve-out allows the Group to make use of hedge accounting for interbank interest rate risk on customer transactions at fixed rates (loans, savings accounts and demand deposits). The Group mainly uses plain vanilla interest rate swaps designated at inception as fair value hedges of fixed-rate deposits or loans.

Macro-hedging derivatives are accounted for in the same manner as derivatives used to hedge the fair value of specific transactions (micro-hedging).

In a macro-hedging relationship, gains and losses on the remeasurement of the hedged item are recognised in "Remeasurement gains and losses on interest rate risk-hedged portfolios" as assets for hedges of a portfolio of financial assets and as liabilities for hedges of a portfolio of financial liabilities.

The hedges are deemed effective if the derivatives offset the interest rate risk on the underlying fixed-rate portfolio. The ineffective portion relating to the dual-curve valuation of collateralised derivatives is taken into account.

Effectiveness is tested in two ways:

- asset-based testing: for plain vanilla swaps designated as hedging instruments at inception, the Group verifies prospectively at the date the instrument is designated as a hedge and retrospectively at each reporting date that no excess hedging exists;
- quantitative testing: for other swaps, the change in the fair value of the actual swap must offset the changes in the fair value of a hypothetical instrument that exactly reflects the underlying hedged item. These tests are conducted prospectively at the date the instrument is designated as a hedge and retrospectively at each reporting date.

If a hedging relationship ceases, the remeasurement gain or loss is amortised on a straight-line basis over the remaining term of the initial hedge, if the hedged item has not been derecognised. It is taken directly to income if the hedged item is no longer recorded on the balance sheet. Derivatives used for macro-hedging may be disqualified for hedge accounting purposes when the nominal amount of the hedged items falls below the notional amount of the hedging instruments, for example in the case of the prepayment of loans or the withdrawal of deposits.

4.1.5 Fair value measurement

General principles

Fair value is 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.

The Group measures the fair value of an asset or liability using assumptions that market participants would use to set the price of the asset or liability. These assumptions include for derivatives an assessment of counterparty risk (or CVA – Credit Valuation Adjustment) and of the risk of non-performance (or DVA – Debit Valuation Adjustment).

Groupe BPCE adjusted its valuation inputs for the CVA and DVA during 2014. These valuation adjustments are now measured using market inputs. This gave rise to a €1.4 million expense charged to the Palatine Group's income.

In addition, derivatives that are traded with a counterparty belonging to Groupe BPCE's share support mechanism (see Note 1.2 – Solidarity mechanism) are not subject to the CVA or DVA valuation adjustments.

Fair value upon initial recognition

For the majority of transactions, the price of trades (i.e. the value of the consideration paid or received) provides the best estimate of the fair value of the transactions at the initial recognition date.

Fair value hierarchy

<u>Level 1 fair value and active market concept</u>

For financial instruments, prices quoted in an active market ("level 1 input") represent the most reliable evidence of fair value. They should be used without adjustment to measure fair value.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume.

A decline in the level of market activity may be evidenced by indicators including:

- a significant decline in the primary market for the financial asset or liability (or for similar assets or liabilities);
- a significant decline in transaction volumes;
- price quotations are not updated very frequently;
- there is significant dispersion in prices availability over time between the various market participants;

- there is a loss of correlation with indices that previously displayed a high level of correlation with the fair value of the asset or liability;
- there is a significant increase in prices or implied liquidity risk premiums, yields or performance indicators (such as delinquency rates and loss severities) when compared with the Group's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability;
- there is a very wide bid-ask spread.

Instruments measured using (unadjusted) prices quoted in an active market (Level 1)

These are mainly equities, government or corporate bonds, certain derivatives traded in organised markets (e.g. plain vanilla options on CAC 40 or Eurostoxx indices).

In addition, the fair value of mutual funds is considered as being Level 1 if net asset value is calculated on a daily basis and if this represents a value at which an order can be placed.

Level 2 fair value

Where there is no quotation in an active market, fair value may be measured using appropriate methodology, in line with the generally accepted measurement methods in the financial markets, based on inputs observable in the markets ("Level 2 fair value").

If the asset or liability has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets or market that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example:
    - interest rates and yield curves observable at commonly quoted intervals,
    - implied volatilities,
    - credit spreads;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ("market-corroborated inputs").

Instruments measured using recognised models and underpinned by directly or indirectly observable inputs (Level 2)

Level 2 derivatives

The following items will be classified in this category:

- plain vanilla and constant maturity swaps (CMS);
- forward rate agreements (FRA);
- standard swaptions;
- standard caps and floors;
- forward purchases and sales of liquid currencies;
- currency swaps and options on liquid currencies;
- liquid credit derivatives on a single name issuer or on the Itraax or Iboxx indices, etc.

Level 2 non-derivatives

Certain hybrid and/or long-maturity financial instruments are measured using a recognised model on the basis of market inputs derived from observable data such as yield curves, implied volatility layers of options, market consensus data or active over-the-counter markets.

For all such instruments, inputs were demonstrated to be observable. From a methodology perspective, observability is based on four inseparable criteria:

- inputs come from external sources (via a recognised contributor, for example);
- the input is supplied periodically;
- the input is representative of recent transactions;
- the input's characteristics are identical to those of the transaction.

The margin generated when these instruments begin trading is immediately recognised in income.

Those instruments classified in Level 2 include:

- securities not listed on an active market, the fair value of which is based on observable market data (e.g. use of market data for comparable listed companies or of price/earnings multiples);
- shares in UCITS, the net asset value of which is not calculated and published on a daily basis, but are subject to regular reporting or offer observable data from recent transactions.

Level 3 fair value

Lastly, if there are not sufficient observable inputs available in the markets, fair value may be measured using a method based on internal models ("Level 3 fair value") using unobservable inputs. The model adopted must be calibrated by reconciling its results with recent transaction prices.

Over-the-counter instruments measured using infrequent models or using unobservable inputs to a great extent (Level 3)

When the measurements obtained are not supported by observable inputs or models recognised as market standards, the measurement obtained will be considered as unobservable.

Instruments measured using specific models or using unobservable parameters include:

- unlisted equities, generally investments in unconsolidated investments;
- certain mutual funds for which net asset value is an indicative value (in the event of illiquidity, in the event of liquidation, etc.) and there are no prices to support this value;
- venture capital funds: net asset value is frequently indicative because exiting is often not possible;
- multi-underlying equity structured products, options on funds, hybrid interest-rate products, securitisation swaps, structured credit derivatives, option-based interest-rate products;
- securitisation tranches for which no prices are quoted in an active market. These instruments are frequently measured based on contributors' prices (structurers, for example).

Transfers between levels of the fair value hierarchy

Information about transfers between levels of the fair value hierarchy is provided in Note 5.5.3 – Analysis of transfers between levels of the fair value hierarchy. The amounts given in this note were calculated at the date of the last valuation prior to the change in the level of the fair value hierarchy.

Special cases: fair value of financial instruments recognised at amortised cost

For financial instruments not measured at fair value on the balance sheet, fair value calculations are disclosed for information purposes and should only be interpreted as estimates.

In most cases, the values indicated are not likely to be realised and, generally speaking, are not actually realised.

These fair values are thus calculated solely for information purposes in the notes to the financial statements. They are not indicators used for the purpose of overseeing commercial banking activities, for which the management model is mainly based on collection of contractual cash flows.

Consequently, the following simplified assumptions were used:

- the carrying amount of assets and liabilities is deemed to be their fair value in certain cases. These include:
  - short-term financial assets and liabilities (with an initial term of one year or less) insofar as their sensitivity to interest rate risk and credit risk is not material during the period;
  - demand liabilities;
  - floating-rate loans and borrowings;
  - transactions in a regulated market (particularly regulated savings products), the prices of which are set by the public authorities;
- fair value of the loans to retail customers: the fair value of loans is determined based on internal valuation models that discount future payments of recoverable capital and interest over the remaining term of the loan. Except in specific circumstances, only the interest rate component is remeasured, as the credit margin is established at the outset and not subsequently remeasured. Prepayment options are factored into the model via an adjustment to loan repayment schedules.
- fair value of other loans: the fair value of loans is determined based on internal valuation models that discount future payments of recoverable capital and interest over the remaining term of the loan. The interest rate component is remeasured, as is the credit risk component (where it is an observable piece of data used by the customer relationship managers or market participants). Failing that, the credit risk component is established at the outset and not subsequently remeasured, as with loans to retail customers. Prepayment options are factored into the model via an adjustment to loan repayment schedules.
- fair value of debt: the fair value of fixed-rate debt owed to credit institutions and customers with a term of over one year is deemed to be equal to the present value of future cash flows discounted at the interest rate observed at the reporting date. The own credit spread is not taken into account.

Instruments reclassified as “Loans and receivables” having the legal status of “investment securities”

The lack of liquidity of these instruments, a pre-requisite for their classification as “Loans and receivables”, was assessed at the reclassification date.

Subsequent to their reclassification, certain instruments may become liquid again and be measured at Level 1 fair value.

In other cases, their fair value is measured using models identical to those described above for instruments measured at fair value on the balance sheet.

4.1.6 Impairment of financial assets

Impairment of investment securities

An impairment loss is recognised specifically on investment securities, with the exception of those classified as financial assets at fair value through profit or loss, when there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and these events have an impact on the estimated future cash flows of a financial asset that can be measured reliably.

Different rules are used for the impairment of equity instruments and debt instruments.

For equity instruments, a prolonged decline or a significant decrease in value are objective indicators of impairment.

The Group considers a decline of over 50% or lasting for over 36 months in the value of a security by comparison with its historical cost is an objective indicator of prolonged impairment, prompting an impairment loss to be recognised in income.

In addition, these impairment criteria are also supplemented by a line-by-line review of the assets that have recorded a decline of over 30% or for more than six months in their value by comparison with their historical cost or if events occur that are liable to represent a material or prolonged decline. An impairment charge is recognised in income if the Group believes that the value of the asset may not be recovered in its entirety.

For unlisted equity instruments, a qualitative analysis of their situation is carried out.

Impairment losses recognised on equity instruments may not be reversed and nor may they be written back to income. Losses are recognised in “Net gains or losses on available-for-sale financial assets”. Any subsequent gains are taken to “Gains and losses recognised directly in equity” until the securities are sold.

Impairment losses are recognised on debt instruments such as bonds or securitised vehicles (ABS, CMBS, RMBS, cash CDOs) if there is an incurred counterparty risk.

The Group uses the same indicators of impairment for debt securities as those used for individually assessing the incurred impairment risk on loans and receivables, irrespective of the portfolio to which the debt securities are ultimately allocated. For perpetual deeply subordinated notes, particular attention is also paid if, under certain conditions, the issuer has the option not to pay the coupon or to extend the issue beyond the scheduled redemption date.

In the event of an improvement in the issuer’s financial position, impairment losses on debt instruments may be written back to income. Impairment losses and reversals are recorded in the “Cost of risk”.

Impairment of loans and receivables

IAS 39 defines the methods for calculating and recognising impairment losses on loans.

A loan or receivable is deemed to be impaired if the following two conditions are met:

- there is objective evidence of impairment when assessed specifically or collectively: these are “trigger events” or “loss events” identifying counterparty risk occurring after initial recognition of the loans in question. On an individual level, the criteria for deciding whether or not a credit risk has been incurred include the existence of payments more than three months past due (six months for real estate and nine months for loans to local authorities) or, independently of the existence of a missed payment, the existence of an incurred credit risk or litigation;
- these events trigger the recognition of incurred losses.

Three types of impairment are recognised in the Cost of risk:

- specific impairment;
- collective impairment;
- impairment of commitments given to customers.

Specific impairment

Specific impairment is calculated as the difference between amortised cost and recoverable amount, i.e. the present value of estimated recoverable future cash flows taking into account the impact of any collateral. For short-term assets (maturity of less than one year), there is no discounting of future cash flows.

Impairment is determined in aggregate, with no distinction between interest and principal.

It is calculated on the basis of the maturity schedules using collection histories for each category of loan. Collateral is taken into account when determining the amount of impairment, and when collateral fully covers the risk of default, the loan is not impaired.

Collective impairment

Collective impairment covers outstandings not subject to specific impairment. In accordance with IAS 39, these are grouped together in homogeneous portfolios that are collectively assessed for impairment.

Outstandings are pooled into homogeneous portfolios in terms of their sensitivity to risk based on the Group's internal rating system. Portfolios tested for impairment are those linked to counterparties with ratings that have been downgraded significantly since grant and that are therefore considered as sensitive. These outstandings are impaired, although credit risk may not be allocated individually to the different counterparties making up these portfolios, as the items in question collectively show objective evidence of impairment.

The amount of impairment is determined based on historical data on the probability of default at maturity and the expected losses, adjusted, if necessary, to take into account the prevailing circumstances at the reporting date.

This approach may also be supplemented by an analysis generally based on an expert opinion, taking account of various economic factors intrinsic to the loans and receivables in question. Collective impairment is calculated based on expected losses at maturity across the identified population.

Impairment of commitments given to customers.

Probable losses arising from off-balance sheet commitments are taken into account through provisions recognised on the liability side of the balance sheet.

4.1.7 Reclassifications of financial assets

Several types of reclassification are permitted:

- **reclassifications permitted prior to the amendments to IAS 39 and IFRS 7 adopted by the European Union on 15 October 2008:**

  These include reclassifications of available-for-sale financial assets as held-to-maturity investments.

  Any fixed-income security with a fixed maturity date meeting the definition of "Held-to-maturity investments" may be reclassified if the Group changes its management intent and decides to hold the investment to maturity. The Group must also have the ability to hold this instrument to maturity.

- **reclassifications permitted since the amendment to IAS 39 and IFRS 7 adopted by the European Union on 15 October 2008:**

  These standards lay down the arrangements for reclassifications to other categories of non-derivative financial assets (except for those designated as at fair value):

  - reclassification of trading securities as "Available-for-sale financial assets" or "Held-to-maturity financial investments".

    Any non-derivative financial assets may be reclassified whenever the Group is able to demonstrate the existence of "rare circumstances" prompting this reclassification. For the record, the IASB characterised the financial crisis of the second half of 2008 as a "rare circumstance".

    Only investment securities with fixed or determinable payments may be reclassified as "Held-to-maturity investments". The institution must also have the intent and the ability to hold these instruments to maturity. Instruments included in this category may not be hedged against interest rate risk.

  - reclassification of trading securities or available-for-sale financial assets as "Loans and receivables".

    Any non-derivative financial asset meeting the definition of "Loans and receivables" and, in particular, any fixed-income investment securities not quoted in an active market may be reclassified if the Group changes its management intent and decides to hold the instrument for the foreseeable future or to maturity. The Group must also have the ability to hold this instrument over the medium to long term.

Reclassifications are carried out at fair value at the reclassification date, with this value serving as the new amortised cost for investment securities transferred to categories measured at amortised cost.

A new effective interest rate is then calculated at the reclassification date to align this new amortised cost with the redemption value, which implies that the investment security has been reclassified at a discount.

For investment securities previously recorded as available-for-sale financial assets, amortisation of the new discount over the residual life of the instrument will generally be offset by amortisation of the unrealised loss recorded under gains and losses recognised directly in equity at the reclassification date and recognised in income on an actuarial basis.

In the event of impairment subsequent to the reclassification date of investment securities previously recorded in available-for-sale financial assets, the unrealised loss recorded under gains and losses recognised directly in equity at the reclassification date and taken to the income statement on an actuarial basis is immediately written back to income.

4.1.8 Derecognition of financial assets and liabilities

A financial asset (or group of similar financial assets) is derecognised when the contractual rights to the asset's future cash flows have expired or when such rights have been transferred to a third party, together with substantially all of the risks and rewards of ownership of the asset. In such cases, all the rights and obligations created or retained as a result of the transfer are recorded in a separate line under financial assets and liabilities.

When a financial asset is derecognised, a gain or loss on disposal is recorded in the income statement reflecting the difference between the carrying amount of the asset and the consideration received.

In the event that the Group has neither transferred nor retained substantially all of the risks and rewards, but has retained control of the asset, the asset continues to be recognised on the balance sheet to the extent to the Group it has a continuing involvement in the asset.

In the event that the Group has neither transferred nor retained substantially all of the risks and rewards and has not retained control of the asset, the asset is derecognised and all of the rights and obligations created or retained as a result of the transfer are recorded in a separate line under financial assets and liabilities.

If not all the conditions for derecognising a financial asset are met, the Group leaves the asset on the balance sheet and records a liability representing the obligations arising when the asset is transferred.

A financial liability (or part of a financial liability) is derecognised only when it is extinguished, i.e. when its contractual obligations are discharged, cancelled or lapse.

Repurchase agreements

Securities sold under repurchase agreements are not derecognised in the vendor's accounts. A liability representing the commitment to return the funds received is identified and recognised under "Securities sold under repurchase agreements". This represents a financial liability carried at amortised cost.

The assets received are not recognised by the buyer, but a receivable is recorded by the vendor in the amount of the funds loaned. The amount disbursed in respect of the asset is recognised under "Securities bought under repurchase agreements".

On subsequent reporting dates, the securities continue to be accounted for by the vendor in accordance with the rules applicable to the category in which they were initially classified. The receivable is carried at amortised cost in the "Loans and receivables" category.

Outright securities lending

Securities loaned under securities lending transactions are not derecognised by the vendor. They continue to be recognised in their original accounting category and are measured accordingly. The borrowed securities are not recognised by the borrower.

Transactions leading to substantial changes in financial assets

When an asset undergoes substantial changes (in particular following a renegotiation or a remodelling owing to financial difficulties) it is derecognised to the extent that rights to initial cash flows have substantively expired. The Group considers substantial changes have arisen in particular from:

- changes leading to a change of counterparty, especially where the new counterparty's creditworthiness differs significantly from that of the previous counterparty;
- changes with a view to switching from highly structured to simple indexing, insofar as both assets are not exposed to the same risks.

Transactions leading to substantial changes in financial liabilities

A substantial change in the terms of a borrowing should be recognised as the extinguishment of the former debt and its replacement with a new debt. To assess the substantial nature of the change, IAS 39 stipulates a threshold of 10% based on discounted cash flows, taking into account potential costs and fees. When the difference is greater than or equal to 10%, all of the costs or fees incurred are recognised in income on extinguishment of the debt.

The Group may consider other changes to be substantial, such as a change of issuer (even within the same group) or a change in currency.

4.2 Investment property

In accordance with IAS 40, investment property is property held to earn rentals or for capital appreciation, or both.

The accounting treatment for investment property is identical to that used for property, plant and equipment (see Note 4.3 – Non-current assets).

Gains or losses on the disposal of investment property are recognised in income under "Net income or expenses on other activities".

4.3 Non-current assets

This includes the Palatine Group's property, plant and equipment used in operations.

In accordance with IAS 16 and IAS 38, property, plant and equipment and intangible assets are recognised as assets only if they meet the following criteria:

- it is probable that the future economic benefits associated with the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Property, plant and equipment and intangible assets used in operations are initially recognised at cost plus any directly attributable acquisition costs. Internally developed software that satisfies the criteria for recognition as a non-current asset is recognised at its production cost, which includes external charges and the payroll costs of employees directly assigned to the project.

The component-based approach is applied to all buildings.

After initial recognition, non-current assets are measured at cost less any accumulated depreciation, amortisation and impairment. The depreciable amount of the asset takes account of its residual value where this is material and can be measured reliably.

Property, plant and equipment and intangible assets are depreciated or amortised in a manner reflecting the pattern in which the asset's expected economic benefits are consumed, which generally corresponds to the asset's useful life. Where an asset consists of a number of components that have different uses or economic benefits, each component is recognised separately and depreciated over a period that reflects the useful life of that component.

The depreciation and amortisation periods used by the Group are as follows:

- buildings: 30 years;
- plant and equipment: 20 years;
- fixtures and fittings: 10 years;
- furniture and special equipment: 4 to 10 years;
- computer equipment: 3 to 5 years.
- software: up to 5 years.

Property, plant and equipment and intangible assets are tested for impairment whenever there is any evidence that they may be impaired at the reporting date. Where this is the case, the new recoverable amount of the asset is compared with its carrying amount. An impairment loss is recognised in income if the new recoverable amount of the asset is less than its carrying amount. This loss is reversed in the event of a change in the estimated recoverable amount or if there is no longer any evidence of impairment.

4.4 Provisions

Provisions other than those relating to employee benefit obligations, provisions for regulated home savings products, off-balance sheet commitments, and insurance policies mainly consist of provisions for restructuring, claims and litigation, fines and penalties, and tax risks.

Provisions are liabilities of an uncertain timing or amount, which can be estimated reliably. They reflect a present obligation (legal or constructive) as a result of a past event, in respect of which it is probable that an outflow of resources will be required to settle the obligation.

The amount recognised in provisions is the best estimate of the expenditure required to settle the present commitment at the end of the reporting period.

Provisions are discounted when the impact of discounting is material.

Changes in provisions are recognised in income on the line items corresponding to the nature of future expenditure.

Provisions for regulated home savings products

Regulated home savings accounts (comptes d'épargne logement - CEL) and regulated home savings plans (plans d'épargne logement-PEL) are retail products marketed in France governed by the 1965 law on home savings plans and accounts, and subsequent implementing decrees.

Regulated home savings products give rise to two types of commitments for the Group:

- a commitment to grant a loan to the customer at a future date at a rate set at inception of the contract (for PEL products) or at a rate contingent on the savings phase (for CEL products);
- a commitment to pay interest on the savings at a future date at a rate set at inception of the contract for an indefinite period (for PEL products) or at a rate set on a semi-annual basis according to an indexation formula regulated by law (for CEL products).

Commitments with potentially adverse consequences for the Group are measured for each generation of regulated home savings plans and for all regulated home savings accounts.

A provision is recognised for the associated risks by discounting future potential income from at-risk outstandings:

- at-risk savings correspond to the uncertain future level of savings for plans in existence at the date the provision is calculated. They are estimated on a statistical basis for each future period taking account of savers' historical patterns of behaviour and reflect the difference between the probable outstandings and the minimum expected savings;
- at-risk loans correspond to the loans outstanding granted but not yet due at the calculation date plus statistically probable loans outstanding based on customers' historical patterns of behaviour as well as vested and projected rights from regulated home savings accounts and plans.

Income in future periods from the savings phase is estimated, for a given generation of contracts, on the basis of the difference between the regulated rate offered and the expected interest accruing on a rival savings product.

Earnings for future periods from the loan phase are estimated as the difference between the fixed rate agreed at inception for PEL contracts or a rate contingent on the savings phase for CEL contracts, and the expected interest rate accruing on home loans in the non-regulated sector.

Where the sum of the Group's estimated future commitments in respect of the savings and loan phases of any generation of contracts indicates a potentially unfavourable situation for the Group, a provision is recognised, with no offset between different generations. The commitments are estimated using the Monte Carlo method in order to reflect the uncertainty of future interest rate trends and their impact on customer behaviour models and at-risk outstandings.

The provision is recognised under liabilities on the balance sheet, and changes are recorded in interest income.

4.5 Interest income and expense

Interest income and expense is recognised on all financial instruments carried at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash inflows or outflows over the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The effective interest rate calculation takes account of all transaction fees paid or received and any premiums and discounts. Transaction fees paid or received forming an integral part of the effective interest rate of the contract, such as loan set-up fees and commission paid to financial partners, are accounted for as additional interest.

4.6 Service fee and commission income and expense

Fees and commission are recognised in income by type of service provided and according to the method used to account for the associated financial instrument:

- commission payable on recurring services is deferred over the period in which the service is provided (payment processing, securities custody fees, etc.);
- commission payable on occasional services is recognised in full in income when the service is provided (fund transfers, payment penalties, etc.);
- commission payable on execution of a significant transaction is recognised in full in income upon performance of the transaction.

Fees and commission forming an integral part of the effective yield on an instrument, such as fees on financing commitments given or origination fees, are recognised and amortised as an adjustment to the effective interest rate over the estimated term of the loan. These fees are therefore reported as interest income rather than fees and commission income.

Fiduciary, trust and similar fees and commission are earned by the Group when it holds or invests assets on behalf of individual customers, pension schemes or other institutions. The fiduciary and trust activities mainly consist of asset management and custody for third parties.

4.7 Foreign currency transactions

The method used to account for assets and liabilities relating to foreign currency transactions entered into by the Group depends upon whether the asset or liability in question is classified as a monetary or a non-monetary item.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the balance sheet on which they appear at the exchange rate on reporting date. Any foreign currency gains and losses are recognised in income, except in the following two cases:

- only the portion of the foreign currency gains and losses calculated on the amortised cost of available-for-sale financial assets is recognised in income, with any additional gains and losses recognised in "Gains and losses recognised directly in equity";
- foreign currency gains and losses arising on monetary items designated as cash flow hedges or as part of a net investment in a foreign operation are recognised in "Gains and losses recognised directly in equity".

Non-monetary assets carried at historical cost are translated at the exchange rate ruling at the transaction date. Non-monetary assets held at fair value are measured at the exchange rate ruling at the reporting date. Any foreign currency gains and losses on non-monetary assets and liabilities are recognised in:

- income if the gain or loss on the non-monetary item is recorded in income;
- "Gains and losses recognised directly in equity" if the gain or loss relating to the non-monetary item is recorded in "Gains and losses recognised directly in equity".

4.8 Employee benefits

The Palatine Group grants its employees a variety of benefits that can be classified into four categories:

4.8.1 Short-term employee benefits

Short-term employee benefits mainly include wages, salaries, paid annual leave, incentive schemes, profit-sharing, and bonuses payable within 12 months of the end of the annual period in which the employee performs the service.

They are expensed in the period, including amounts remaining due at the reporting date.

4.8.2 Long-term employee benefits

Long-term employee benefits are generally linked to long-service awards accruing to current employees and payable 12 months or more after the reporting date. Long-service awards to employees are a major component.

A provision is set aside covering the amount of these obligations at the reporting date.

Post-employment benefit obligations are measured using an actuarial method that takes account of demographic and financial assumptions such as age, length of service, the likelihood of the employee being on the payroll at retirement and the discount rate. The measurement consists in allocating costs over the service life of each employee (projected unit credit method).

4.8.3 Termination benefits

Termination benefits are granted to employees on termination of their employment contract prior to their normal retirement date, either as a result of redundancy or a decision by an employee to terminate a contract in exchange for a severance payment. A provision is set aside for termination benefits. Termination benefits not expected to be settled within the 12 months of the reporting date are discounted.

4.8.4 Post-employment benefits

Post-employment benefits include lump-sum retirement bonuses, pensions and other post-employment benefits.

These benefits can be classified into two categories: defined-contribution plans, which do not give rise to an obligation for the Group, and defined-benefit plans, which give rise to an obligation for the Group and are therefore measured and provided for.

A provision is set aside for employee benefit obligations that are not funded by contributions expensed and paid out to pension funds or insurance companies.

Post-employment benefits are measured in the same manner as long-term employee benefits.

The measurement of these obligations takes into consideration the value of plan assets.

Remeasurement gains and losses on post-employment benefits, reflecting changes in actuarial assumptions and experience adjustments, are recognised in equity (other comprehensive income) and are not subsequently transferred to income. Remeasurement gains and losses on long-term employee benefits are immediately recognised in income.

The annual expense recognised in respect of defined-benefit plans includes the current service cost, net interest cost (the effect of discounting the obligation), the expected return on plan assets and past service costs.

The amount of the provision reflects the total net obligation as the revised IAS 19 does not provide for unrecognised items.

4.9 Deferred taxes

Deferred tax assets and liabilities are recognised when temporary differences arise between the carrying amount of assets and liabilities at the reporting date and their tax base, irrespective of when the tax is expected to be recovered or settled.

Deferred tax assets and liabilities are measured at the tax rates and based on the tax rules in force and that are expected to apply to the period when the asset is recovered or realised.

Deferred tax liabilities and assets are offset at the level of each tax entity. The tax entity may either be a single entity or a tax consolidation group. Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the temporary difference will be utilised in the foreseeable future.

Deferred tax assets and liabilities are recognised as a tax benefit or expense in the income statement, except for:

- remeasurement gains and losses on post-employment benefits;
- unrealised gains or losses on available-for-sale assets; and
- changes in the fair value of derivatives used as cash flow hedges;

for which the corresponding deferred tax assets and liabilities are recognised as unrealised gains and losses directly in equity.

Deferred tax assets and liabilities are not discounted to their present value.

Note 5 Notes to the balance sheet

5.1 Cash and net balance of accounts with central banks

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Cash	6.2	6.0
Cash placed with central banks	307.7	29.0
CASH AND NET BALANCE OF ACCOUNTS WITH CENTRAL BANKS	**313.9**	**35.0**

This movement predominantly reflected the minimum reserves deposited with the Banque de France.

5.2 Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are instruments held for trading, including derivatives, and certain assets and liabilities that the Group has designated to recognise at fair value, at their date of acquisition or issue, using the fair value option under IAS 39.

5.2.1 Financial assets at fair value through profit or loss

Financial assets in the trading book mainly include derivatives used by the Group to manage its risk exposure.

	31 Dec. 2014	31 Dec. 2013
(in millions of euros)	Trading	Trading
Trading derivatives	67.7	39.0
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**67.7**	**39.0**

5.2.2 Financial liabilities at fair value through profit or loss

Financial liabilities in the trading book consist of derivatives.

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Trading derivatives	61.9	33.5
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**61.9**	**33.5**

5.2.3 Trading derivatives

The notional amounts of derivatives are merely an indication of the volume of activity and do not reflect the market risks associated with such instruments. Positive or negative fair values represent the replacement value of the instruments. These values may vary significantly depending on changes in market parameters.

	31 Dec. 2014			31 Dec. 2013		
(in millions of euros)	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Interest rate instruments	3,613.6	42.1	36.8	2,821.1	22.9	17.7
Currency instruments	1,841.2	0.0	0.0	1,323.7	0.0	0.0
Futures and forwards	**5,454.8**	**42.1**	**36.8**	**4,144.8**	**22.9**	**17.7**
Interest rate instruments	1,818.5	1.0	0.5	1,917.9	4.5	4.2
Currency instruments	1,681.0	24.6	24.6	1,069.9	11.6	11.6
Options	**3,499.5**	**25.6**	**25.1**	**2,987.8**	**16.1**	**15.8**
TOTAL TRADING DERIVATIVES	**8,954.3**	**67.7**	**61.9**	**7,132.6**	**39.0**	**33.5**

5.3 Hedging derivatives

Derivatives may be designated as hedges only if they meet the criteria laid down in IAS 39 at inception and throughout the term of the hedge. These criteria include formal documentation that the hedging relationship between the derivatives and the hedged items is effective both prospectively and retrospectively.

Fair value hedges mainly consist of interest-rate swaps that protect fixed-rate financial instruments against changes in fair value attributable to changes in market rates. They transform fixed-rate assets or liabilities into floating-rate instruments and include mostly hedges of fixed-rate loans, securities, deposits and subordinated debt.

Fair value hedging is also used to manage the global interest rate risk position.

The cash flow hedges fix or control the variability of cash flows arising from floating-rate instruments.

	31 Dec. 2014			31 Dec. 2013		
(in millions of euros)	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Interest rate instruments	2,846.2	11.2	145.1	1,492.1	11.3	50.0
Futures and forwards	**2,846.2**	**11.2**	**145.1**	**1,492.1**	**11.3**	**50.0**
Fair value hedge	**2,846.2**	**11.2**	**145.1**	**1,492.1**	**11.3**	**50.0**
Interest rate instruments	536.8	0.5	1.2	168.4	0.2	0.0
Futures and forwards	**536.8**	**0.5**	**1.2**	**168.4**	**0.2**	**0.0**
Cash flow hedge	**536.8**	**0.5**	**1.2**	**168.4**	**0.2**	**0.0**
TOTAL HEDGING DERIVATIVES	**3,383.0**	**11.7**	**146.3**	**1,660.5**	**11.5**	**50.0**

5.4 Available-for-sale financial assets

These are non-derivative financial assets that could not be classified in any of the other three categories ("Financial assets at fair value", "Held-to-maturity investments" or "Loans and receivables").

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Treasury bills and similar securities	1,090.6	0.0
Bonds and other fixed-income securities	329.7	401.4
Impaired securities	0.2	0.2
Fixed-income securities	**1,420.5**	**401.6**
Equities and other variable-income securities	**24.5**	**24.5**
Loans to customers	0.1	0.1
Loans	**0.1**	**0.1**
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS, GROSS	**1,445.1**	**426.2**
Impairment of fixed-income securities and loans	(0.2)	(0.2)
Prolonged impairment of equities and other variable-income securities	0.0	(0.1)
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET	**1,444.9**	**425.9**
Gains and losses recognised directly in equity on available-for-sale financial assets (before tax)	**5.0**	**3.8**

Impairment on available-for-sale financial assets is recognised whenever the Group considers that it may not recover its investment.

For variable-income securities quoted in an active market, a price decline in excess of 50% or for more than a 36-month period represents evidence of impairment.

Changes in treasury bills and similar securities stemmed mainly from purchases of sovereign issues (Finland, Belgium, Austria, Netherlands and Spain) as part of the liquidity investment policy.

At 31 December 2014, "Gains and losses recognised directly in equity" derived in particular from treasury bills, bonds and other fixed-income securities.

5.5 Fair value of financial assets and liabilities

5.5.1 Fair value hierarchy of financial assets and liabilities

The following statement provides a breakdown of financial instruments by type of price and valuation model:

	31 Dec. 2014				31 Dec. 2013			
(in millions of euros)	Quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using unobservable inputs (Level 3)	Total	Quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using unobservable inputs (Level 3)	Total
FINANCIAL ASSETS								
Derivatives	0.0	67.7	0.0	67.7	0.0	39.0	0.0	39.0
Interest-rate derivatives	0.0	43.0	0.0	43.0	0.0	27.4	0.0	27.4
Currency derivatives	0.0	24.7	0.0	24.6	0.0	11.6	0.0	11.6
Financial assets held for trading	**0.0**	**67.7**	**0.0**	**67.7**	**0.0**	**39.0**	**0.0**	**39.0**
Interest-rate derivatives	0.0	11.7	0.0	11.7	0.0	11.5	0.0	11.5
Hedging derivatives	**0.0**	**11.7**	**0.0**	**11.7**	**0.0**	**11.5**	**0.0**	**11.5**
Investments in unconsolidated subsidiaries	0.0	0.0	3.5	3.5	0.0	0.0	2.6	2.6
Other securities	1,441.3	0.0	0.0	1,441.3	418.7	4.5	0.0	423.2
Fixed-income securities	1,420.3	0.0	0.0	1,420.3	401.3	0.0	0.0	401.3
Variable-income securities	21.0	0.0	0.0	21.0	17.4	4.5	0.0	21.9
Other financial assets	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Available-for-sale financial assets	**1,441.4**	**0.0**	**3.5**	**1,444.9**	**418.8**	**4.5**	**2.6**	**425.9**
FINANCIAL LIABILITIES								
Derivatives	0.0	61.9	0.0	61.9	0.0	33.5	0.0	33.5
Interest-rate derivatives	0.0	37.3	0.0	37.3	0.0	21.9	0.0	21.9
Currency derivatives	0.0	24.6	0.0	24.6	0.0	11.6	0.0	11.6
Financial liabilities held for trading	**0.0**	**61.9**	**0.0**	**61.9**	**0.0**	**33.5**	**0.0**	**33.5**
Interest-rate derivatives	0.0	146.3	0.0	146.3	0.0	50.0	0.0	50.0
Hedging derivatives	**0.0**	**146.3**	**0.0**	**146.3**	**0.0**	**50.0**	**0.0**	**50.0**

5.5.2 Analysis of financial assets and liabilities classified in Level 3 of the fair value hierarchy

(in millions of euros)	31 Dec. 2013	Gains and losses recognised in income during the period on transactions still outstanding at the reporting date	Investment management events in the period: Purchases/Issues	Investment management events in the period: Sales/Repayments	31 Dec. 2014
FINANCIAL ASSETS					
Investments in unconsolidated subsidiaries	2.6	0.1	1.1	(0.2)	3.5
Available-for-sale financial assets	**2.6**	**0.1**	**1.1**	**(0.2)**	**3.5**

At 31 December 2014, the financial instruments measured using a technique reflecting unobservable inputs were investments in unconsolidated subsidiaries.

5.5.3 Analysis of transfers between levels in the fair value hierarchy

No transfers were made between levels in the fair value hierarchy.

5.5.4 Sensitivity of financial instruments classified in Level 3 of the fair value hierarchy to changes in the principal assumptions

Other than investments in unconsolidated subsidiaries, the Palatine Group has no financial instruments classified in level 3 of the fair value hierarchy.

5.6 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The vast majority of loans granted by the Group are classified in this category. Credit risk disclosures are provided in Note 7.1 – Credit risks and counterparty risk.

5.6.1 Loans and advances due from credit institutions

(in millions of euros)	**31 Dec. 2014**	**31 Dec. 2013**
Loans and advances due from credit institutions	5,675.7	5,338.9
TOTAL LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS	**5,675.7**	**5,338.9**

The fair value of loans and advances due from credit institutions is presented in Note 14 – Fair value of financial assets and liabilities carried at amortised cost.

Breakdown of gross loans and advances due from credit institutions

(in millions of euros)	**31 Dec. 2014**	**31 Dec. 2013**
Current accounts with overdrafts	55.2	42.4
Accounts and loans	5,605.7	5,281.7
Securities classified as loans and advances	12.2	12.2
Subordinated and participating loans	2.5	2.5
Impaired loans and advances	0.1	0.1
TOTAL GROSS LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS	**5,675.7**	**5,338.9**

Livret A and LDD savings accounts centralised with Caisse des Dépôts et Consignations and recorded under “Loans and advances” amounted to €248.0 million at 31 December 2014 (€245.0 million at 31 December 2013).

5.6.2 Loans and advances due from customers

(in millions of euros)	**31 Dec. 2014**	**31 Dec. 2013**
Loans and advances due from customers	8,009.5	7,564.1
Specific impairments	(245.8)	(226.0)
Collective impairments	(14.8)	(16.7)
TOTAL LOANS AND ADVANCES DUE FROM CUSTOMERS	**7,748.9**	**7,321.4**

The method used to discount cash flows recoverable from doubtful loans was adjusted based on litigation in progress, collateral and the nature of the relevant loans.

The fair value of loans and advances due from customers is presented in Note 14 – Fair value of financial assets and liabilities carried at amortised cost.

Breakdown of gross loans and advances due from customers

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Current accounts with overdrafts	**394.8**	**351.6**
Trade receivables	199.9	1,485.9
Short-term loans	1,270.8	0.0
Equipment loans	1,652.2	1,509.6
Home loans	1,743.6	1,692.1
Export loans	87.7	92.9
Other loans	1,848.8	1,779.3
Subordinated loans	4.4	3.7
Other facilities granted to customers	**6,807.4**	**6,563.5**
Securities classified as loans and advances	**272.7**	**140.3**
Securities classified as doubtful loans and advances	**4.0**	**4.0**
Impaired loans and advances	**530.6**	**504.7**
TOTAL GROSS LOANS AND ADVANCES DUE FROM CUSTOMERS	**8,009.5**	**7,564.1**

5.7 Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments that the Group has the intent and ability to hold to maturity.

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Treasury bills and similar securities	51.0	132.8
Bonds and other fixed-income securities	41.7	42.2
TOTAL HELD-TO-MATURITY INVESTMENTS	**92.7**	**175.0**

The fair value of held-to-maturity investments is presented in Note 14 – Fair value of financial assets and liabilities carried at amortised cost.

5.8 Reclassifications of financial assets

In application of the amendments to IAS 39 and IFRS 7 “Reclassification of financial assets”, the Group reclassified some of its financial assets during 2009. No reclassification was carried out between 2010 and 2014.

Portfolio of reclassified financial assets

(in millions of euros)	Carrying amount at the reclassification date	Carrying amount at 31 December 2013	Carrying amount at 31 December 2014	Change in 2014	Fair value at 31 December 2013	Fair value at 31 December 2014	Change in 2014
Assets reclassified in 2009							
Available-for-sale financial assets reclassified as loans and receivables	22.8	19.8	4.7	(15.1)	31.8	5.5	(26.3)
TOTAL SECURITIES RECLASSIFIED IN 2009	**22.8**	**19.8**	**4.7**	**(15.1)**	**31.8**	**5.5**	**(26.3)**
Assets reclassified between 2010 and 2014							
TOTAL SECURITIES RECLASSIFIED BETWEEN 2010 AND 2014	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL FINANCIAL ASSETS RECLASSIFIED	**22.8**	**19.8**	**4.7**	**(15.1)**	**31.8**	**5.5**	**(26.3)**

Results and changes in equity in 2014 related to reclassified financial assets

(in millions of euros)	Net banking income	Total (before tax)
Available-for-sale financial assets reclassified as loans and receivables	(0.2)	(0.2)
TOTAL RESULTS RELATED TO RECLASSIFIED FINANCIAL ASSETS	**(0.2)**	**(0.2)**

Gains and losses recognised directly in equity on transferred financial assets amounted to a net loss of €2.7 million at 31 December 2014.

Change in fair value that would have been recognised had the financial assets not been reclassified

(in millions of euros)	2014	2013
Available-for-sale financial assets reclassified as loans and receivables	0.1	(0.8)
TOTAL CHANGE IN FAIR VALUE THAT WOULD HAVE BEEN RECOGNISED HAD THE FINANCIAL ASSETS NOT BEEN RECLASSIFIED	**0.1**	**(0.8)**

5.9 Deferred taxes

Deferred tax assets and liabilities on temporary differences arise from the recognition of the items listed in the statement below (positive figures indicate deferred tax assets, while negative figures in brackets represent deferred tax liabilities):

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Provisions for employee benefit obligations	4.6	4.4
Provisions for regulated home savings products	1.3	2.6
Other non-deductible provisions	8.5	10.9
Fair value of financial instruments with changes recognised in other comprehensive income	(0.6)	(0.5)
Other temporary differences	5.5	5.8
Deferred tax assets and liabilities related to temporary differences	**19.3**	**23.2**
Deferred taxes arising from the IFRS valuation model	**(4.2)**	**(4.3)**
Deferred tax assets and liabilities on consolidation adjustments and eliminations	**0.5**	**0.5**
NET DEFERRED TAXES	**15.6**	**19.4**
Recognised		
As an asset	17.5	21.3
As a liability	(1.9)	(1.9)

At 31 December 2014, €15.6 million in deductible temporary differences, tax losses and tax credits not used for which no deferred taxes were recognised (year of expiry: 2019).

5.10 Accrued income and other assets

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Collection accounts	30.7	26.1
Prepaid expenses	1.7	3.0
Accrued income	26.9	29.3
Other accrual accounts	70.3	56.1
ACCRUAL ACCOUNTS - ASSETS	**129.6**	**114.5**
Security deposits paid	153.8	0.2
Miscellaneous debtors	15.4	46.4
SUNDRY ASSETS	**169.2**	**46.6**
TOTAL ACCRUAL ACCOUNTS AND SUNDRY ASSETS	**298.8**	**161.1**

Banque Palatine’s collection accounts chiefly reflect the cheques sent for collection (via the clearing house) and Dailly receivables discounted pending settlement.

At 31 December 2014, the “Other accrual accounts” line chiefly consists of loans by Banque Palatine that matured at the reporting date but had yet to be unwound.

At 31 December 2014, security deposits paid chiefly include €153.7 million in margin calls on financial instruments (compared with €33.3 million at 31 December 2013, recorded under Miscellaneous debtors).

5.11 Investments in associates

5.11.1 Joint arrangements

The Group's main investments in joint ventures and associates were as follows:

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Conservateur Finance	4.4	4.7
Financial companies	**4.4**	**4.7**
TOTAL INVESTMENTS IN ASSOCIATES	**4.4**	**4.7**

5.11.2 Financial data for the main joint arrangements and associates

The summary financial data for joint ventures and/or companies under significant influence was follows:

	Conservateur Finance	
(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Valuation method	Equity method	Equity method
Dividends received	0.7	0.4
MAIN AGGREGATES		
Total assets	28.0	29.4
Total debt	5.7	5.9
Income statement		
• Net banking income	19.5	17.3
• Income tax	(1.5)	(1.1)
• Net income	2.4	1.9
RECONCILIATION WITH THE REPORTED VALUE OF ASSOCIATES		
Equity of associates	22.1	23.3
Percentage interest	20.0%	20.0%
Share in equity of associates	4.4	4.7
Value of the investment in associates	4.4	4.7

5.11.3 Nature and scope of major restrictions

The Group did not face any major restrictions on interests held in associates and joint ventures.

5.12 Investment property

	31 Dec. 2014			31 Dec. 2013		
(in millions of euros)	Gross	Accumulated depreciation and impairment	Net	Gross	Accumulated depreciation and impairment	Net
Property recognised at historical cost	1.0	(0.6)	0.4	0.0	0.0	0.0
TOTAL INVESTMENT PROPERTY	**1.0**	**(0.6)**	**0.4**	**0.0**	**0.0**	**0.0**

5.13 Non-current assets

(in millions of euros)	31 Dec. 2014 Gross	31 Dec. 2014 Accumulated depreciation, amortisation and impairment	31 Dec. 2014 Net	31 Dec. 2013 Gross	31 Dec. 2013 Accumulated depreciation, amortisation and impairment	31 Dec. 2013 Net
PROPERTY, PLANT AND EQUIPMENT						
• Land and buildings	20.2	(14.4)	5.8	22.3	(15.0)	7.3
• Equipment, furniture and other property, plant and equipment	43.4	(28.7)	14.7	44.7	(28.1)	16.6
TOTAL PROPERTY, PLANT AND EQUIPMENT	**63.6**	**(43.1)**	**20.5**	**67.0**	**(43.1)**	**23.9**
INTANGIBLE ASSETS						
• Leasehold rights	11.8	(1.1)	10.7	11.7	(1.1)	10.6
• Software	27.6	(18.5)	9.1	27.3	(19.1)	8.2
• Other intangible assets	1.1	0.0	1.1	1.5	0.0	1.5
TOTAL INTANGIBLE ASSETS	**40.5**	**(19.6)**	**20.9**	**40.6**	**(20.2)**	**20.3**

5.14 Goodwill

This item reflects goodwill on fully-consolidated entities.

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Goodwill at beginning of period, net	4.1	4.1
Impairment losses	(0.3)	0.0
Goodwill at end of period, net	**3.8**	**4.1**

(in millions of euros)	Carrying amount 31 Dec. 2014	Carrying amount 31 Dec. 2013
Ariès Assurances	3.8	4.1
TOTAL GOODWILL	**3.8**	**4.1**

Impairment tests

Goodwill was tested for impairment in accordance with the regulations based on the assessment of the value in use of the cash generating units (CGU) to which they are attached.

These tests prompted the Group to recognise a €0.3 million impairment loss in 2014.

Key assumptions used to determine recoverable amount

The following assumptions were used:

- discounted free cash flow method;
- discount rate of 9.3%;
- perpetual growth rate of 2.0%.

Business plan used for the measurement

	2013	% of revenues	2014	% of revenues	2015	% of revenues	2016	% of revenues	2017	% of revenues	2018	% of revenues	Normalised	% of revenues	CAGR 2014-2018
Revenue	1.0		0.8		0.9		0.9		1.0		1.0		1.0		4.7%
Results	0.5	52.0%	0.4	42.4%	0.4	43.8%	0.4	46.7%	0.5	49.3%	0.5	51.6%	0.5	51.6%	10.0%

5.15 Amounts due to credit institutions and to customers

These liabilities, which are not classified as financial liabilities at fair value through profit or loss, are carried at amortised cost under "Amounts due to credit institutions" or "Amounts due to customers".

5.15.1 Amounts due to credit institutions

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Demand accounts	354.0	409.3
Accrued interest	0.1	0.4
AMOUNTS DUE TO CREDIT INSTITUTIONS - REPAYABLE ON DEMAND	**354.1**	**409.7**
Term deposits and loans	2,055.7	1,481.8
Repurchase agreements	37.6	189.1
Accrued interest	4.9	9.1
AMOUNTS DUE TO CREDIT INSTITUTIONS - REPAYABLE AT AGREED MATURITY DATES	**2,098.2**	**1,680.0**
TOTAL AMOUNTS DUE TO CREDIT INSTITUTIONS	**2,452.3**	**2,089.7**

The fair value of amounts due to credit institutions is presented in Note 14 – Fair value of financial assets and liabilities carried at amortised cost.

5.15.2 Amounts due to customers

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Current accounts in credit	**5,786.8**	**5,070.3**
Livret A savings accounts	162.7	158.7
Regulated home savings products	282.6	276.6
Other regulated savings accounts	544.8	570.6
Regulated savings accounts	**990.1**	**1,005.9**
Demand accounts and loans	33.6	26.6
Term accounts and loans	1,327.8	1,725.8
Accrued interest	3.6	5.7
Other customer accounts	**1,365.0**	**1,758.1**
TOTAL AMOUNTS DUE TO CUSTOMERS	**8,141.9**	**7,834.3**

The fair value of amounts due to customers is presented in Note 14 – Fair value of financial assets and liabilities carried at amortised cost.

5.16 Debt securities

Debt securities are classified based on the nature of the underlying, except for subordinated notes presented under "Subordinated debt".

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Bonds	0.0	10.0
Interbank market instruments and negotiable debt securities	3,897.8	2,533.8
Accrued interest	5.2	3.5
TOTAL DEBT SECURITIES	**3,903.0**	**2,547.3**

The fair value of debt securities is presented in Note 14 – Fair value of financial assets and liabilities carried at amortised cost.

5.17 Accrued expenses and other liabilities

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Collection accounts	33.5	62.9
Prepaid income	3.6	4.2
Accrued expenses	41.6	45.6
Other accrual accounts	8.1	7.1
ACCRUAL ACCOUNTS - LIABILITIES	**86.8**	**119.8**
Settlement accounts in credit on securities transactions	0.6	0.7
Guarantee deposits received	0.1	0.1
Sundry creditors	19.6	30.4
OTHER LIABILITIES	**20.3**	**31.2**
TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES	**107.1**	**151.0**

Collection accounts mainly reflect transfers made (via the clearing house).

At 31 December 2014, sundry creditors chiefly include:

- €9.7 million in tax and social security liabilities (€12.0 million at 31 December 2013);
- €6.5 million in employee incentives and profit-sharing (€4.7 million at 31 December 2013);
- no margin call on financial instruments (€13.3 million at 31 December 2013).

5.18 Provisions

(in millions of euros)	31 Dec. 2013	Increase	Reversal	Other movements	31 Dec. 2014
Provisions for employee benefit obligations	**15.4**	**0.3**	**(0.5)**	**1.5**	**16.7**
Provisions for regulated home savings products	7.7	0.0	(3.9)	0.0	3.8
Provisions for off-balance sheet commitments	14.8	7.8	(3.7)	(0.7)	18.2
Provisions for litigation	3.1	1.1	(1.0)	0.0	3.2
Other	1.9	1.9	(0.9)	0.7	3.6
Other provisions	**27.5**	**10.8**	**(9.5)**	**0.0**	**28.8**
TOTAL PROVISIONS	**42.9**	**11.1**	**(10.0)**	**1.5**	**45.5**

5.18.1 Deposits collected via regulated home savings products

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Deposits collected via PEL regulated home savings plans		
Plans in place for less than 4 years	85.5	65.4
Plans in place for more than 4, but less than 10 years	43.4	77.8
Plans in place for more than 10 years	135.1	116.3
Deposits collected via regulated PEL home savings plans	**264.0**	**259.5**
Deposits collected via CEL regulated home savings accounts	18.6	19.3
TOTAL DEPOSITS COLLECTED VIA HOME SAVINGS PRODUCTS	**282.6**	**278.8**

5.18.2 Loans granted via home savings products

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Loans granted for PEL regulated home savings plans	0.1	0.2
Loans granted under CEL regulated home savings accounts	0.5	0.6
TOTAL LOANS OUTSTANDING ON REGULATED HOME SAVINGS PRODUCTS	**0.6**	**0.8**

5.18.3 Provisions set aside for regulated home savings products

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Provisions for PEL regulated home savings plans		
plans in place for less than 4 years	0.7	0.0
plans in place for more than 4, but less than 10 years	0.3	0.3
plans in place for more than 10 years	2.5	7.2
PROVISIONS FOR PEL REGULATED HOME SAVINGS PLANS	**3.5**	**7.5**
PROVISIONS FOR CEL REGULATED HOME SAVINGS ACCOUNTS	**0.3**	**0.2**
TOTAL PROVISIONS ON REGULATED HOME SAVINGS PRODUCTS	**3.8**	**7.7**

5.19 Subordinated debt

Subordinated debt is classified separately from issues of other debt and bonds because in the event of default, holders of subordinated debt rank after all senior and unsecured debt holders.

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Term subordinated debt	40.0	40.0
Accrued interest	0.5	0.5
TOTAL SUBORDINATED DEBT	**40.5**	**40.5**

The fair value of subordinated debt is presented in Note 14 – Fair value of financial assets and liabilities carried at amortised cost.

Term subordinated debt includes:

(in millions of euros)	Currency	Issue date	Maturity date	Interest rate	Amount at 31 Dec. 2014
BPCE	EUR	29 June 2005	18 February 2017	3.9%	15.5
BPCE	EUR	15 December 2005	20 February 2016	3-month Euribor + 0.4%	25.0
TOTAL TERM SUBORDINATED DEBT					**40.5**

Deeply subordinated notes qualifying as equity instruments are presented in Note 5.20.2 – Perpetual deeply subordinated notes classified as equity.

5.20 Ordinary shares and equity instruments issued

5.20.1 Ordinary shares

	31 Dec. 2014			31 Dec. 2013		
(in millions of euros)	Number	Par value	Share capital	Number	Par value	Share capital
BANQUE PALATINE ORDINARY SHARES						
Opening balance	26,940,134	20	538.8	26,940,134	20	538.8
Closing balance	**26,940,134**	**20**	**538.8**	**26,940,134**	**20**	**538.8**

5.20.2 Perpetual deeply subordinated notes classified as equity

(in millions of euros)	Currency	Issue date	Interest rate	Amount at 31 Dec. 2014	Amount at 31 Dec. 2013
BPCE	EUR	28 December 2004	3-month Euribor + 1.0%	15.0	15.0
BPCE	EUR	20 December 2005	3-month Euribor + 0.92%	65.0	65.0
TOTAL PERPETUAL DEEPLY SUBORDINATED DEBT				**80.0**	**80.0**

5.21 Non-controlling interests

Fully-consolidated investments are wholly owned by the consolidating entity. As a result, no share is attributable to non-controlling interests.

5.22 Change in gains and losses recognised directly in equity

(in millions of euros)	**2014**	**2013**
Remeasurement gains and losses on defined-benefit plans	(1.5)	0.1
Tax impact of remeasurement gains and losses on defined-benefit plans	0.5	0.0
Change in the value of available-for-sale financial assets	1.1	(2.3)
Change in value over the period affecting equity	2.4	(1.2)
Change in value over the period affecting income	(1.3)	(1.1)
Changes in the value of hedging derivatives	(0.6)	0.2
Income taxes	(0.2)	0.8
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY (NET OF TAX)	**(0.7)**	**(1.2)**

	2014			**2013**		
(in millions of euros)	**Gross**	**Tax expense**	**Net**	**Gross**	**Tax expense**	**Net**
Remeasurement gains and losses on defined-benefit plans	(1.5)	0.5	(1.0)	0.1	0.0	0.1
Change in the value of available-for-sale financial assets	1.1	(0.4)	0.7	(2.3)	0.8	(1.5)
Changes in the value of hedging derivatives	(0.6)	0.2	(0.4)	0.2	0.0	0.2
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY	**(1.0)**	**0.3**	**(0.7)**	**(2.0)**	**0.8**	**(1.2)**
Attributable to equity holders of the parent	(1.0)	0.3	(0.7)	(2.0)	0.8	(1.2)
Non-controlling interests (minority interests)	0.0	0.0	0.0	0.0	0.0	0.0

Note 6 Notes to the income statement

6.1 Interest and similar income and expense

This line item comprises interest income and expense, calculated using the effective interest method, on financial assets and liabilities carried at amortised cost, which include interbank transactions and customer transactions, held-to-maturity investments, debt securities and subordinated debt.

It also includes interest accrued and due on fixed-income securities classified as available-for-sale financial assets and hedging derivatives, it being specified that accrued interest on cash flow hedges is taken to income in the same manner and period as the accrued interest on the hedged item.

	2014			2013		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Loans and advances due from/to customers	240.6	(50.2)	190.4	227.3	(60.8)	166.5
Transactions with customers (excl. regulated savings accounts)	236.8	(35.1)	201.7	227.6	(43.2)	184.4
Term deposits and loans in regulated savings accounts	3.8	(15.1)	(11.3)	(0.3)	(17.6)	(17.9)
Loans and advances due from/to credit institutions	69.3	(19.4)	49.9	76.9	(21.1)	55.8
Debt securities and subordinated debt		(21.8)	(21.8)		(15.7)	(15.7)
Hedging derivatives	13.3	(58.6)	(45.3)	14.8	(38.1)	(23.3)
Available-for-sale financial assets	42.9		42.9	23.2		23.2
Held-to-maturity investments	3.6		3.6	5.4		5.4
Impaired financial assets	4.1		4.1	3.4		3.4
TOTAL INTEREST INCOME AND EXPENSE	**373.8**	**(150.0)**	**223.8**	**351.0**	**(135.7)**	**215.3**

Interest income on loans and advances to credit institutions consisted of €4.0 million in income in 2014 (€5.0 million in 2013) collected on the Livret A, LDD and LEP passbook savings accounts, which are deposited centrally with Caisse des Dépôts et Consignations.

Interest income or expenses on regulated savings accounts included €3.9 million in 2014 in respect of a net reversal from the provision for home savings (net charge of €0.3 million in 2013).

6.2 Fee and commission income and expense

Fee and commission income and expense is recorded based on the type of service rendered and on the method of accounting for the financial instrument to which the service relates.

This line includes mainly fees and commission receivable or payable on recurring services (payment processing, custody fees, etc.) and occasional services (fund transfers, payment penalties, etc.), commission receivable or payable on execution of significant transactions, and commission receivable or payable on trust assets managed on behalf of the Group’s customers.

However, fees and commission that form an integral part of the effective yield on a contract are recorded under “Net interest income”.

	2014			2013		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Cash and interbank transactions	0.1	(0.2)	(0.1)	0.1	(0.3)	(0.2)
Transactions with customers	30.5	0.0	30.5	29.9	0.0	29.9
Financial services	4.1	(6.9)	(2.8)	4.1	(6.4)	(2.3)
Sales of life insurance products	12.1		12.1	11.5		11.5
Payment services	10.7	(4.6)	6.1	10.8	(5.3)	5.5
Securities transactions	1.3	(0.1)	1.2	1.7	(2.4)	(0.7)
Fiduciary and trust activities	35.5	0.0	35.5	35.7	0.0	35.7
Foreign exchange and arbitrage transactions	0.3	0.0	0.3	0.3	0.0	0.3
Other fee and commission income	3.3	(0.2)	3.1	3.2	(0.3)	2.9
TOTAL FEES AND COMMISSION	**97.9**	**(12.0)**	**85.9**	**97.3**	**(14.7)**	**82.6**

6.3 Net gains or losses on financial instruments at fair value through profit or loss

This item includes gains and losses, including the related interest, on financial assets and liabilities classified as held for trading or designated at fair value through profit or loss.

"Gains and losses on hedging transactions" include gains and losses arising from the remeasurement of derivatives used as fair value hedges, as well as gains and losses from remeasurement of the hedged item in the same manner, remeasurement at fair value of the macro-hedged portfolio and the ineffective portion of cash flow hedges.

(in millions of euros)	2014	2013
Gains and losses on financial instruments held for trading	4.7	5.4
Gains and losses on hedging transactions	0.0	0.0
Ineffective portion of fair value hedges	0.0	0.0
Change in fair value of hedging instrument	*(96.8)*	*39.2*
Change in fair value of hedged items attributable to hedged risks	*96.8*	*(39.2)*
Gains and losses on foreign exchange transactions	4.2	3.7
TOTAL NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**8.9**	**9.1**

In 2014, the "Gains and losses on financial instruments held for trading" line included the change in fair value of derivatives, of which negative €1.4 million was attributable to the trend in counterparty risk adjustments (Credit Valuation Adjustment – CVA).

6.4 Net gains or losses on available-for-sale financial assets

This item includes dividends from variable-income securities, gains and losses on the sale of available-for-sale financial assets and other financial assets not measured at fair value, as well as impairment losses recognised on variable-income securities owing to a prolonged decline in their value.

(in millions of euros)	2014	2013
Net gain/(loss) on disposal	1.0	2.0
Dividends received	0.1	0.2
TOTAL NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**1.1**	**2.2**

6.5 Income and expense from other activities

This item mainly comprises:

- income and expense on investment property (rental income and expense, gains and losses on disposals, depreciation and impairment);
- income and expense resulting from the Group's insurance business (premium income, benefits and claims paid, and changes in insurance companies' technical provisions);
- income and expense on operating leases;

income and expense on real estate development activities (revenues, purchases used).

	2014			2013		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Transfers of expenses and income	0.7	(0.9)	(0.2)	0.6	(1.0)	(0.4)
Other miscellaneous operating income and expense	0.5	(2.1)	(1.6)	0.1	(1.2)	(1.1)
Additions to and reversals from provisions to other operating income and expense	0.7	(0.4)	0.3	0.0	0.0	0.0
OTHER BANKING INCOME AND EXPENSE	**1.9**	**(3.4)**	**(1.5)**	**0.7**	**(2.2)**	**(1.5)**
TOTAL INCOME AND EXPENSE FROM OTHER ACTIVITIES	**1.9**	**(3.4)**	**(1.5)**	**0.7**	**(2.2)**	**(1.5)**

6.6 Operating expenses

Operating expenses include mainly payroll costs (wages and salaries net of rebilled amounts), social security charges, and employee benefit expenses such as pension costs. Operating expenses also include the full amount of administrative expenses and other external services costs.

(in millions of euros)	**2014**	**2013**
PAYROLL COSTS	**(118.4)**	**(113.0)**
Taxes other than on income	(8.1)	(7.6)
External services	(51.0)	(51.5)
OTHER ADMINISTRATIVE EXPENSES	**(59.1)**	**(59.1)**
TOTAL OPERATING EXPENSES	**(177.5)**	**(172.1)**

The breakdown of payroll costs is provided in Note 8.1 – Payroll costs.

6.7 Cost of risk

This item records net impairment charges for credit risks, irrespective of whether the impairment is assessed specifically or collectively for a portfolio of homogeneous loans.

Impairment losses are recognised for both loans and advances and fixed-income investment securities when there is an incurred counterparty risk. Losses arising from other types of instruments recorded as a result of default by credit institutions are also included in this line item.

Cost of risk for the period

(in millions of euros)	**2014**	**2013**
Net impairment losses and provisions	(43.3)	(51.1)
Recoveries of bad debts written off	1.8	1.6
Unrecoverable loans and receivables not covered by impairment losses	(5.1)	(13.5)
TOTAL COST OF RISK	**(46.6)**	**(63.0)**

Cost of risk by type of asset

(in millions of euros)	**2014**	**2013**
Interbank transactions	0.1	0.0
Transactions with customers	(45.9)	(63.0)
Other financial assets	(0.8)	0.0
TOTAL COST OF RISK	**(46.6)**	**(63.0)**

In 2013, a significant impairment was recognised on a specific file.

6.8 Share in net income of associates

(in millions of euros)	**2014**	**2013**
Conservateur Finance	0.5	0.3
Financial companies	**0.5**	**0.3**
TOTAL SHARE IN NET INCOME OF ASSOCIATES	**0.5**	**0.3**

6.9 Gains or losses on other assets

This item includes gains and losses on disposals of property, plant and equipment and intangible assets, as well as capital gains and losses on disposals of investments in unconsolidated subsidiaries.

No gain or loss on other assets was recorded in 2014.

6.10 Changes in the value of goodwill

(in millions of euros)	2014	2013
Ariès Assurances	(0.3)	0.0
TOTAL CHANGE IN THE VALUE OF GOODWILL	**(0.3)**	**0.0**

6.11 Income tax

6.11.1 Analysis of income tax

(in millions of euros)	2014	2013
Current income tax	(26.8)	(23.2)
Deferred income tax	(4.0)	0.4
INCOME TAX EXPENSE	**(30.8)**	**(22.8)**

6.11.2 Reconciliation between the tax charge in the financial statements and the theoretical tax charge

	2014		**2013**	
	(in millions of euros)	**tax rate**	**(in millions of euros)**	**tax rate**
Net income attributable to equity holders of the parent	52.7		38.9	
Change in value of goodwill	0.3		0.0	
Share in net income of associates	(0.5)		(0.3)	
Income taxes	30.8		22.8	
Income before tax and changes in the value of goodwill (A)	**83.3**		**61.4**	
Standard income tax rate in France (B)		**34.43%**		**34.43%**
Theoretical income tax expense/(benefit) at the tax rate applicable in France (AxB)	**(28.7)**		**(21.1)**	
Impact of permanent differences	0.3	(0.36%)	0.5	(0.81%)
Reduced rate of tax and tax-exempt activities	0.1	(0.12%)	(0.2)	0.33%
Temporary step-up in corporate tax	(1.9)	2.28%	(1.7)	2.77%
Tax on prior periods, tax credits and other taxes	(0.3)	0.36%	0.3	(0.49%)
Other items	(0.3)	0.36%	(0.5)	0.81%
Income tax expense/(benefit) recognised	**(30.8)**		**(22.8)**	
EFFECTIVE TAX RATE (INCOME TAX EXPENSE DIVIDED BY TAXABLE INCOME)		**36.97%**		**37.15%**

Note 7 Exposure to risks

Disclosures relating to capital management and regulatory ratios are presented in the Risk management section.

7.1 Credit risk and counterparty risk

Certain disclosures relating to risk management required by IFRS 7 are also provided in the risk management report. They form an integral part of the financial statements audited by the Statutory Auditors. These include:

- the credit risk measurement system;
- exposure to credit risk;
- breakdown of exposures by Basel category, region, sector of activity, credit quality level;
- concentration of credit risks by segment;
- impaired assets, past due payments and credit risk hedging;
- risk profile;
- risk mitigation techniques.

This information forms an integral part of the financial statements audited by the Statutory Auditors.

7.1.1 Credit risk measurement and management

Credit risk arises whenever a counterparty is unable to meet its payment obligations and may result from a reduction in credit quality, or even default by the counterparty.

Commitments exposed to credit risk consist of existing or potential receivables and particularly loans, debt securities, equities, performance swaps, performance bonds, or confirmed or undrawn facilities.

Credit risk management procedures and assessment methods, risk concentration, the quality of performing financial assets, and the analysis and breakdown of outstandings are described in the risk management report.

7.1.2 Global exposure to credit risk and counterparty risk

The statement below shows the credit risk exposure of all the Palatine Group's financial assets. The credit risk exposure is calculated on the basis of the carrying amount of the financial assets without taking into account the impact of any unrecognised netting or collateral agreements.

(in millions of euros)	**Net outstandings at 31 Dec. 2014**	**Net outstandings at 31 Dec. 2013**
Financial assets at fair value through profit or loss (*excluding variable-income securities*)	67.7	39.0
Hedging derivatives	11.7	11.5
Available-for-sale financial assets (*excluding variable-income securities*)	1,420.4	401.4
Loans and advances due from credit institutions	5,675.7	5,338.9
Loans and advances due from customers	7,748.9	7,321.4
Held-to-maturity investments	92.7	175.0
EXPOSURE TO BALANCE SHEET COMMITMENTS	**15,017.1**	**13,287.2**
Financial guarantees given	1,111.1	1,145.3
Off-balance sheet commitments	2,552.2	1,479.9
EXPOSURE TO OFF-BALANCE SHEET COMMITMENTS	**3,663.3**	**2,625.2**
GLOBAL EXPOSURE TO CREDIT RISK AND COUNTERPARTY RISK	**18,680.4**	**15,912.4**

7.1.3 Impairments and provisions for credit risk

(in millions of euros)	31 Dec. 2013	Charges	Reversals	Other changes	31 Dec. 2014
Available-for-sale financial assets	0.2	0.0	0.0	0.0	0.2
Transactions with customers	242.7	64.2	(46.6)	0.3	260.6
Other financial assets	0.0	0.8	0.0	0.0	0.8
IMPAIRMENT LOSSES RECOGNISED IN ASSETS	**242.9**	**65.0**	**(46.6)**	**0.3**	**261.6**
PROVISIONS FOR OFF-BALANCE SHEET COMMITMENTS	**14.8**	**7.8**	**(3.7)**	**(0.7)**	**18.2**
TOTAL IMPAIRMENT LOSSES AND PROVISIONS FOR CREDIT RISK	**257.7**	**72.8**	**(50.3)**	**(0.4)**	**279.8**

7.1.4 Financial assets with past due payments

Assets with past due payments are performing financial assets for which a payment incident has been recorded. For example:

- a debt instrument is considered past due if the bond issuer is no longer making interest payments;
- a loan is considered past due if a payment or instalment has been missed and recorded as such in the financial statements;
- a current account overdraft carried in “Loans and advances” is considered past due if the overdraft period or authorised limit has been exceeded at the reporting date.

The amounts disclosed in the statement below do not include past due payments resulting from the time difference between the settlement date and the recognition date.

Past due loans and receivables (past due principal and accrued interest in the case of loans and total overdrawn balance in the case of current accounts) can be broken down by due date as follows:

(in millions of euros)	Unimpaired outstandings up to 90 days past due	Impaired outstandings (net)	Total outstandings
Loans and advances	60.4	288.8	349.2
TOTAL AT 31 DEC. 2014	**60.4**	**288.8**	**349.2**
TOTAL AT 31 DEC. 2013	**77.5**	**282.7**	**360.2**

7.1.5 Forbearance adjustments

The following statement shows the assets (excluding assets held for trading) and financing commitments that are subject to changes to the terms of their initial contract or the grant of a concession when a debtor experiences financial difficulties (forbearance exposures).

	31 Dec. 2014		
(in millions of euros)	Adjustments	Impairments and provisions	Guarantees received
Balance sheet	238.9	(63.4)	11.1
Off-balance sheet	11.3	0.0	0.0

7.1.6 Credit risk mitigation mechanisms: assets obtained by taking possession of collateral

The Palatine Group did not obtain any assets by taking possession of collateral.

7.2 Market risk

Market risk reflects the risk of a financial loss as a result of market trends, such as:

- interest rates: interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market rates of interest;
- exchange rates;
- prices: price risk is the risk of a potential loss resulting from changes in market prices, irrespective of whether these are caused by factors specific to the instrument or its issuer, or by factors affecting all instruments traded on the market. Variable-income securities, equity derivatives and commodity derivatives are exposed to this type of risk; and
- more generally, any market input involved in the measurement of portfolios.

Systems for the measurement and monitoring of market risks are presented in the risk management report.

The disclosures in the risk management report required under IFRS 7 and relating to the management of market risk include:

- arrangements for monitoring market risks;
- the Group's policy;
- the system of risk measurement and limits for market and financial risks;
- the market risk monitoring framework;
- results of the second-level controls performed on market risks.

7.3 Global interest rate risk and exchange rate risk

Interest rate risk is the risk that unfavourable changes in interest rates will adversely impact the Group's annual results and net asset value. Exchange rate risk is the risk of losses resulting from changes in exchange rates.

The disclosures in the risk management report required under IFRS 7 and relating to the management of interest rate risk and currency risk include:

- the Group's policy;
- framework for measuring and monitoring global interest rate risk;
- interest rate risk reporting.

7.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to honour its obligations or make repayments as they fall due.

The funding procedures and liquidity risk management arrangements are disclosed in the risk management report.

Disclosures relating to the management of liquidity risk required by IFRS 7 and provided in the risk management report include:

- the Group's strategy and policy;
- refinancing volumes;
- framework for measuring and monitoring liquidity risk;
- the description of the overall organisation of liquidity risk controls;
- trends in the cost of liquidity indicators.

Analysis by remaining term to maturity

The table below shows the amounts of financial instrument by contractual maturity date.

(in millions of euros)	No fixed maturity, non-standard	0 to 1 month	More than 1 and up to 3 months	More than 3 and up to 12 months	1 to 5 years	Over 5 years	Indeterminate	Total
Cash, central banks		313.9	0.0					313.9
Financial assets at fair value through profit or loss – trading	67.7							67.7
Hedging derivatives	11.7							11.7
Available-for-sale financial assets	2.5	62.7	17.5	184.2	1,161.5	12.9	3.7	1,444.9
Loans and advances due from credit institutions	0.0	1,458.1	415.4	1,810.1	1,330.2	661.9	0.0	5,675.7
Loans and advances due from customers	300.6	1,049.9	475.5	730.0	2,929.9	2,250.1	12.9	7,748.9
Held-to-maturity investments	0.0	1.9	0.0	40.0	0.0	50.9	0.0	92.7
TOTAL FINANCIAL ASSETS BY MATURITY	**382.5**	**2,886.3**	**908.4**	**2,764.4**	**5,421.5**	**2,975.8**	**16.5**	**15,355.3**
Financial liabilities at fair value through profit or loss – trading	61.9							61.9
Hedging derivatives	146.3							146.3
Amounts due to credit institutions	0.0	494.5	160.1	260.6	1,485.4	51.7	0.0	2,452.3
Amounts due to customers	0.0	6,751.3	456.0	502.3	425.4	6.9	0.0	8,141.9
Subordinated debt	0.0	0.5	0.0	0.0	40.0	0.0	0.0	40.5
Debt securities	0.0	503.1	1,740.7	1,588.9	14.0	56.3	0.0	3,903.0
TOTAL FINANCIAL LIABILITIES BY MATURITY	**208.2**	**7,749.4**	**2,356.8**	**2,351.8**	**1,964.8**	**114.9**	**0.0**	**14,745.9**
Financing commitments given to credit institutions		0.0	0.0	1,100.0	0.0	0.0	0.0	1,100.0
Financing commitments given to customers		255.7	89.8	21.6	1,078.6	11.3	13.4	1,470.4
TOTAL FINANCING COMMITMENTS GIVEN BY MATURITY		**255.7**	**89.8**	**1,121.6**	**1,078.6**	**11.3**	**13.4**	**2,570.4**
Guarantee commitments given to credit institutions		29.1	39.9	14.6	1.2	0.7	0.0	85.6
Guarantee commitments given to customers		21.2	27.7	114.6	94.1	767.8	0.0	1,025.4
TOTAL GUARANTEE COMMITMENTS GIVEN BY MATURITY		**50.3**	**67.6**	**129.2**	**95.3**	**768.5**	**0.0**	**1,111.1**

Financial instruments at fair value through profit or loss and held in the trading book, variable-income available-for-sale financial assets, doubtful loans, hedging derivatives and remeasurement gains and losses on interest rate risk-hedged portfolios appear in the “No fixed maturity” column.

These financial instruments are:

- either held for sale or redeemed prior to their contractual maturity;
- or held for sale or redeemed at an indeterminable date (particularly where they have no contractual maturity);
- or measured on the balance sheet for an amount impacted by remeasurement effects.

Accrued interest not yet due is shown in the “Less than 1 month” column.

The amounts shown are contractual amounts excluding projected interest.

Note 8 Employee benefits

8.1 Payroll costs

(in millions of euros)	2014	2013
Wages and salaries	(67.1)	(64.5)
Costs of defined-contribution and benefit plans	(6.6)	(7.2)
Other tax and social security charges	(38.2)	(36.8)
Profit-sharing and incentive plans	(6.5)	(4.5)
TOTAL PAYROLL COSTS	**(118.4)**	**(113.0)**

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1.1 million in 2014.

The use made of this tax credit is presented in the "Social, environmental and societal information" section of the registration document.

8.2 Employee benefits

The Palatine Group grants its staff a variety of employee benefits:

- pensions and other post-employment benefits such as termination benefits and other benefits granted to retirees;
- other benefits such as long-service awards and other long-term employee benefits.

8.2.1 Analysis of assets and liabilities recorded on the balance sheet

	Post-employment benefits under defined-benefit plans		Other long-term benefits		
(in millions of euros)	Supplementary pension benefits and other	Termination benefits	Long-service awards	2014	2013
Actuarial liabilities	0.6	13.5	2.6	16.7	15.4
Net amount reported on the balance sheet	**0.6**	**13.5**	**2.6**	**16.7**	**15.4**
Employee benefits, liabilities	0.6	13.5	2.6	16.7	15.4
Employee benefits, assets	0.0	0.0	0.0	0.0	0.0

8.2.2 Change in amounts recognised on the balance sheet

(in millions of euros)	Post-employment benefits under defined-benefit plans		Other long-term benefits		
	Supplementary pension benefits and other	Termination benefits	Long-service awards	2014	2013
Actuarial liabilities at start of year	**0.6**	**12.4**	**2.4**	**15.4**	**14.8**
Service cost	0.1	0.7	0.2	1.0	0.9
Interest cost	0.0	0.3	0.1	0.4	0.5
Benefits paid	(0.1)	(0.9)	(0.2)	(1.2)	(1.3)
Other	0.1	(0.6)	0.1	(0.4)	0.5
Changes recognised in income	**0.1**	**(0.5)**	**0.2**	**(0.2)**	**0.6**
Remeasurement gains and losses - demographic assumptions	(0.1)	0.3		0.2	0.0
Remeasurement gains and losses - financial assumptions	0.0	0.8		0.8	0.0
Remeasurement gains and losses - experience adjustments	0.0	0.5		0.5	0.0
Changes recognised directly in equity that cannot be reclassified	**(0.1)**	**1.6**		**1.5**	**0.0**
ACTUARIAL LIABILITIES AT END OF YEAR	**0.6**	**13.5**	**2.6**	**16.7**	**15.4**

Remeasurement gains and losses on post-employment benefits

(in millions of euros)	Post-employment benefits under defined-benefit plans			
	Supplementary pension benefits and other	Termination benefits	2014	2013
Cumulative remeasurement gains and losses at start of period	**(0.5)**	**0.4**	**(0.1)**	**0.0**
Remeasurement gains and losses in reporting period	0.0	1.5	1.5	(0.1)
CUMULATIVE REMEASUREMENT GAINS AND LOSSES AT END OF PERIOD	**(0.5)**	**1.9**	**1.4**	**(0.1)**

8.2.3 Actuarial expense under defined-benefit plans

The various components of the charge recognised for defined-benefit plans are included under “Payroll costs”.

(in millions of euros)	Post-employment benefits under defined-benefit plans		Other long-term benefits		
	Supplementary pension benefits and other	Termination benefits	Long-service awards	2014	2013
Service cost	(0.1)	(0.7)	(0.2)	(1.0)	(0.9)
Interest cost	0.0	(0.3)	(0.1)	(0.4)	(0.5)
Benefits paid	0.1	0.9	0.2	1.2	1.3
Other	(0.1)	0.6	(0.1)	0.4	(0.5)
TOTAL EXPENSE/(INCOME) FOR THE PERIOD	**(0.1)**	**0.5**	**(0.2)**	**0.2**	**(0.6)**

8.2.4 Main actuarial assumptions

	31 Dec. 2014			31 Dec. 2013		
	Post-employment benefits under defined-benefit plans		Other long-term benefits	Post-employment benefits under defined-benefit plans		Other long-term benefits
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Supplementary pension benefits and other	Termination benefits	Long-service awards
Discount rate	1.5%	1.5%	1.5%	2.6%	2.6%	2.6%
Inflation/wage growth rate	1.2%	1.2%	1.2%	2.0%	2.0%	2.0%
Life tables used	INSEE (TH00-02 and TF 00-02)			INSEE (TH00-02 and TF 00-02)		

The discount rate of 1.50% was taken from the composite AA Bloomberg EUR curve for 10-year zero-coupon issues.

The retirement age was calculated for each employee based on the number of quarters needed to claim a full-rate basic pension and the assumption of a start-of-career age of 24 for managerial-grade and 21 for non-managerial employees.

These calculations also take into account the effects of the most recent pension reform – the increase in the contribution period equal to one quarter every three years from 2020, leading to a total contribution period of 43 years by 2035 (excluding the effect of the Fillon law of August 2003).

Note 9 Segment reporting

In line with the standards adopted by Groupe BPCE, the Palatine Group presents information for the following three segments:

- retail banking;
- asset management;
- other activities.

The retail banking segment encompasses all the activities of the Banque Palatine entity.

Asset management encompasses all the activities of the Palatine Asset Management subsidiary.

These two segments are complemented by the Other activities segment encompassing Ariès Assurance and the share in the income of associates (Conservateur Finance).

The geographic analysis of segment results is based on the location where business activities are accounted for, with the Palatine Group's net banking income deriving in full from France.

	Retail banking		Asset management		Other activities		Total Group	
(in millions of euros)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Net banking income	295.3	286.0	22.4	21.0	0.5	0.7	318.2	307.7
Operating expenses	(180.0)	(174.7)	(8.1)	(8.5)	(0.2)	(0.1)	(188.3)	(183.3)
Gross operating income	**115.3**	**111.3**	**14.3**	**12.5**	**0.3**	**0.6**	**129.9**	**124.4**
Cost/income ratio	*61.0%*	*61.1%*	*36.2%*	*40.5%*	*40.0%*	*14.3%*	*59.2%*	*59.6%*
Cost of risk	(46.6)	(63.0)					(46.6)	(63.0)
Share in net income of associates	0.0	0.0	0.0	0.0	0.5	0.3	0.5	0.3
Change in value of goodwill	0.0	0.0	0.0	0.0	(0.3)	0.0	(0.3)	0.0
Income before tax	**68.7**	**48.3**	**14.3**	**12.5**	**0.5**	**0.9**	**83.5**	**61.7**
Income tax expense	(25.8)	(18.3)	(4.9)	(4.3)	(0.1)	(0.2)	(30.8)	(22.8)
Non-controlling interests (minority interests)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**42.9**	**30.0**	**9.4**	**8.2**	**0.4**	**0.7**	**52.7**	**38.9**
TOTAL ASSETS	**15,699.6**	**13,560.5**	**18.8**	**17.7**	**3.4**	**4.2**	**15,721.8**	**13,582.4**

Note 10 Commitments

The amounts disclosed represent the nominal value of commitments given.

10.1 Financing commitments

(in thousands of euros)	31 Dec. 2014	31 Dec. 2013
Financing commitments given to:		
• credit institutions	1,100.0	0.0
• customers	1,470.4	1,626.4
Confirmed credit lines	1,430.2	1,593.6
Other commitments	40.2	32.8
TOTAL FINANCING COMMITMENTS GIVEN	**2,570.4**	**1,626.4**
Financing commitments received:		
• from credit institutions	613.2	1,196.7
TOTAL FINANCING COMMITMENTS RECEIVED	**613.2**	**1,196.7**

10.2 Guarantee commitments

(in millions of euros)	31 Dec. 2014	31 Dec. 2013
Guarantee commitments given to:		
• credit institutions	85.6	66.8
• customers	1,025.4	1,068.5
• other commitments given	613.2	1,318.3
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,724.2**	**2,453.6**
Guarantee commitments received:		
• from credit institutions	386.5	474.9
• from customers	621.5	606.5
• other commitments received	4,034.6	3,933.0
TOTAL GUARANTEE COMMITMENTS RECEIVED	**5,042.6**	**5,014.4**

Guarantee commitments given are primarily off-balance sheet commitments.

Securities pledged as collateral are shown in Note 12.1 – Financial assets transferred, but not fully derecognised and Securities received as collateral in Note 12.2 – Financial assets received as collateral that may be sold or repledged.

Note 11 Related party transactions

Parties related to the Palatine Group are considered to be all consolidated companies, including associates, BPCE, IT centres and the Group's main senior executives.

11.1 Transactions with consolidated companies

All intercompany transactions entered into in the period and balances outstanding at the end of the period with fully consolidated companies are eliminated in full on consolidation.

A list of fully consolidated subsidiaries is presented in the scope of consolidation section (see Note 15 – Scope of consolidation).

The following shows only data on reciprocal transactions with:

- Banque Palatine's parent company, that is the BPCE central body;
- entities over which the Group exercises significant influence and are accounted for under the equity method (associates).

	31 Dec. 2014		31 Dec. 2013	
(in millions of euros)	**BPCE**	**Associates**	**BPCE**	**Associates**
Loans	5,280.2	0.0	4,945.8	0.0
Other assets	0.0	0.0	0.1	0.0
TOTAL ASSETS WITH RELATED ENTITIES	**5,280.2**	**0.0**	**4,945.9**	**0.0**
Liabilities	1,864.6	8.1	1,342.7	7.5
Other liabilities	0.0	0.0	6.3	0.0
TOTAL LIABILITIES WITH RELATED ENTITIES	**1,864.6**	**8.1**	**1,349.0**	**7.5**
Interest and similar income and expense	50.0	0.0	51.3	0.0
Fee and commission income and expense	(0.0)	0.0	(0.2)	0.0
TOTAL NET BANKING INCOME WITH RELATED ENTITIES	**50.0**	**0.0**	**51.1**	**0.0**
Commitments given	1,100.0	0.0	0.7	0.0
Commitments received	50.3	0.0	65.5	0.0
TOTAL COMMITMENTS WITH RELATED ENTITIES	**1,150.3**	**0.0**	**66.2**	**0.0**

11.2 Transactions with senior executives

The main senior executives are members of Banque Palatine’s general management committee and board of directors.

Short-term benefits

Short-term benefits paid to senior executives came to €2.2 million in 2014 (€1.8 million in 2013).

They include remuneration and benefits paid to corporate officers (basic remuneration, remuneration paid in respect of office, benefits in kind, variable portion and directors’ fees).

Note 12 Transferred financial assets, other financial assets pledged as collateral and assets received as collateral that may be sold or repledged

12.1 Financial assets transferred but not fully derecognised

	Repos	Assets transferred or pledged as collateral	31 Dec. 2014	Repos	Assets transferred or pledged as collateral	31 Dec. 2013
(in millions of euros)	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount
FINANCIAL ASSETS PLEDGED AS COLLATERAL						
Fixed-income securities	10.2	0.0	10.2	200.9	0.0	200.9
Available-for-sale financial assets	**10.2**	**0.0**	**10.2**	**200.9**	**0.0**	**200.9**
Loans and advances due from credit institutions	0.0	613.2	613.2	0.0	0.0	0.0
Loans and advances due from customers	0.0	0.0	0.0	0.0	1,308.3	1,308.3
Securities classified as loans and advances due from credit institutions	28.1	0.0	28.1	0.0	0.0	0.0
Loans and receivables	**28.1**	**613.2**	**641.3**	**0.0**	**1,308.3**	**1,308.3**
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**38.3**	**613.2**	**651.5**	**200.9**	**1,308.3**	**1,509.2**
o/w financial assets transferred but not fully derecognised	***38.3***	***613.2***	***651.5***	***200.9***	***1,308.3***	***1,509.2***
ASSOCIATED LIABILITIES						
Fixed-income securities	9.8	0.0	9.8	189.1	0.0	189.1
Available-for-sale financial assets	**9.8**	**0.0**	**9.8**	**189.1**	**0.0**	**189.1**
Loans and advances due from customers	0.0	0.0	0.0	0.0	111.6	111.6
Securities classified as loans and advances due from credit institutions	27.8	0.0	27.8	0.0	0.0	0.0
Loans and receivables	**27.8**	**0.0**	**27.8**	**0.0**	**111.6**	**111.6**
TOTAL LIABILITIES ASSOCIATED WITH FINANCIAL ASSETS NOT FULLY DERECOGNISED	**37.6**	**0.0**	**37.6**	**189.1**	**111.6**	**300.7**

Repurchase agreements

The Palatine Group enters into securities repurchase transactions.

Under the terms of the agreements, the securities may be sold on by the purchaser throughout the term of the repurchase or lending operation. The purchaser must nevertheless return them to the vendor when the transaction reaches maturity. The cash flows generated by the securities also accrue to the vendor.

The Group believes that it has retained substantially all the risks and rewards of the securities repurchased or loaned. They have not therefore been derecognised. Financing has been recorded in liabilities for the repurchasing or lending of the securities financed.

Sales of receivables

The Palatine Group assigns receivables as collateral (Article L. 211-38 or Articles L. 313-23 *et seq.* of the French Monetary and Financial Code) under guaranteed refinancing operations, with the central bank in particular. This type of transfer as collateral involves the legal transfer of the associated contractual rights, and therefore the “transfer of assets” as defined in the amendment to IFRS 7. Even so, the Group remains exposed to substantially all the risks and rewards of ownership, and as such the receivables remain on the balance sheet.

At 31 December 2014, receivables pledged as collateral under funding arrangements represented €613.2 million in receivables provided to the Banque de France under the TRICP system (€1,308.3 million at 31 December 2013).

12.2 Financial assets received as collateral that may be sold or repledged

The Palatine Group did not recognise assets received as collateral in connection with financial guarantee agreements plus a right of re-use.

Note 13 Offsetting of financial assets and liabilities

Pursuant to the IAS 32 rules on offsetting, the Palatine Group does not offset financial assets and liabilities on the balance sheet.

Financial assets and liabilities “under netting arrangements not offset on the balance sheet” comprise transactions under master netting or similar arrangements, which do not meet the restrictive offsetting criteria laid down in IAS 32. This applies to transactions in respect of which offsetting is possible only in the event of the default, insolvency or failure of one of the contracting parties.

For these instruments, the “Associated assets and financial instruments received as collateral” and “Associated liabilities and financial instruments pledged as collateral” include:

- for repurchase agreements:
  - loans or borrowings resulting from reverse repurchase agreements with the same counterparty, and securities pledged or received as collateral (at the fair value of said securities),
  - margin calls in the form of securities (at the fair value of said securities);
- for derivatives, the fair values of the reverse transactions with the same counterparty, as well as margin calls in the form of securities.

Margin calls received or paid in cash are shown in “Margin calls received (cash collateral)” and “Margin calls paid (cash collateral)”.

Financial instruments under netting arrangements not offset on the balance sheet mainly consist of repo or over-the-counter derivative transactions.

13.1 Financial assets

Financial assets under netting arrangements not offset on the balance sheet

	31 Dec. 2014			31 Dec. 2013		
(in millions of euros)	**Net amount of financial assets presented on the balance sheet**	**Associated financial liabilities and financial instruments received as collateral**	**Net amount**	**Net amount of financial assets presented on the balance sheet**	**Associated financial liabilities and financial instruments received as collateral**	**Net amount**
Derivatives	27.2	24.7	2.5	6.9	6.4	0.5
TOTAL FINANCIAL ASSETS UNDER NETTING ARRANGEMENTS NOT OFFSET ON THE BALANCE SHEET	**27.2**	**24.7**	**2.5**	**6.9**	**6.4**	**0.5**

13.2 Financial liabilities

Financial liabilities under netting agreements not offset on the balance sheet

(in millions of euros)	31 Dec. 2014 Net amount of financial liabilities presented on the balance sheet	Associated financial assets and financial instruments pledged as collateral	Margin calls paid (cash collateral)	Net exposure	31 Dec. 2013 Net amount of financial liabilities presented on the balance sheet	Associated financial assets and financial instruments pledged as collateral	Margin calls paid (cash collateral)	Net exposure
Derivatives	204.1	24.7	132.2	47.3	29.3	6.4	22.3	0.5
Repurchase agreements	37.6	37.5	0.0	0.0	189.1	189.1	0.0	0.0
TOTAL FINANCIAL LIABILITIES UNDER NETTING AGREEMENTS NOT OFFSET ON THE BALANCE SHEET	**241.7**	**62.2**	**132.2**	**47.3**	**218.4**	**195.6**	**22.3**	**0.5**

Note 14 Fair value of financial assets and liabilities carried at amortised cost

For financial instruments not measured at fair value on the balance sheet, fair value calculations are disclosed for information purposes and should be interpreted as estimates.

In most cases, the values indicated are not likely to be realised and, generally speaking, are not actually realised.

These fair values are thus only calculated for information purposes in the notes to the financial statements. They are not indicators used in the interest of overseeing commercial banking activities, for which the management model is mainly based on collection of the expected cash flows.

The simplified assumptions used to measure the fair value of instruments at amortised cost are presented in Note 4.1.5 – Fair value measurement.

(in millions of euros)	31 Dec. 2014 Fair value	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using observable inputs (Level 3)	31 Dec. 2013 Fair value	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using observable inputs (Level 3)
FINANCIAL ASSETS AT AMORTISED COST								
Loans and advances due from credit institutions	5,675.7	0.0	736.0	4,939.7	5,339.0	0.0	80.9	5,258.1
Loans and advances due from customers	7,748.9	0.0	394.8	7,354.0	7,321.4	0.0	351.6	6,969.8
Held-to-maturity investments	94.2	94.2	0.0	0.0	180.6	180.6	0.0	0.0
FINANCIAL LIABILITIES AT AMORTISED COST								
Amounts due to credit institutions	2,452.3	0.0	395.8	2,056.5	2,095.5	0.0	604.8	1,490.7
Amounts due to customers	8,141.9	0.0	5,786.8	2,355.1	7,834.3	0.0	5,070.3	2,764.0
Debt securities	3,903.0	0.0	0.0	3,903.0	2,547.3	0.0	0.0	2,547.3
Subordinated debt	40.5	0.0	0.0	40.5	40.5	0.0	0.0	40.5

Note 15 Scope of consolidation

	31 Dec. 2014				
	Country of incorporation or domicile	**Consolidation method**	**Changes in scope compared with at 31 December 2013**	**Percentage control**	**Percentage interest**
Banque Palatine	**France**	**Full consolidation**		**Consolidating entity**	
Palatine Asset Management	France	Full consolidation	-	100.0%	100.0%
Ariès Assurances	France	Full consolidation	-	100.0%	100.0%
Conservateur Finance	France	Equity method	-	20.0%	20.0%

First-time adoption of IFRS 10 and IFRS 11 did not have any impact on the Palatine Group's scope of consolidation.

Note 16 Interests in unconsolidated structured entities

16.1 Nature of interests in unconsolidated structured entities

An unconsolidated structured entity is a structured entity that is not controlled and is therefore not fully consolidated. As a result, interests held in a joint venture or associate classified as a structured entity fall within the scope of this note.

The same applies to controlled structured entities fully consolidated for threshold reasons.

This includes all structured entities in which the Group holds an interest and acts in one or more of the following roles:

- originator/structurer/arranger;
- placing agent;
- manager;
- in any other capacity with significant influence on the structuring or management of the transaction (e.g. award of financing, guarantees or structuring derivatives, tax investor, major investor, etc.).

An interest in a structured entity refers to contractual and non-contractual involvement that exposes the Group to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement, collateral or structured derivatives.

In Note 16.2 – Nature of risks relating to interests in unconsolidated structured entities, the Palatine Group shows all transactions recorded on its balance sheet in respect of interests held in unconsolidated structured entities.

Structured entities are classified into four categories: entities involved in asset management, securitisation vehicles, entities created as part of structured financing and entities created for other types of transaction.

Asset management

Asset management consists in managing the capital or funds entrusted by investors by investing in equities, bonds, cash SICAVs or hedge funds, etc.

The asset management line of business using structured entities is represented by collective management or fund management. It encompasses collective investment vehicles within the meaning of the French Monetary and Financial Code (other than securitisation vehicles) as well as equivalent bodies governed by foreign law. These notably include entities such as UCITS, real estate funds and private equity funds.

Securitisation

Securitisation transactions generally consist of structured entities ring-fencing assets or derivatives representing credit risk.

These entities serve to diversify the underlying credit risks and to split them into various levels of subordination (tranches), in most cases to sell them to investors seeking a certain level of return, according to the degree of risk accepted.

These vehicles' assets and the liabilities they issue are rated by the rating agencies, which monitor the level of risk associated with each tranche of risk sold in relation to the rating they are given.

The securitisation approaches used involving structured entities are as follows:

- transactions in which the Group (or a subsidiary) sells on its own behalf to a dedicated vehicle, in cash or synthetic form, the credit risk associated with one of its asset portfolios;
- securitisation transactions on behalf of third parties. These transactions consist in housing assets belonging to another company in a dedicated structure (generally a special purpose entity (SPE)). The SPE issues shares that may, in certain cases, be subscribed for directly by investors or by a multi-seller conduit, which refinances the acquisition of these shares through the issue of short-term notes (commercial paper).

Structured (asset) financing

Structured financing is a term encompassing the range of activities and products set up to provide financing to economic participants, while reducing risks through the use of complex structures. These include the financing of equipment assets (aerospace, marine or overland transport, telecommunications, etc.), real estate assets and the acquisition of targeted companies (LBO financing).

Other activities

All the remaining activities.

16.2 Nature of risks relating to interests in unconsolidated structured entities

Assets and liabilities recognised in the Group's various balance sheet accounts in respect of interests held in unconsolidated structured entities help to determine the risks associated with these entities.

The securities identified under assets, together with financing and guarantee commitments given, less guarantee commitments received, are used to assess maximum exposure to the risk of loss.

The aggregated data is presented below for the relevant business segments.

(in millions of euros)	**Asset management**	**Total at 31 Dec. 2014**
Available-for-sale financial assets	20.9	20.9
TOTAL ASSETS	**20.9**	**20.9**
Maximum exposure to the risk of loss	**(20.9)**	**(20.9)**
Size of the structured entity	**6,405.9**	**6,405.9**

16.3 Income and carrying amount of assets transferred to sponsored unconsolidated structured entities

A structured entity is sponsored by a Group entity when the following two indicators are both satisfied:

- it is involved in setting up and structuring the structured entity;
- it contributes to the entity's success by transferring assets to it or by managing the relevant activities.

When the Group entity's role is confined to acting as an advisor, arranger, custodian or placement agent, the structured entity is not considered to be sponsored.

For the unconsolidated structured entities that the Group sponsored without holding any interests, the impact on the financial statements is presented below:

(in millions of euros)	**Asset management**	**Total at 31 Dec. 2014**
Income from entities	**23.4**	**23.4**
Net fee and commission income	23.4	23.4

Note 17 Fees paid to Statutory Auditors

	PriceWaterHouseCoopers				KPMG			
	2014		2013		2014		2013	
(in millions of euros)	**Amount (excl. VAT)**	**%**	**Amount (excl. VAT)**	**%**	**Amount (excl. VAT)**	**%**	**Amount (excl. VAT)**	**%**
• **Audit**								
Independent audit, certification, review of parent company and consolidated financial statements	0.2	100.0%	0.2	100.0%	0.2	100.0%	0.2	100.0%
TOTAL FEES PAID TO STATUTORY AUDITORS	**0.2**	**100.0%**	**0.2**	**100.0%**	**0.2**	**100.0%**	**0.2**	**100.0%**

3 STATUTORY AUDITORS' REPORT

1 Statutory auditors' report on the parent-company financial statements

Year ended 31 December 2014

To the shareholders,

In accordance with the assignment entrusted to us by your Annual General Shareholders' Meeting, we hereby report to you, for the year ended 31 December 2014, on:

- the audit of the accompanying parent-company financial statements of Banque Palatine SA;
- the justification of our assessments;
- the specific verifications and information required by law.

The parent-company financial statements are the responsibility of the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the parent-company financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the parent-company financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the annual financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the parent-company financial statements give a true and fair view of the assets and liabilities and of the financial position of the company as at 31 December 2014, and of the results of its operations for the year then ended in accordance with French accounting principles.

Without prejudice to the opinion expressed above, we draw your attention to note 2.2 to the financial statements, which describes the change in accounting methods relating to the application of ANC recommendation no. 2013-02 of 7 November 2013 on rules for measuring and recognising pension and similar benefits.

II. Justification of our assessments

As required by Article L.823-9 of the French Commercial Code relating to the justification of our assessments, we inform you of the following:

Change of accounting method

- As mentioned in the first section of this report, note 2.2 to the financial statements sets out the change in accounting method that took place during the period relating to the recognition of pension benefits.

  In our assessment of the accounting principles applied by your company, we investigated the basis for this change and the presentation of the change.

Accounting estimates

- Your company recognises impairment losses and provisions to cover the credit risks inherent in its business, as described and presented in notes 2.3.2, 3.2, 3.10.2 and 5.9.

  As part of our assessment of the material estimates used in preparing the financial statements, we examined the control procedures implemented by management for the monitoring of credit and counterparty risks, the assessment of non-recovery risks and their coverage on the asset side through individual impairment losses and on the liability side through provisions for unallocated client risks.

- Your company sets aside provisions to cover risks relating to the potentially adverse consequences of commitments given under home purchase savings plans and accounts, as described in note 2.3.8 and presented in note 3.10.4.

Our work consisted of examining the method of measuring these provisions and checking whether the information provided was appropriate.

- As described in note 2.3.4 and presented in note 3.4, your company measures its investments in subsidiaries and other associates and other long-term equity investments at the lower of cost and value in use.

  As part of our assessment of the estimates used in preparing the financial statements, we examined the items used to determine value in use for the main portfolio items.

- Your company also uses accounting estimates to determine provisions for employee benefit obligations (notes 2.3.8, 3.10.1 and 3.10.3).

  We examined the method used to measure these obligations along with the assumptions and parameters used, and we checked whether the information provided was appropriate.

- Your company holds positions in securities and financial instruments. Note 2.3.4 sets out the rules and accounting methods relating to the securities and financial instruments presented in note 3.3 in particular.

  We reviewed the control procedures relating to the accounting classification and the determination of inputs used to value these positions. We verified the appropriateness of the accounting methods used by your company and the information provided in the notes to the financial statements, and ensured that they were correctly applied.

These assessments were made as part of our audit of the parent-company financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

III. Specific verifications and disclosures.

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

We are satisfied that the information given in the Board of Directors' management report and in the documents provided to shareholders concerning the Company's financial position and parent-company financial statements is fairly stated and agrees with the parent-company financial statements.

Regarding the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code on the remuneration and benefits paid to corporate officers and on the commitments made in their favour, we have verified its consistency with the financial statements and with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by the company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

Neuilly-sur-Seine and Paris La Défense, 24 April 2015

The Statutory Auditors

PricewaterhouseCoopers Audit

Lionel Lepetit
Partner

Anik Chaumartin
Partner

KPMG Audit FSI

Fabrice Odent
Partner

2 Statutory auditors' report on the offer to pay the dividend in shares

To the shareholders,

In our capacity as statutory auditors of your company and in accordance with our duties under article L.232-19 of the French Commercial Code, we hereby present our report on the offer to pay the dividend in shares.

Your Board of Directors is responsible for proposing the issue price of the shares that may be used as payment of the dividend. That price was determined by dividing the company's net assets, according to the most recent balance sheet, by the number of shares in issue. Our responsibility is to make a statement about how the rules relating to the setting of the issue price were applied.

We have carried out the work we considered necessary to comply with the professional guidelines issued by the French national auditing body (Compagnie Nationale des Commissaires aux Comptes) relating to this type of assignment. Our work included checks that the issue price of the shares was determined in accordance with the legal provisions.

We have no observations to make on the application of rules relating to the setting of the issue price.

Paris La Défense and Neuilly-sur-Seine, 24 April 2015

KPMG Audit FSI	**PricewaterhouseCoopers Audit**	
Fabrice Odent	Lionel Lepetit	Anik Chaumartin
Partner	*Partner*	Partner

3 Statutory auditors’ special report on regulated agreements and commitments

Shareholders’ meeting held to approve the financial statements for the financial year ended 31 December 2014

To the shareholders,

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

It is our responsibility to inform you, on the basis of information provided to us, of the essential characteristics and terms of agreements and commitments about which we have been advised or that we have discovered during our audit, without commenting on their usefulness or merit or ascertaining the existence of other such agreements or commitments. It is your responsibility, under the terms of Article R.225-31 of the French Commercial Code, to assess the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required to inform you in accordance with Article R. 225-31 of the French Commercial Code concerning the execution during the year of the agreements and commitments already approved by the Annual General Shareholders’ Meeting.

We have carried out the work we considered necessary to comply with the professional guidelines issued by the French national auditing body (Compagnie Nationale des Commissaires aux Comptes) relating to this type of assignment. Our work consisted of verifying that the information provided to us is consistent with the underlying documents from which it was extracted.

Agreements and commitments subject to shareholder approval

Agreements and commitments approved during the past year

In accordance with Article L. 225-40 of the French Commercial Code, we were informed of the following agreements and commitments approved by the Board of Directors.

1. Agreements formed with subsidiaries

1.1 Agreements formed with Palatine Asset Management SA, wholly-owned subsidiary of Banque Palatine SA

1.1.1 Custody agreement

- Persons concerned:
  - Pierre-Yves Dréan (Chairman of the Supervisory Board of Palatine Asset Management SA, Chairman of the Management Board of Banque Palatine SA and Chief Executive Officer of Banque Palatine SA from 14 February 2014),
  - Thierry Zaragoza (member of the Supervisory Board of Palatine Asset Management SA, member of the Management Board of Banque Palatine SA and Executive Vice-President of Banque Palatine SA from 14 February 2014).
- Nature and purpose

  This agreement was authorised on 29 July 2014, but has not yet been signed. Its purpose is to set out the obligations arising from the statutory and regulatory duties of the custodian and the rights and obligations of each of the parties in relation to the fulfilment of those duties, which are:

  - the safekeeping of fund assets;
  - the holding of cash accounts open in the custodian's books;
  - monitoring of liquidity flows and checks on the lawfulness of decisions taken by the management company.

  The agreement also defines the organisation of funds' liability management. It applies to each mutual fund managed by the Management Company where the custodian has agreed to perform its duties in accordance with the agreement letter specified by the Regulations.

- Terms:

  The agreement has not yet been signed, since Banque Palatine SA's payment terms have not yet been determined. As a result, the agreement had no financial impact in 2014.

1.1.2 Credit analysis agreement

- Persons concerned:
  - Pierre-Yves Dréan (Chairman of the Supervisory Board of Palatine Asset Management SA, Chairman of the Management Board of Banque Palatine SA and Chief Executive Officer of Banque Palatine SA from 14 February 2014),
  - Thierry Zaragoza (member of the Supervisory Board of Palatine Asset Management SA, member of the Management Board of Banque Palatine SA and Executive Vice-President of Banque Palatine SA from 14 February 2014).
- Nature and purpose

  A credit analysis advisory agreement, signed on 11 December 2014, was authorised by the Board of Directors on 10 December 2014.

  The agreement states that Banque Palatine SA's risk management division will carry out credit analysis on companies on which Palatine Asset Management SA wishes to obtain an opinion. Opinions will take the form of an analysis, a rating and a qualitative conclusion regarding credit risk.

  When producing opinions, Banque Palatine SA will use its risk analysis methodology, but will be able to outsource some or all of that methodology if it so desires.

  Banque Palatine SA's opinions will be sent to Palatine Asset Management SA in writing. They will be accompanied by the Basel 2 risk category as defined in the methods for calculating the solvency ratio published each year by the general secretariat of France's Prudential Supervision and Resolution Authority.

  At the invitation of Palatine Asset Management SA, a representative of Banque Palatine SA's risk management division will be able to attend meetings of Palatine Asset Management SA's credit risk committee with the agreement of Banque Palatine SA's compliance unit.
- Terms:

  The agreement states that the remuneration received by Banque Palatine SA will equal 0.03% including VAT of assets under management per year, i.e. 0.0075% per quarter during the life of the fund, payable on a prorata basis from 1 January 2015. The remuneration is not subject to VAT because of the tax consolidation system.

  The agreement had no financial impact in 2014.

2. Agreements with executives

2.1 Commitments maturing or likely to mature because of the termination or change of position of the Chief Executive Officer or Executive Vice-Presidents

On 14 February 2014, the Board of Directors authorised the continuation of agreements initially authorised by the Supervisory Board on 28 November 2012 relating to commitments matured or likely to mature in the event of the termination or change of position of Banque Palatine SA executives.

2.1.1 Enforced loss of office benefit relating to the Chief Executive Officer

- Nature and purpose

  Arrangements for payment of the benefit: The enforced loss of office benefit may be paid only if the term in office was terminated (dismissal by the governing body) for reasons other than serious misconduct or transfer within Groupe BPCE. It may not be paid if the officer initiates his or her own departure.

  Payment of the enforced loss of office benefit causes the former officer to lose any entitlement to the specific supplementary pension schemes or to the retirement benefit that he or she may otherwise have claimed.

  In case of redeployment in Groupe BPCE, under an employment contract, the termination of such employment contract, notified more than 12 months after the removal of the corporate office, gives a right, except in case of gross negligence or wilful misconduct, only to the payment of the dismissal benefit provided for in the applicable collective bargaining agreement. Conversely, in case of termination of such employment contract, notified less than 12 months after the removal of the corporate office, the termination gives a right, except in case of gross negligence or wilful misconduct, to the payment of the director termination benefit, subject to the deduction of the benefit that might be paid in respect of the contract’s termination.
- Terms:

  Determination of the benefit: The enforced loss of office benefit is due only if the Group generated positive net income for accounting purposes over the financial year preceding the termination of the relevant corporate office.

  The amount of the benefit is equal to the reference monthly remuneration x (12 months + 1 month per year of service within the group). The reference monthly remuneration used for the calculation, is equal to 1/12th of the aggregate fixed remuneration (not including any benefits in kind) paid in respect of the most recent calendar year of service and the average variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service. For the calculation of the benchmark pay, the pay taken into account corresponds to the amounts paid in respect of the relevant corporate office.

The amount of the benefit is capped at 24 times the monthly benchmark pay, which corresponds to a period of 12 years of seniority within the Group.

If at least 50% of the maximum variable component has been obtained on average during the last 3 years of the current term of office (or during the served term, supplemented where applicable by the term of the preceding office in case of renewal), the benefit shall be paid in full.

Unless at least 33.33% of the maximum variable element has been obtained on average over the reference period, no benefit shall be paid. Between 33.33% and 50%, the amount of the benefit is calculated on a straight-line basis, at the discretion of the company's governing body.

In any event, such benefit is paid subject to the deduction of the benefit that may be paid for termination of an employment contract, if any.

Banque Palatine SA's Chief Executive Officer may not claim any automatic payment of a benefit should he or she not be reappointed. However, the Board of Directors, acting on the advice of the appointments and remuneration committee, may decide to pay a loss of office benefit, taking into consideration the circumstances of the non-renewal of the term in office and his or her past career with the group. Such non-renewal must not be followed by retirement or by a redeployment within Groupe BPCE.

This commitment had no impact on Banque Palatine SA's financial statements in 2014.

2.1.2 Retirement benefit

2.1.2.1 Chief Executive Officer

If so decided by the board of directors, the Chief Executive Officer may be granted a retirement benefit equal to no less than 6 months' and no more than 12 months' remuneration for 10 years of service, without any minimum attendance requirements within Groupe BPCE.

- Nature and purpose

  Arrangements for payment of the benefit Payment of the retirement benefit is subject to the same conditions as those which apply to the enforced loss of office benefit:

  - it is contingent on Banque Palatine SA generating positive net income in the financial year preceding the end of the relevant corporate office, and
  - it is subject to a minimum variable portion during the three most recent years of the current term of corporate office.

  The retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine SA corporate officer when the claim is made.

  Should the enforced loss of office benefit or non-renewal of office benefit be paid upon non-renewal of a corporate office, the executive director shall lose any entitlement to the defined-benefit pension plan that he or she may otherwise have been able to claim and may not benefit from any retirement benefit.

- Terms:

  Determination of the benefit: The reference monthly remuneration used for the calculation, is equal to 1/12th of the aggregate fixed remuneration (not including any benefits in kind) paid in respect of the most recent calendar year of service and the average variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service.

  For the calculation of the benchmark pay, the pay taken into account corresponds to the amounts paid in respect of the relevant corporate office. The amount of the benefit is then equal to the monthly benchmark pay x (6 + 0.6A), where A is the number, and where applicable the fractional number, of years during which offices have been held within the relevant scope of consolidation.

  The amount of the benefit is capped at 12 times the monthly benchmark pay, corresponding to a total term of office of 10 years.

  In any event, this benefit is paid less any retirement benefit paid under an employment contract.

  The benefit is excluded from the calculation basis of the annuities due in respect of the defined-benefit pension plans of which the director is a beneficiary.

  This commitment had no impact on Banque Palatine SA's financial statements in 2014.

2.1.2.2 Executive Vice-Presidents

- Nature and purpose

  Executive Vice-Presidents holding both an employment contract and corporate office qualify for a retirement benefit under the same terms and conditions as Banque Palatine S.A's employees.

  Arrangements for payment of the benefit: The retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine employee when the claim is made.

- Terms:

  Determination of the benefit: The reference salary used to calculate the benefit is 1/12th of the beneficiary's most recent annual full-time salary, including any 13th month payment.

  The amount of the retirement benefit may be up to 8.4 months of the reference salary depending on his or her length of service with Groupe BPCE.

  This commitment had no impact on Banque Palatine SA's financial statements in 2014.

<u>2.1.3 Supplementary pension plans</u>

- Nature and purpose

  Banque Palatine SA's Chief Executive Officer and Executive Vice-Presidents are eligible, subject to the same conditions as Banque Palatine SA's employees, for the defined-benefit pension plan applicable to unclassified executives (Réunica). This plan is funded through a 10% contribution (7.5% at Banque Palatine SA's expense and 2.5% at the expense of Management Board member of Executive Vice-President) on remuneration falling within tranches A and B, i.e. €150,192 in 2014.

  The Board of Directors has also authorised Pierre-Yves Dréan to retain the benefit of the "Pension Guarantee" defined-benefit supplementary pension plan, plus the "Spouse Annuity" cover should he die prior to his retirement, applicable to former Groupe Banque Populaire senior executives.

- Terms:

  For 2014, the amount of Réunica contributions (employee and employer) paid by Banque Palatine SA to the Chief Executive Officer and the Executive Vice-Presidents was as follows:

  - Pierre-Yves Dréan
    1 January to 31 December 2014: €15,109.44,
  - Jean-Marc Ribes
    1 January to 30 November 2014: €15,109.44,
  - Thierry Zaragoza
    1 January to 31 December 2014: €15,109.44.

<u>2.1.4 No employment contract or suspended employment contract – Unemployment insurance</u>

- Nature and purpose

  The Board of Directors decided that the Chief Executive Officer may benefit from private unemployment insurance cover (GSC), with the group contributing to the cost of this cover.

- Terms:

  In 2014, the annual expense for Pierre-Yves Dréan was €11,827.42.

<u>2.1.5 Arrangements under which remuneration is maintained for 12 months in the event of temporary inability to work</u>

- Nature and purpose

  The Board of Directors decided that the Chief Executive Officer should benefit from the arrangements maintaining his or her remuneration for 12 months in the event that he or she is temporarily unable to work.

- Terms:

  This agreement had no impact on Banque Palatine SA's financial statements in 2014.

Agreements and commitments already approved by the shareholders

Agreements and commitments approved in prior years and which continued to be performed during the past year

Pursuant to Section R.225-30 of the French Commercial Code, we have been informed that the following agreements and commitments, already approved by the shareholders in prior years, continued to be performed during the past year.

1. Agreement with shareholders

1.1 Agreements formed with BPCE SA, majority shareholder of Banque Palatine SA

1.1.1 Invoicing agreement

- Nature and purpose

  An invoicing agreement was signed on 11 December 2007 with CNCE SA (central body of the former Groupe Caisse d'Épargne). The agreement remained in force until 30 June 2010 and was replaced by the invoicing agreement signed with BPCE SA on 21 December 2010. The purpose of that agreement is to set the payment to remunerate work done by BPCE SA with respect to Banque Palatine SA's affiliation. That work involves:

  - guaranteeing Banque Palatine SA's liquidity and solvency;
  - exerting administrative, technical and financial control over its organisation and management;
  - ensuring compliance with legislative and regulatory provisions, particularly the French executive order of 3 November 2014 (replacing CRBF regulation 97-02).

  A new agreement, authorised by the Supervisory Board on 17 February 2012, was formed on 5 March 2012 and replaces that of 21 December 2010.

  The new agreement became effective from 1 January 2012.

- Terms:

  The latter agreement adjusted the amount of the payment remunerating work done by BPCE SA on the basis of the actual cost of the public policy assignments carried out on behalf of Banque Palatine SA.

  The financial impact in 2014 was an ex-VAT expense of €1,850 thousand.

2. Agreements formed with subsidiaries

2.1 Agreements formed with Palatine Asset Management SA, wholly-owned subsidiary of Banque Palatine SA

2.1.1 Administrative services agreement

- Nature and purpose

  The administrative services agreement, authorised on 16 May 2012 by the Supervisory Board and formed with Palatine Asset Management SA on 19 June 2012, was subject to a supplementary agreement signed on 28 February 2014.

  The supplementary agreement was authorised by Banque Palatine SA's Board of Directors on 14 February 2014. The agreement was approved by shareholders in the AGM convened to consider the financial statements for the period ended 31 December 2013.

  The services relate to the following areas:

  - Legal and tax;
  - Accounting management;
  - Workforce management;
  - Personnel management;
  - Provision of IT systems, office software and secure hosting resources;
  - Periodic control;
  - IT systems security;

- Provision of premises;
- Insurance;
- Recording of telephone calls;
- Specific services.

The supplementary agreement amends the services relating to the provision of IT systems, office software and secure hosting resources by distinguishing:

- Basic service, comprising:
  - Access to intranet and internet messaging (email);
  - Broadband internet access;
  - Access to external professional databases;
  - Provision of an exclusive, protected-access hard drive partition that is regularly backed up;
  - Ordering and monitoring the installation of specific telecoms links connecting with the Banque Palatine SA network;
  - Sharing the costs of telecoms links;
  - Office software support;
  - Management and the compilation of inventories of office hardware;
  - Provision of IP telephones, access to the internal and external telephone network;
  - Related subscriptions;
  - Protection against illegal access to workstations and against viruses;
  - Technical and applications-related IT advice, provided that the related analysis does not require more than a few days of work;
  - Hosting of servers at two secure remote sites;
  - Operation of servers;
  - Provision of periodic reporting documents relating to information system activity;
  - Performance of disaster recovery plan tests;
  - Provision of at least four working positions at the head-office fallback site in the event that the head office is inaccessible;
  - Workstation software licences;
  - Cost of telecoms links;
  - Provision of the platform for exchanging files with external partners;
  - Provision of tools to identify users and allow them to access their work environment remotely;
- Optional services including:
  - IT services at the express request of Palatine Asset Management SA such as expert reports, studies, programme development, project supervision and provider monitoring;
  - Services that supplement the basic service, such as server maintenance, maintenance of non-connected devices, and the provision and upgrading of software other than the banking software suite;
  - Provision of technical expertise to the Bank, as part of the operation or development of the www.palatine-am.com website, which is hosted by a service provider.

- Terms:

With the exception of optional services relating to the provision of IT systems, office software and secure hosting resources, the services provided are invoiced quarterly, through the onward invoicing of the cost price of the wages paid to staff seconded to Palatine Asset Management SA, related operating expenses and specific outsourcing costs.

As regards optional services relating to the provision of IT systems, office software and secure hosting resources, the parties expressly agree that these optional services will be subject to a prior quotation and will be invoiced separately by Banque Palatine SA.

The financial impact in 2014 amounted to ex-VAT income of €446 thousand.

2.1.2 Distribution agreement

- Nature and purpose

  A distribution agreement was signed by Banque Palatine SA and Palatine Asset Management SA on 13 September 2005, and was amended on 1 December 2008, 1 October 2009, 1 October 2010 and 19 June 2012. The agreement defines:

  - The nature and performance terms of services provided by the parties regarding the distribution of mutual funds and the distributor's remuneration based on average assets under management;
  - The terms of the collaboration between Banque Palatine SA and Palatine Asset Management SA relating to the prevention of money laundering and terrorist financing.

  The purpose of the amendment signed on 19 June 2012, authorised by the Supervisory Board on 16 May 2012, was to amend the list of funds and the remuneration received by Banque Palatine SA.

  The agreement was amended further on 30 August 2013.

- Terms:

  The remuneration of the distributor is based on average assets under management, in accordance with the original contract. The rates applied for each fund are detailed in the aforementioned amendment.

  The financial impact in 2014 amounted to ex-VAT income of €2,850 thousand.

2.1.3 Custody agreement

- Nature and purpose

  The purpose of this agreement, signed on 12 May 2009 and authorised on 24 February 2009, is to set out the obligations arising from the legal and regulatory duties of the custodian and the rights and obligations of each of the parties in relation to the fulfilment of those duties, which are:

  - custody of fund assets;
  - the holding of cash accounts open in the custodian's books;
  - checks on the lawfulness of decisions taken by the management company.

- Terms:

  Banque Palatine SA's remuneration is based on the ratio of the costs of staff performing services for the management company to Banque Palatine SA's total staff costs, which is applied to Banque Palatine SA's total operating expenses.

  The financial impact of this agreement in 2014 amounted to ex-VAT income of €531 thousand.

2.1.4 Credit analysis agreement signed on 30 August 2013

- Nature and purpose

  A credit analysis advisory agreement, signed on 30 August 2013, was authorised by the Board of Directors on 30 August 2013.

  The agreement states that Banque Palatine SA's risk management division will carry out credit analysis on companies on which Palatine Asset Management SA wishes to obtain an opinion. Opinions will take the form of an analysis, a rating and a qualitative conclusion regarding credit risk.

  When producing opinions, Banque Palatine SA will use its risk analysis methodology, but will be able to outsource some or all of that methodology if it so desires.

  Banque Palatine SA's opinions will be sent to Palatine Asset Management SA in writing. They will be accompanied by the Basel 2 risk category as defined in the methods for calculating the solvency ratio published each year by the general secretariat of France's Prudential Supervision Authority.

  At the invitation of Palatine Asset Management SA, a representative of Banque Palatine SA's risk management division will be able to attend meetings of Palatine Asset Management SA's credit risk committee with the agreement of Banque Palatine SA's compliance unit.

- Terms:

  The agreement states that the remuneration received by Banque Palatine SA will equal 0.06% including VAT of assets under management per year, i.e. 0.015% per quarter during the life of the Mikado France 2019 fund, i.e. from 1 October 2013 to 1 October 2019.

  The remuneration is not subject to VAT because of the tax consolidation system.

  The financial impact of this agreement in 2014 amounted to income of €20 thousand.

2.1.5 Investor presentation agreement signed on 30 August 2013

- Nature and purpose

An investor presentation agreement, signed on 30 August 2013, was authorised by the Board of Directors on 30 August 2013.

Banque Palatine SA supports bond issues via its Financial Transactions Department.

Palatine Asset Management SA is authorised to provide investment advice and has a team of four salespersons handling relations with institutional investors. In that capacity, it is authorised to seek subscribers or buyers in conjunction with Banque Palatine SA, which is itself authorised to carry out all investment services.

If the two parties take the view that the characteristics of an issue require it, Palatine Asset Management SA will recommend the issue to professional investors selected by it, for which it will specify the suitable investment.

Palatine Asset Management SA does not guarantee any subscription or purchase amount to Banque Palatine SA.

On receiving confidentiality undertakings from Palatine Asset Management SA, Banque Palatine SA will send to Palatine Asset Management SA the information provided to investors so that they can make their investment decision (issuer name, term sheet etc.).

Palatine Asset Management SA's sales staff will then present to potential investors the main characteristics of the investment concerned, without disclosing the name of the issuer.

If investors are interested, Palatine Asset Management SA will email a confidentiality undertaking to be signed by potential investors.

On receiving confidentiality undertakings from investors, Palatine Asset Management SA will send the information to investors, and will then receive and pass on their subscription orders to Banque Palatine SA.

- Terms:

The agreement states that Palatine Asset Management SA's remuneration must be between 10% and 50% of the net commission received by Banque Palatine SA for the placement. It must be set by mutual consent at the end of the placement period by Banque Palatine SA depending on Palatine Asset Management SA's involvement and the difficulty of the placement. No remuneration will be paid if Palatine Asset Management SA's involvement is deemed not to be productive.

The agreement also states that any amount subscribed by Palatine Asset Management SA's managers will automatically be excluded from the calculation of Palatine Asset Management SA's remuneration. Banque Palatine SA shall accordingly adjust the amount of the placement to determine the new reference commission amount to be used as the basis for calculating Palatine Asset Management SA's remuneration.

The remuneration is not subject to VAT because of the tax consolidation system.

The financial impact in 2014 was an ex-VAT expense of €103 thousand.

Paris La Défense and Neuilly-sur-Seine, 24 April 2015

KPMG Audit FSI	**PricewaterhouseCoopers Audit**	
Fabrice Odent	Lionel Lepetit	Anik Chaumartin
Partner	*Partner*	*Partner*

4 Statutory auditors' report on the consolidated financial statements

Year ended 31 December 2014

To the shareholders,

In accordance with the assignment entrusted to us by your Annual General Shareholders' Meeting, we hereby report to you, for the year ended 31 December 2014, on:

- the audit of the accompanying consolidated financial statements of Banque Palatine SA;
- the justification of our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit consists of examining, by sampling or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also consists of assessing the accounting principles used, significant estimates made and the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the companies and entities included in the consolidated group in accordance with IFRS standards as adopted in the European Union.

Without prejudice to the opinion expressed above, we draw your attention to note 2.3 to the financial statements, which sets out the impact of the application of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" from 1 January 2014.

II. Justification of our assessments

As required by Article L.823-9 of the French Commercial Code relating to the justification of our assessments, we inform you of the following:

- As described in notes 4.1.6, 4.4, 5.6.2, 5.18 and 6.7 to the consolidated financial statements, your group records impairment and provisions to cover the credit risks inherent in its business.

  As part of our assessment of the material estimates used in preparing the financial statements, we examined the control procedures for the monitoring of credit and counterparty risks, the assessment of non-recovery risks and their coverage through impairment and provisions, both individual and collective.

- Your group sets aside provisions to cover risks relating to the potentially adverse consequences of commitments given under home purchase savings plans and accounts, as described in notes 4.4 and 5.18 to the consolidated financial statements.

  We examined the method used to measure these provisions, and we checked whether the information provided in the notes was appropriate.

- As stated in notes 4.1, 5.2, 5.3, 5.4 and 5.5, your group uses models and methods to determine the fair value of financial instruments, to identify any indications of impairment, to estimate the amount of any impairment losses to be recognised, and to assess whether relationships are properly categorised as hedge relationships or otherwise.

  We reviewed the control procedures relating to the accounting classification, the verification of models and the determination of inputs used to value these positions.

- Your group also uses accounting estimates to determine provisions for employee benefit obligations (notes 4.4, 4.8, 5.18 and 8.2).

  We examined the method used to measure these obligations along with the assumptions and parameters used, and we checked whether the information provided in the aforementioned notes was appropriate.

Our assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore assisted us in reaching our opinion as expressed in the first part of this report.

III. Specific verification

We also carried out specific verification, as required by law, of information relating to the Group provided in the management report, in accordance with professional standards applicable in France.

We have no comments to report with respect to the fairness of its presentation and consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, 24 April 2015

The Statutory Auditors

PricewaterhouseCoopers Audit		**KPMG Audit FSI**
Lionel Lepetit	Anik Chaumartin	Fabrice Odent
Partner	*Partner*	*Partner*

5 Statutory auditors' report, prepared in accordance with article L.225-235 of the French Commercial Code, on the report by the Chairman of Banque Palatine SA's board of directors

Year ended 31 December 2014

To the shareholders,

As statutory auditors of Banque Palatine SA and pursuant to the provisions of Article L. 225-235 of the French Code of Commerce, we hereby present our report on the report prepared by the Chairman of the company in accordance with the provisions of Article L. 225-37 of the French Commercial Code for the period ended 31 December 2014.

The Chairman is required to draft a report on the company's internal control and risk management procedures and submit it for approval by the Board of Directors. The report must also provide the other information required by Article L. 225-37 of the French Commercial Code, in particular with respect to corporate governance.

Our role is to:

- provide you with our observations regarding the information contained in the Chairman's report, relating to the internal control and risk management procedures covering the preparation and processing of accounting and financial information; and
- attest that the report includes the other information required by Article L. 225-37 of the French Commercial Code, although we are not required to verify the fair presentation of this other information.

We have carried out our work in accordance with professional standards applicable in France.

Information concerning the internal control and risk management procedures relating to the preparation and treatment of financial and accounting information

Professional standards require us to carry out work to assess the accuracy of information relating to internal control and risk management procedures involved in preparing and processing the accounting and financial information contained in the Chairman's report. Those standards require us to:

- familiarise ourselves with internal control and risk management procedures relating to the preparation and processing of the financial and accounting information used to produce the information presented in the Chairman's report, and with existing documentation;
- familiarise ourselves with work done to prepare this information and with existing documentation;
- establish whether any major deficiencies in internal control and risk management relating to the preparation and processing of accounting and financial information, which we may have discovered during the course of our assignment, are properly disclosed in the Chairman's report.

On the basis of this work, we have no comments to make on the disclosures regarding the company's internal control and risk management procedures relating to the preparation and treatment of accounting and financial information, contained in the report of the Chairman of the Board of Directors, prepared in application of Article L. 225-37 of the French Commercial Code.

Other information

We attest that the report of the Chairman of the Board of Directors comprises the other information required by Article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris La Défense, 24 April 2015

The Statutory Auditors

PricewaterhouseCoopers Audit

Lionel Lepetit
Partner

Anik Chaumartin
Partner

KPMG Audit FSI

Fabrice Odent
Partner

6 Report by the independent third-party organisation on the consolidated workforce-related, environmental and social information included in the management report

Year ended 31 December 2014

To the Shareholders,

In our capacity as a third-party organisation independent of Banque Palatine, accredited by COFRAC under number 3-1049[1] and a member of the KPMG International network like one of your statutory auditors, we hereby present to you our report on the consolidated workforce-related, environmental and social information relating to the financial year ended 31 December 2014 presented in the management report (hereinafter "CSR Information") in accordance with article L.225-102-1 of the French Commercial Code.

Responsibility of the company

The Board of Directors is responsible for establishing a management report including the CSR Information required under Article R. 225-105-1 of the French Commercial Code, prepared in accordance with the reporting protocol used by the company (hereinafter "the Protocol"), a summary of which appears in the management report and is available upon request addressed to the company's head office.

Independence and quality control

Our independence is defined by regulatory texts, the profession's code of conduct and Article L. 822-11 of the French Commercial Code. We have also implemented a quality control system which included documented policies and procedures aiming at ensuring compliance with the ethical rules, professional standards and applicable rules and regulations.

Responsibility of the independent third-party organisation

It is our responsibility, based on the work performed, to:

- certify that the required CSR Information is presented in the management report or, where it is omitted, explained pursuant to the third paragraph of Article R. 225-105 of the French Commercial Code (declaration of the inclusion of CSR Information);
- express limited assurance that the CSR Information, taken as a whole, is presented, in all material aspects, in a truthful manner in accordance with the Protocol ("Reasoned opinion on the accuracy of the CSR Information").

Our work was carried out by a team of five people between December 2014 and April 2015 for a duration of approximately four weeks. Our CSR specialises assisted us in conducting our work.

We performed the work outlined below in accordance with the professional standards applicable in France, the executive order of 13 May 2013 establishing the terms under which independent third-party bodies must carry out their responsibilities and, with respect to the reasoned opinion on the truthfulness of the CSR Information, the ISAE 3000 international standard[2].

1 Declaration of the inclusion of CSR Information

Based on discussions with the appropriate divisional managers, we analysed the report on guidelines for sustainable development (with respect to the social and environmental impacts resulting from the company's activities), the company's social commitments and, where applicable, the associated initiatives and programmes.

We compared the CSR Information presented in the management report with the list provided for by article R.225-105-1 of the French Commercial Code.

In the absence of certain consolidated information, we checked that explanations were provided in accordance with paragraph 3 of Article R.225-105 of the French Commercial Code.

We checked that the CSR Information covered the consolidated group, i.e. the company and its subsidiaries within the meaning of article L.233-1 of the French Commercial Code and the companies it controls within the meaning of article L.233-3 of the French Commercial Code.

On the basis of our work, we certify that the required CSR Information is included in the management report.

---

[1] *The scope of which can be consulted at www.cofrac.fr*

[2] *ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.*

2 Reasoned opinion on the accuracy of the CSR Information

Nature and scope of our work

We had two meetings with the individuals responsible for the preparation of the CSR Information in the divisions in charge of information collection and, where applicable, the managers of internal controls and risk management, in order to:

- assess whether the Protocol is appropriate with respect to its relevance, completeness, reliability, objectivity and clarity, taking into account best practices in the sector where applicable;
- verify the implementation of a reporting, consolidation, handling and control process, intended to ensure the completeness and the consistency of the CSR Information, and obtain an understanding of the internal control and risk management procedures relating to the preparation of the CSR Information.

We established the nature and scope of our tests and controls based on the nature and importance of the CSR Information with respect to the company's characteristics, the workforce-related and environmental challenges associated with its activities and its guidelines on sustainable development and best practices in the sector.

For the CSR Information that we considered the most important[1]:

- at the level of the consolidating entity, we consulted documentary sources and carried out interviews to validate the qualitative information (organisation, policies, measures); performed analytical procedures on the quantitative information and verified, on a sample basis, calculations and the consolidation of data; and verified their coherence and consistency with the other information contained in the management report;
- based on a representative sample of sites which we selected [2]on the basis of their activity, contribution to the consolidated indicators, location and risks, we conducted interviews to check that procedures were correctly applied and carried out detailed tests based on sample data, consisting of checking the calculations made and reconciling data from the supporting documents. The sample selected represents between 71% and 100% of staff, between 95% and 100% of quantitative environmental information and 100% of social information.

We assessed the coherence of the other consolidated CSR Information based on our knowledge of the company.

Finally, where information was totally or partially absent, we assessed the relevance of the justifications provided.

We believe that the sampling methods and sample sizes we used in exercising our professional judgment allow us to express limited assurance; a higher level of assurance would have required more extensive work. Owing to the use of sampling techniques and other limitations inherent to the operation of any internal information and control system, the risk of not detecting a material misstatement in the CSR Information cannot be completely eliminated.

Conclusion

On the basis of our work, nothing has come to our attention that causes us to believe that the CSR Information, as a whole, has not been presented in a truthful manner, in accordance with the Protocol.

Paris-La Défense, 24 April 2015

KPMG SA

Anne Garans
Partner
Climate Change & Sustainable Development Department

Fabrice Odent
Partner

1 *Workforce-related indicators: Total workforce and breakdown by gender, contract, status and age, number of hires, number of terminations, average basic salary, breakdown of permanent staff by working hours, absenteeism rate, average number of hours of training by employee. Environmental indicators: Energy consumption (gas, electricity), fuel consumption (diesel, petrol), greenhouse gas emissions related to energy consumption (buildings and transport), paper consumption.*
Social indicators: Percentage of employees having received training in anti-money laundering policies and procedures, total SRI (Socially Responsible Investing) funds.
Qualitative information: Remuneration and changes in remuneration, the organisation of employee-management dialogue, information about collective agreements, health and safety conditions, training policies, anti-discrimination policy, measures to promote equality between men and women, amount of provisions and guarantees for environmental risks, energy consumption and steps taken to improve energy efficiency, partnership and cultural sponsorship actions, efforts to take into account workforce-related and environmental issues in the company's procurement policy.

2 *Banque Palatine and Palatine Asset Management (PAM).*

7 Statutory auditors' report on the capital increase reserved for employees

To the shareholders,

In our capacity as statutory auditors of your company, and in accordance with the assignment provided for by articles L.225-135 and following of the French Commercial Code, we hereby present our report on the proposed delegation of authority to the Board of Directors to resolve to carry out a capital increase through the issue of ordinary shares with preferential subscription rights cancelled, reserved for employees or former employees, with a maximum amount of €5,388,020 or 1% of the company's share capital. You are being asked to vote on this proposal.

The capital increase is subject to your approval in accordance with article L.225-129-6 of the French Commercial Code and articles L.3332-18 and following of the French Labour Code.

On the basis of its report, your Board of Directors has asked you to delegate to it, for a period of twenty-six months, the authority to resolve to carry out a capital increase and to cancel your preferential subscription rights to the ordinary shares to be issued. The Board of Directors will be responsible for setting the final terms of issue under this transaction.

The Board of Directors is responsible for preparing a report in accordance with articles R.225-113 and R.225-114 of the French Commercial Code. We are required to give our opinion on the accuracy of the quantitative information taken from the financial statements, on the proposal to cancel preferential subscription rights and on certain other information concerning the issue provided in that report.

We have carried out the work we considered necessary to comply with the professional guidelines issued by the French national auditing body (Compagnie Nationale des Commissaires aux Comptes) relating to this type of assignment. This work involved checking the content of the report of the Board of Directors relating to this transaction and the method for determining the issue price of the shares.

We make the following observations concerning the Board of Directors' report:

The report refers to the provisions of article L.3332-20 of the French Labour Code, but does not specify which of the two methods provided for by that article will be used.

Since the final terms of the capital increase have not been fixed, we do not give any opinion on those terms or, therefore, on the proposal made to you to cancel preferential subscription rights.

In accordance with article R.225-116 of the French Commercial Code, we will prepare a supplementary report if and when your Board of Directors makes use of this authority.

Paris La Défense and Neuilly-sur-Seine, 24 April 2015

KPMG Audit FSI	PricewaterhouseCoopers Audit	
Fabrice Odent	Lionel Lepetit	Anik Chaumartin
Partner	*Partner*	*Partner*

Introduction

The Bank's main risks

In tough economic conditions, Banque Palatine continued to increase its loan book in 2014 (+€110 million). The cost of risk fell year-on-year, although the 2013 figure had been increased by a major loan loss.

The cost of credit risk was €41.9 million under French GAAP as opposed to €59.7 million in 2013 and €44.2 million in 2012, which was still relatively high on a historical comparison.

LBO finance outstanding totalled €477 million at end-2014 and the related cost of risk was very low at €4.9 million.

Loans to real-estate professionals continued to increase to €2.3 billion, representing 22% of the total commercial banking loan book.

The Bank's liquidity reserves mean that it complies with the LCR trajectory required by Groupe BPCE. Those reserves are gradually being invested in sovereign and corporate securities in accordance with the authorisations given by the Group market risk committee. The LCR was 78.2% at end-December 2014 and the loan-to-deposit ratio was close to 78%.

The interest-rate risk limits used by Banque Palatine are those stated in the Group ALM framework and include the 20% regulatory limit on the Basel II indicator.

Two other interest-rate risk indicators are subject to limits:

- Static gap position on fixed-rate exposures relative to equity

Static gaps on fixed-rate exposures are measured up to a 10-year time horizon, then divided by equity. The resulting figure must remain lower than a level that decreases over time (from 123% to 65% depending on the year under consideration).

Rolling 1-year period	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Entity limit	123%	123%	116%	110%	104%	91%	78%	65%	65%	65%

- Interest margin sensitivity

The sensitivity of interest margin over a rolling two-year future period is subject to two limits, each based on the most adverse of four 1- or 2-year scenarios:

  - 5% of the interest margin based on the central scenario in year 1;
  - 9% of the interest margin based on the central scenario in year 2.

Banque Palatine complies with limits regarding interest-rate and liquidity risk.

2014 highlights

Highlights included the following:

- The Bank continued or completed the following cross-functional projects: ensuring consistency between accounting and risk management procedures (particularly as regards financial transactions), submitting additional risk data to BPCE (particularly regarding forbearance) and calculating RWAs using Groupe BPCE tools; preliminary work to bring Banque Palatine into line with group rating tools, both as regards the Incident-Default database and, for payments, with the National Third-Party reference base; bringing standards into line with the group regarding defaults, and researching and implementing within a pilot region a credit decision-making process that better meets new regulatory requirements and is faster.
- The Bank introduced new market-risk controls in connection with the development of its client trading room and to ensure full implementation of Lagarde controls.
- It carried out its annual review of the operational risk map, between April and October 2014, in order to highlight the bank's recurring risks and major risks (in terms of frequency and losses), through an exhaustive review of the scope and risk ratings. This enabled the Bank to identify the various operational risk situations that may affect its activities. Those ratings were based on the back-testing of realised risks, expert opinion, Group benchmarks (2013 ratings), and risks of fines and sanctions.

Groupe BPCE risk management system

The group risk management (GRM) division ensures that the risk management system is effective and that risks are consistent with Groupe BPCE's financial, human and systems resources and with the targets set for it.

More specifically, its duties include assessing and preventing risks, and preparing the risk policy that forms part of the operational business management and permanent risk monitoring policies.

GRM performs its duties independently of operational divisions. Its operating arrangements, particularly as regards business processes, are set out in the Group Risk Management charter, which was approved by BPCE's Management Board on 7 December 2009 and updated on 10 May 2010 and 13 January 2014. The risk management divisions of affiliates, parent companies and subsidiaries subject to banking supervision regulations have strong functional links with GRM.

Disclosures to the governing body within the meaning of Article 98 of the French executive order of 3 November 2014 on internal control at credit institutions

Based on the audit committee's proposal of 9 September 2009, the supervisory board approved on 22 September 2009 the regulatory thresholds proposed by the group in accordance with Article 98 of the order of 3 November 2014 on internal control at credit institutions. The reporting threshold for credit risks and operational risks was thus set at 0.5% of the Bank's consolidated regulatory capital. Pursuant to BPCE guidelines, the audit committee on 12 May 2010 proposed adopting in respect of 2010 a threshold of €3,100 thousand, and placed on record that this amount will now be updated every year in accordance with the rule approved by the board, without the board having to be consulted again.

This threshold and these arrangements were approved by the supervisory board on 26 May 2010.

The Bank has thus embedded in its processes the immediate reporting, to its executive and governing bodies, to the central body (BPCE) and to the *Autorité de contrôle prudentiel et de résolution* (the Banque de France's prudential control and resolution authority or ACPR), of any loss provided for or definitive in nature amounting to over 0.5% of its capital in accordance with Article 98 of the order of 3 November 2014 on internal control at credit institutions and BPCE's decisions.

No incident was reported in 2014.

Main issues identified for 2015

Credit risk

The priorities in 2015 are to continue preliminary work to integrate the Groupe BPCE's new Basel II corporate rating tools according to a timetable to be determined, and to finalise the new risk/commitment organisation.

Financial risks

Future priorities involve improving or upgrading automated transaction reporting flows, both within Banque Palatine's internal systems and towards Groupe BPCE systems, including through the application of new Groupe BPCE balance-sheet segmentation standards.

That work will follow on from work already done on the automated reconciliation between management and accounting results relating to financial transactions.

The sending of front-office transaction valuations to back-office systems, after the risk management division has validated the methodology, will be applied to a second batch of financial instruments.

Operational risks

The focus will remain on improving current arrangements by making the whole operational risk management system efficient for the operational risk function and the bank in terms of three aspects: actual risks, potential risks and areas of vulnerability. Accordingly, action plans will be adopted and/or the risks to be monitored will be defined, and the system will be governed by a set of procedures and an operational risk control plan based on PILCOP and reported to the executive body (and/or the supervisory body).

The priority will be to enhance the level-1 control plan and supplement action plans relating to identified priority risks.

1 Pillar III

Regulatory monitoring of credit institutions' capital was introduced in 1988 by the Basel Committee on Banking Supervision and is based on three pillars that form an indivisible whole:

Pillar I

Pillar I sets minimum requirements for capital. It aims to ensure that banking institutions hold sufficient capital to provide a minimum level of coverage for their credit risk, market risk and operational risk. A bank can use standardised or advanced approaches to calculate its capital requirement.

Pillar II

This establishes a process of prudential supervision that complements and strengthens Pillar I. It consists of:

- analysis by the Bank of all of its risks, including those already covered by Pillar I;
- calculation by the Bank of the amount of economic capital it needs to cover these risks;
- comparison by the banking supervisor of its own analysis of the Bank's risk profile with the analysis conducted by the Bank, in order to adjust its choice of prudential measures, which may take the form of capital requirements exceeding the minimum requirements or any other appropriate technique.

Pillar III

Pillar III is concerned with establishing market discipline through a series of reporting requirements. These requirements – both qualitative and quantitative – are intended to improve financial transparency in the assessment of risk exposure, risk assessment procedures and capital adequacy.

Composition of regulatory capital

The Basel III agreement, transposed into European legislation through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) – which were passed by the European Parliament on 16 April 2013 and published in the Official Journal of the European Union on 26 June 2013 – defined the prudential supervision rules applicable to credit institutions and investment companies.

Institutions concerned are required to maintain an overall capital adequacy ratio of at least 8% at all times. This capital adequacy ratio is equal to the ratio between total equity and the sum of:

- assets weighted by credit, counterparty and dilution risk;
- capital requirements with respect to the prudential supervision of market, operational and credit valuation adjustment (CVA) risk multiplied by 12.5.

Article 92(1) of the CRR sets a minimum common equity tier 1 ratio of 4.5% and a minimum tier 1 capital ratio of 6%.

However, Banque Palatine is required to comply with a common equity tier 1 ratio of 4% and a tier 1 capital ratio of 5.5% as defined, as part of transitional provisions, by article 465(1) of the CRR, which allows competent authorities to determine these ratios within a given range between 1 January 2014 and 31 December 2014, and the decision published by the ACPR in the press release of 12 December 2013.

Regulatory capital and Basel III capital adequacy ratios

in millions of euros	31/12/2014	31/12/2013
Consolidated equity	820.8	789.2
Perpetual deeply subordinated notes classified as equity	80.0	80.0
Consolidated equity excluding perpetual deeply subordinated notes classified as equity	740.8	709.2
Non-controlling interests	0	0
Deductions from common equity		
• Goodwill	0	0
• Other intangible assets	(20.9)	(21.7)
Prudential filters	0	0
Core Tier One capital before deductions	701.3	708.2
Basel II/III deductions	(26.8)	(44.5)
Core Tier One capital	674.4	686.5
Deeply subordinated notes	52.0	80.0
Tier 1 capital (A)	**726.4**	**744.7**
Additional Tier 1 capital	0	0
Additional Tier 2 capital	26.9	27
Additional capital before deductions	26.9	27
Basel II/III deductions	0	(2.3)
Tier Two capital (B)	**26.9**	**24.7**
TOTAL REGULATORY CAPITAL (A+B)	**753.3**	**769.4**
Credit risk-weighted assets	7,967.4	7,510.8
Market risk-weighted assets	1.5	16.3
Operational risk-weighted assets	549.5	538.4
CVA risk-weighted assets	48.5	0
TOTAL BASEL III RISK-WEIGHTED ASSETS	**8,566.8**	**8,065.4**
Capital adequacy ratios		
Core Tier One ratio	7.87%	8.51%
Tier One ratio	8.48%	9.23%
Total capital adequacy ratio	8.79%	9.54%

Internal capital adequacy and capital requirements

Composition of capital

Regulatory capital is determined in accordance with EU regulation 575/2013 (CRR) of 26 June 2013 on prudential requirements for credit institutions and investment firms.

It is divided into three broad categories: Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

Common Equity Tier 1 (CET1) capital

Common equity tier 1 capital consists of the share capital and related share premiums, reserves, retained earnings, the fund for general banking risks, non-controlling interests and certain deductions (including goodwill and intangible assets).

Banque Palatine's CET1 capital includes:

- share capital and reserves: €701 million;
- prudential adjustments (including goodwill and intangible assets): -€26 million.

Additional Tier 1 (AT1) capital

Additional tier 1 capital corresponds to perpetual debt instruments that feature no redemption incentive or obligation. AT1 instruments are subject to a loss-absorption mechanism that is triggered when the CET1 ratio falls below a threshold, which must be at least 5.125%.

The Bank's AT1 capital consists of €52 million of perpetual deeply subordinated notes, adjusted for phase-in measures regarding the grandfathering clause.

Tier 2 capital

Tier 2 capital corresponds to subordinated debt instruments that have a minimum term of five years. Early redemption incentives are prohibited.

Banque Palatine's Tier 2 capital consists mainly of:

- fixed-term subordinated debt:
  - a €25 million loan subject to prudential amortisation of €19 million, giving a net amount of €6 million,
  - a €15 million loan subject to prudential amortisation of €9 million, giving a net amount of €6 million,
- collective credit-risk provisions resulting from the application of the method described in section 3, book IV, chapter 2 of EU regulation 575/2013, amounting to €15 million.

Capital requirements and risk-weighted assets

The Bank calculates its risk-weighted exposures using the standardised approach for credit, market, operational and CVA risk.

	Gross exposures (€ m) **31/12/2014**	**Gross exposures** (€ m) **31/12/2013**	**Weighted exposures** (€ m) **31/12/2014**	**Weighted exposures** (€ m) **31/12/2013**	**Weighting rates** (%) **31/12/2014**	**Weighting rates** (%) **31/12/2013**
Central governments	1,334	468	44	1	0%	0%
Public sector entities	430		0		0%	
Institutions	6,745	5,381	65	74	1%	1%
Corporates	8,424	8,394	6,395	6,257	76%	75%
On-balance sheet	*6,148*	*5,812*	*5,402*	*5,159*	*88%*	*89%*
Off-balance sheet	*2,276*	*2,582*	*993*	*1,098*	*44%*	*43%*
Retail customers	638	2,063	363	1,018	57%	49%
On-balance sheet	*535*	*1,946*	*328*	*972*	*61%*	*50%*
Off-balance sheet	*103*	*117*	*35*	*46*	*34%*	*39%*
Exposures secured by mortgage on immovable property	1,291		463		36%	
Exposures in default	384		468		122%	
Collective investment undertakings	18		18		100%	
Equities	13	31	20	38	151%	122%
Other items	295	170	131	124	44%	73%
TOTAL	**19,572**	**16,507**	**7,967**	**7,513**	**41%**	**46%**

Credit, market, operational and CVA risk-weighted assets

At 31 December 2014, risk-weighted assets calculated in accordance with Basel III amounted to €8,567 million.

	Weighted exposures (€ m) **31/12/2014**	**Weighted exposures** (€ m) **31/12/2013**
Central governments and central banks	44	1
Public sector entities	0	0
Institutions	65	74
Corporates	6,395	6,257
Retail customers	363	1,018
Exposures secured by mortgage on immovable property	463	0
Exposures in default	468	0
Collective investment undertakings	18	0
Exposures in form of equities	20	38
Other items	131	124
Credit risk exposures	7,967	7,513
Market risk exposures	2	16
Operational risk exposures	550	538
CVA risk exposures	48	0
TOTAL AMOUNT OF RISK EXPOSURES	**8,567**	**8,065**
CET1 capital	674	687
CET1 RATIO	**7.87%**	**8.51%**
T1 capital	726	745
AT1 RATIO	**8.48%**	**9.23%**
Total capital	753	769
TOTAL RATIO	**8.79%**	**9.54%**

Since 1 January 2014, the Basel III capital adequacy ratio has been defined – in accordance with EU directive 2013/36/EU and EU regulation 575/2013, and with the technical standards of the European Banking Authority that supplement them – as the ratio between total prudential capital and the sum of:

- credit risk-weighted exposures calculated by Banque Palatine using the standardised approach;
- capital requirements with respect to the prudential supervision of market, operational and credit valuation adjustment (CVA) risk multiplied by 12.5.

At 31 December 2014:

- Banque Palatine's Common Equity Tier 1 ratio was **7.87%;**
- Banque Palatine's Tier 1 ratio was **8.48%;**
- Banque Palatine's total capital ratio was **8.79%.**

Management of capital adequacy

Banque Palatine uses Groupe BPCE's system for calculating risk-weighted assets, based on group guidelines, and reports detailed risk data to the group.

Credit and counterparty risks

BPCE's group risk management committee has defined the counterparty risk delegation levels – by segment and by rating – for Banque Palatine. The Bank was informed of these delegation levels on 22 October 2013, and they form part of the overall framework of limits in force and maximum limit rules at Groupe BPCE and Banque Palatine.

At the Bank level, decision-making is carried out under a delegated procedural framework and uses the principle of independent analysis involving the risk function. There is a right of appeal that can give rise to referral to the higher-level credit committee. The framework for the delegation of authority is built around six levels of delegation per segment. A dual signature system has been introduced across the board in compliance with the Basel II directives across all markets.

Credit risk measurement system

The Bank uses the V5 rating tools of the former Caisse d'Epargne Group, and calculates its capital requirements using the standardised approach.

Credit risk exposure at 31 December 2014

The table below breaks down credit risk exposures by Basel exposure category, i.e.:

- Central governments and central banks, including exposures to central governments, multilateral development banks, central banks and international organisations;
- institutions, including exposures to credit institutions, local authorities and public-sector entities;
- corporates, including both large corporations (with revenue of over €1 billion) and small and medium-sized companies;
- retail customers;
- equities, also including any element of a company's equity;
- securitisations, including exposures to CDOs, CLOs and CMBSs.

This credit risk exposure is determined without taking into account non-recognised netting effects and collateral.

Credit risk exposures by category

(€ '000)	Total exposure at 31/12/2014	%	Total exposure at 31/12/2013	%	Total exposure at 31/12/2012	%	Total exposure at 31/12/2011	%	Total exposure at 31/12/2010	%
Central governments and central banks	1,745,504	11%	467,588	3%	828,819	5%	374,502	3%	476,223	4%
Institutions	6,791,586	41%	5,381,264	33%	5,561,165	33%	4,327,830	29%	3,243,742	24%
Corporates	8,905,530	54%	8,394,097	51%	7,933,000	47%	7,831,239	53%	7,146,459	53%
Retail customers	2,070,805	13%	2,062,851	12%	2,186,000	13%	2,219,928	15%	2,269,081	17%
Equities	17,267	0%	30,930	0%	32,000	0%	33,101	0%	157,823	1%
Other	-	0%	169,775	1%	225,771	1%	106,915	1%	159,156	1%
Securitisation	-	0%	-	0%		0%	-	0%	-	0%
CREDIT RISK EXPOSURE	**19,530,698**		**16,506,505**		**16,766,755**		**14,893,515**		**13,452,484**	

"Disclosure in accordance with IFRS 7."

Breakdown of exposures by Basel category excluding guarantees received

The table below relates only to the commercial banking business:

		Exposures (€ '000) **at 31/12/2014**	**Change 12/2013 > 12/2014**	**Exposures (€ '000) at 31/12/2013**
Retail	Individual customers	1,888,654	(25,008)	1,913,662
TOTAL		**1,888,654**	**(25,008)**	**1,913,662**
	Companies	5,680,374	45,432	5,634,942
	Real estate professionals	2,215,495	142,769	2,072,726
	Large counterparties (revenue > €1 billion)	342,399	(53,625)	396,024
Corporates	Sovereigns	225	21	204
TOTAL		**8,238,493**	**134,597**	**8,103,896**
TOTAL		**10,127,147**	**109,589**	**10,017,558**

"Disclosure in accordance with IFRS 7."

- the relative size of the "companies" category reflects the Bank's strategy: this is the Bank's largest segment and corresponds to its target market;
- the individuals category remains substantial: assets consist mainly of home loans granted to mid-market and high net-worth customers, secured by mortgages or by mutual guarantee organisations (SACCEF);
- loans outstanding in the real estate professionals segment show a firm level of activity.

Breakdown by geographical zone

The breakdown of risks of over €5 million is as follows:

Country	**% of loans outstanding outside France**	**Country**	**% of loans outstanding outside France**
Belgium	16%	Switzerland	1%
Netherlands	14%	Singapore	1%
Spain	14%	Hong Kong	1%
Austria	12%	Morocco	1%
Finland	8%	Monaco	1%
United Kingdom	7%	French Polynesia	1%
Luxembourg	6%	Marshall Islands	0%
Italy	5%	Tunisia	0%
USA	3%	Sweden	0%
Germany	3%	South Korea	0%
United Arab Emirates	2%	Mexico	0%
Algeria	1%		

Excluding France and French overseas territories.
The segments concerned are: banks, sovereigns, corporates (with consolidated revenue of over €1 billion and insurance companies), regional public-sector entities, SMEs (with consolidated revenue of less than €1 billion), professionals, individuals and real estate professionals.

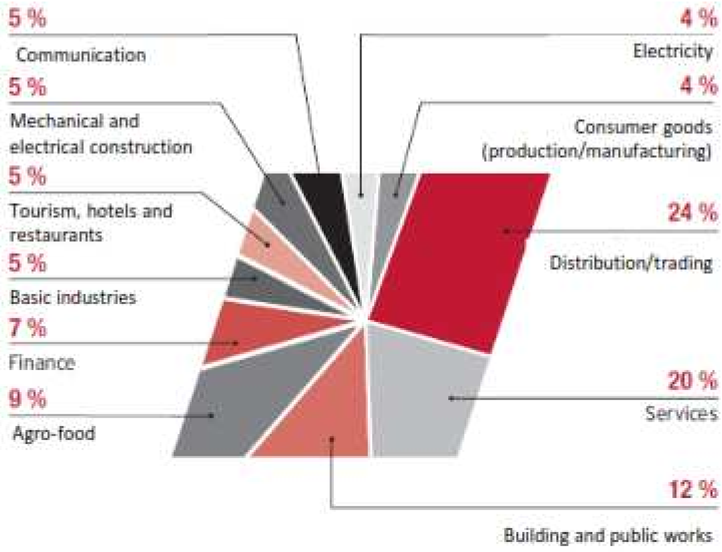
Total country risk exposure was €1,944 million at 31 December 2014, up from €817 million at 31 December 2013. The increase resulted from investing the Bank's liquidity in sovereign securities and the development of documentary credit operations.

Medium- to long-term exposures in risky countries relate mainly to home loans in France granted to people resident in those countries.

Most short-term view exposures relate to documentary credit and foreign-registered companies.

The Bank is exposed to sovereign risks in the following countries: Spain, Austria, Finland and the Netherlands.

Sectors accounting for at least 4% of exposures, excluding Real Estate and Holding Companies, at 31/12/2014



Scope:

- *The exposures presented relate only to the commercial banking business.*
- *These exposures only concern clients with a NAF/APE code (i.e. excluding individuals and clients without a NAF code).*

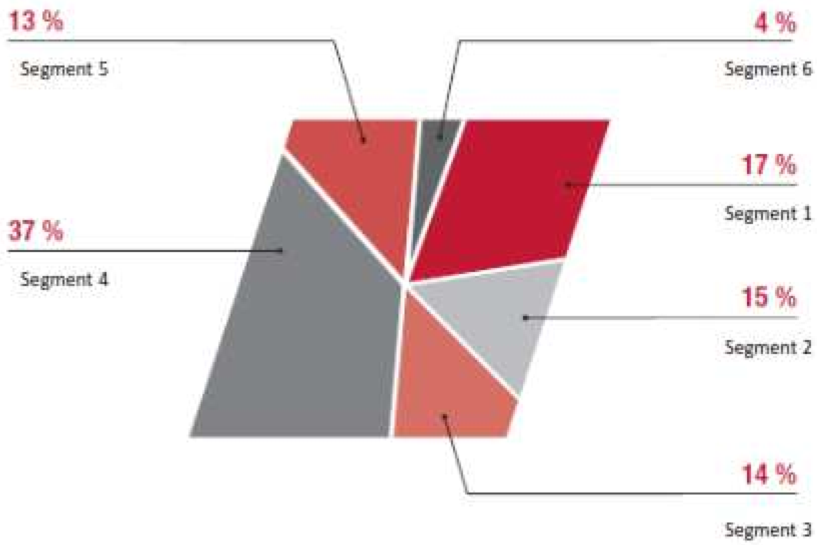
The breakdown of exposures by business sector is in line with the BPCE standard (CNMG 19/10/2010).

Real-estate exposures exceed €2.2 billion, and the "property rental" and "property" segments have been combined into the real-estate category.

Real estate financing, excluding non-trading property companies that own operating premises, accounts for around 22% of the Bank's total exposures. The breakdown did not change materially in 2014.

Breakdown by credit segment

The breakdown of credit risk exposures by credit segment is as follows (corporates only):

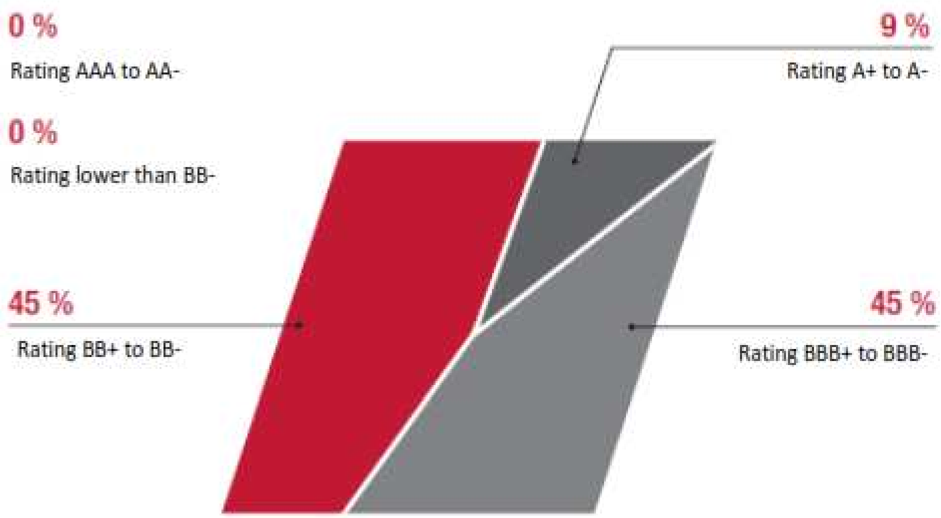


"Disclosure in accordance with IFRS 7."

Only the Banque de France's external ratings are used to calculate the breakdown of exposures by credit segment, as defined in the capital adequacy ratio calculation and reporting arrangements of 21 September 2007. Segment 1 is the least risky, with ratings of 3++ to 3+. It results that the quality of the risks is at 90% composed of good quality risks.

Credit risk concentration

Breakdown among large corporates > €10 million (number of companies)



Risk concentration was stable in 2014, and risk quality remained good.

Concentration of exposures by segment

Breakdown of commercial banking risks

	31/12/2014		31/12/2013	
	Top 10:	**Top 50:**	**Top 10:**	**Top 50:**
Individual customers	3%	10%	4%	10%
Corporates	8%	21%	8%	22%
Real estate professionals	14%	35%	14%	35%
Large counterparties	66%	100%	70%	100%

"Disclosure in accordance with IFRS 7."

Impaired assets, delinquent loans and credit risk coverage

Exposure to credit risk includes €60.4 million of delinquent loans and €288.8 million of impaired assets.

Those exposures are presented after the deduction of €245.8 million of specific impairment losses and €14.8 million of collective impairment losses.

Changes in specific and collective impairment losses during the period were as follows:

	Specific impairment	Collective impairment	Total
Balance at 31/12/2013	**(226.0)**	**(16.7)**	**(242.7)**
Additions	(64.2)		(64.2)
Reversed used	16.8		16.8
Reversed unused	27.9	1.9	29.8
Other changes	(0.3)		(0.3)
BALANCE AT 31/12/2014	**(245.8)**	**(14.8)**	**(260.6)**

"Disclosure in accordance with IFRS 7."

Risk profile at 31 December 2014:

Doubtful receivables and exposures amounted to €636 million, equal to 6.28% of customer outstandings, an increase relative to December 2013 (5.9%) caused by difficult economic conditions.

Those receivables and exposures are 41%-covered by specific and collective provisions, also up on 31 December 2013 (38.5%).

The IFRS cost of risk was €46.6 million, down €17.4 million relative to 2013, and equalled 0.46% of outstandings at 31 December 2014 as opposed to 0.47% at 31 December 2013.

IFRS provisioning ratio

	31/12/2014			31/12/2013		
	Accounting exposures (€ m)	**Accounting provisions (€ m)**	**Accounting provisioning ratio**	**Accounting exposures (€ m)**	**Accounting provisions (€ m)**	**Accounting provisioning ratio**
On-balance sheet doubtful customer exposures	521	239	45.9%	509	222	43.6%
On- and off-balance sheet doubtful exposures	587	256	43.7%	569	237	41.6%
Total doubtful exposures (including securities) + collective provisions	591	274	46.4%	569	254	44.6%

Banque Palatine's provisioning ratio as presented in the Magnitude IFRS package is 44.6%.

Collective provisions at 31 December 2014:

The methodology used by Banque Palatine's risk management division to calculate provisions on performing loans is based on:

- Groupe BPCE methodology and memos relating to clients that are common to other group entities;
- NET memos resulting from the Caisses d'Epargne rating system, Banque de France ratings or, in the absence of those, internal ratings.

Risk mitigation techniques

External credit assessment

At 31 December 2014, the only rating agency used by the Bank to assess credit with respect to its regulatory calculations was the Banque de France, via its FIBEN ratings.

As regards fixed-income securities (bonds), Groupe BPCE ratings, if recent (less than one year old), take precedence over external ratings issued by specialist agencies. These credit assessments are taken into account to determine the weighting of a given bond security position, with priority given to the short-term rating over the long-term rating. If there are no external ratings for the issue, the issuer's long-term external rating is taken into account for senior debt only, except in the specific case of exposure to institutions (credit institutions and regional public-sector entities) for which the weighting is deduced from the credit quality rating of the government of the country in which it is established.

In the very specific case where there is no external credit rating directly applicable to a given exposure, but there is a general credit rating for the issuer or a credit rating for a specific issuance programme to which the exposure does not relate, the procedures used to determine the weighting are applied within Groupe BPCE in accordance with Article 37-2 of the French order relating to capital requirements applicable to credit institutions and investment firms.

Valuation and management of instruments comprising real security interests

To take into account risk mitigation techniques as part of the standardised approach for calculating risk-weighted assets in the retail banking business, Banque Palatine revalues its real security interests. Since residential mortgages make up most of the real security interests received in this Basel category – which, together with guarantees from mutual guarantee organisations, account for almost all security interests – Banque Palatine has a mortgage revaluation system.

For each residential mortgage, the system calculates the present value of the asset using real-estate indexes showing movements in the real-estate market between the most recent valuation of the property and date on which risk-weighted assets are calculated. That allows the Bank to calculate a loan-to-value figure and therefore to weight the exposure according to the value of real security interests received.

At 31 December 2014, real security interests used in Basel II regulatory calculations are mortgages and lender's priority right, taken into account solely within the scope of retail banking. Non-real-estate assets pledged as collateral are not taken into account. Given that the two types of real security interests are very close in legal terms, lenders' liens are deemed to be the same as mortgages for regulatory purposes. These real security interests reduce the capital requirement relating to real-estate loans granted to natural persons or legal entities, where the aim of the loan is to finance residential or rental properties.

After the mortgage revaluation process, the loan-to-value calculation determines, for each exposure, the portion covered by the mortgage or the lenders' lien and the uncovered portion of the loan, in view of the overcollateralisation rate of 125% required by the regulator, and then each tranche is weighted at 35% or 75% under the standardised approach.

To take into account risk mitigation techniques as part of the standardised approach for calculating risk-weighted assets in the regional development banking business, Banque Palatine identifies guarantees that are eligible for credit risk mitigation techniques.

The following guarantees are identified:

- bank counter-guarantees (particularly from Groupe BPCE);
- cash deposit-type guarantees;
- guarantees from GIE Caisse d'Epargne Syndication Risque;
- COFACE guarantees;
- Bpifrance Financement guarantees.

Providers of sureties

The main providers of personal sureties in the retail banking business are mutual guarantee organisations (Compagnie Européenne de Garanties et Cautions or CEGC) and other credit institutions (mainly Crédit Logement):

- Compagnie Européenne de Garanties et Cautions is a company specialising in guaranteeing bank loans and is owned by Natixis Garanties. Loans covered by CEGC have a 35% weighting under the standardised approach;
- Crédit Logement is a financial institution in which most major French retail banks own a stake, with long-term credit ratings of Aa3 from Moody's and A from Standard & Poor's. Under the standardised approach, loans covered by Crédit Logement have a weighting equal to that of exposures guaranteed by a mortgage over a real property;
- intragroup guarantees, where the providers of sureties consist mainly of the various Caisses d'épargne, BPCE or Crédit Foncier de France.

The main providers of personal sureties in the regional development banking business are:

- Groupe BPCE credit institutions;
- GIE Caisse d'Epargne Syndication Risque, set up by the 17 Caisses d'Epargne and Banque Palatine;
- Bpifrance Financement, a public-sector institution tasked with supporting innovation and the growth of SMEs;
- COFACE, which provides services to companies in the areas of protection, financing, control and management of trade receivables.

Effect of credit risk mitigation techniques

At 31 December 2014, the Bank's exposure to credit risk was reduced to €316 million taking into account guarantees, sureties and collateral received by the Bank in its lending activities as well as purchases of protection.

	31/12/2014						**31/12/2013**	
	Personal guarantees and derivatives			**Physical guarantees**				
in millions of euros	**Personal guarantees**	**Credit derivatives**	**Total personal guarantees**	Physical guarantees	**o/w real**	**o/w financial**	**Total personal guarantees**	Total physical guarantees
Corporates	32.43			10.26			220.99	65.85
Retail customers	283.73			30.96			233.30	6.258
TOTAL	**316.16**			**41.22**			**454.29**	**72.11**

"Disclosure in accordance with IFRS 7."

Simulation of a crisis relating to credit risk

In 2014, the Bank did not carry out any crisis simulations, pending expected BPCE standards in this area for institutions under the standardised approach.

Work done in 2014

Banque Palatine continued the process of integrating within the group's counterparty risk monitoring systems, and started using the group system for calculating risk-weighted assets.

Market risks

Market risks are defined as the risk of loss related to changes in market parameters. All financial products can be expressed as a function of one or more market parameters. For each of those parameters, a level of sensitivity is calculated in order to estimate the corresponding market risk.

Market risks break down into three main components:

- interest-rate risk: the risk faced by the holder of a receivable or debt security caused by a change in interest rates; the risk may be specific to a specific issuer or a particular category of issuers whose credit quality has deteriorated (credit spread risk);
- exchange-rate risk: the risk that affects receivables and securities denominated in foreign currencies and held as part of capital market activities, resulting from the volatility of the foreign exchange rate relating to Euro;
- risk of a change in price: risk relating to the price of the position held in a given financial asset, it being stipulated that the Bank is not authorised to take on equity risk.

The market risk monitoring system is based on qualitative and quantitative risk indicators. The frequency with which these indicators are monitored depends on how the position is intended to be managed.

Qualitative indicators include the list of authorised products and the Client Watch List.

The quantitative monitoring of market risks takes place by calculating four quantitative indicators: sensitivity, maximum potential loss, VAR and stress.

Market risk monitoring organisation

Market risk monitoring covers all capital market activities, i.e. treasury operations, financial activities in the trading book and transactions to invest available capital over the medium to long term in products that generate market risks, regardless of their accounting classification. Activities falling within this scope are not included in the ALM function.

Within this scope, the risk management division, through its market risk department, carries out second-level control work on market risks, which involves:

- identifying the various risk factors and keeping an up-to-date map of financial products and instruments that shows all market risks;
- implementing the system for measuring market risks;
- preparing global and operational limit requests submitted to the competent committees;
- preparing the list of products authorised for activities that generate market risks, with new products needing to be authorised by the competent committees;
- preparing investment requests;
- checking positions and allocating them to the correct portfolio;
- checking the results of transactions and preparing the required reporting on a regular basis and in accordance with group standards;
- carrying out a cross-discipline analysis of risks and their development given the business strategy decided by the governing bodies and policies for managing operating activities;
- notifying operational heads and alerting internal audit and the executive body if limits are breached or if there is a significant deterioration in results;
- checking the implementation of risk-mitigation action plans.

This work is carried out in conjunction with the group risk management division, which defines the system for measuring market risks (VaR, stress tests etc.), examines valuation models, the resulting management indicators and earnings adjustment policies, assesses the system's performance (back-testing), and defines reporting documents relating to positions (exposures) and market risks to be produced at the various levels of the group.

System for measuring and limiting market and financial risks

In early 2014, the segmentation of the balance sheet was reviewed, applying Groupe BPCE's new standards, in order to harmonise business-line segmentation from the finance, management control and risk monitoring points of view. That project clarified the list of segments and sub-segments, as well as market risk monitoring arrangements.

The "commercial banking" segment covers all transactions that have a direct link with commercial customers (current or potential) and those carried out to manage the risks generated by them (interest-rate, liquidity and exchange-rate).

Market risk monitoring excludes the "commercial banking" segment, but that segment is covered by ALM risk monitoring.

Market and settlement risks

Under the regulatory requirements of French banking law regarding the separation and regulation of banking activities, the group decided to sell in 2014 all assets owned by retail institutions (excluding BRED) in the "Retail trading book" sub-segment, which is classified under Trading.

Market-making contracts

Banque Palatine is not a party to any market-making contracts as a market maker within the meaning of article L.511-47 (V)(1) of French banking act 2013-672. However, it does respond to client requests to buy or sell instruments and covers the positions that result. Accordingly, it is a market maker for its clients within the meaning of article L.511-47(V)(2). Banque Palatine does not contribute prices to any trading platform as part of that activity.

Membership of a trading platform

Banque Palatine uses trading platforms to hedge client positions in the interbank market. It is a "market-taker" in these trading platforms, and operates under its own user ID.

Financial instruments in which the Bank acts as a market maker for its clients

The following financial instruments are those in which the Bank acts as a market maker for its clients:

- spot foreign exchange;
- currency options;
- currency swaps and forward instruments (deliverable and non-deliverable);
- forex accumulators;
- interest rate swaps;
- interest-rate caps, floors and swaptions;
- cash management instruments, both on the borrowing and lending side (CDNs, BMTNs, EMTNs etc.);
- structured swaps and structured bonds;
- equity and bond brokerage.

Systematic internalisation

The risks arising from the Bank's client business are systematically hedged in the interbank market. There is no internalisation, given the small volumes involved.

In particular, the Bank does not take any directional forex positions.

Recording of market transactions – calculation of positions and results

All transactions are recorded on an ongoing basis using the front-office Kondor+ system. Manual tickets are submitted on an ongoing basis to the back office, via the middle office, for transactions where there is no interface between the front- and back-office systems.

The front- and back-office systems are capable of valuing positions using Reuters data (front office) and Fininfo data (back office). The valuations used for accounting purposes are the back-office valuations.

All positions with bank counterparties are monitored on a daily basis or in real time by the market risk department. Certain results that are calculated daily are used by this department to monitor indicators and limits, particularly stop losses.

Newly traded transactions are input into the IT systems on the day they are traded.

Reconciliations between management and accounting results

All transactions are input and/or recorded manually on an ongoing basis in the back-office system.

Forex results and positions are also calculated daily by Kondor+, so that limits can be monitored in terms of results.

The management results of financial transactions have been calculated by the middle office and checked by the market risk department since January 2014. Those results are based on gross IFRS results.

IT developments started in 2013 to automate the reconciliation of gross IFRS transaction result elements with gross elements recorded individually in the accounting system.

That work continued in 2014 and a final phase of work is planned for 2015.

Daily calculation of Scenarisk VaR

Segment	Sub-segment	VaR at 31/12/2013	VaR at 31/03/2014	VaR at 30/06/2014	VaR at 30/09/2014	VaR at 31/12/2014	Change in VaR between 31/12/2013 and 31/12/2014
Capital markets	Excluding treasury	22,330	47,287	43,978	30,307	32,978	48%

Value at risk (VaR) remained very low at 12-21% of the limit in 2014.

The networks trading book is subject to VaR and stress monitoring.

Each type of product in the MLT investment sub-segment is subject to specific monitoring:

- mutual funds;
- securitisations;
- structured products;
- bonds.

The bank bond portfolio in the "financial portfolio" segment is subject to credit stress monitoring. Calculations are carried out by the BPCE central body, which makes the information available to the Bank. The "commercial banking" segment is monitored through ALM indicators.

Assessment of risks resulting from trading book positions

The trading book and the MLT segment are subject to VaR and stress monitoring. Other specific limits are applied to the trading book segment.

Transactions not eligible for asset-liability management, because they are index-linked or involve complex risk factors, are classified in the trading book. All of the Bank's currency exposure is managed in this segment.

Authorised products are listed in an appendix to the group business-line segmentation standard.

Included risk factors are interest-rate risk, currency risk, liquidity risk, operational risk and counterparty risk. Equity risk is excluded.

All instruments in this portfolio are marked-to-market in terms of their results and positions.

Monitored market risk indicators

Monitored indicators are produced by the BPCE central system.

Networks trading book:

- parametric VaR (99%, 1-day) is calculated daily in the Scenarisk system by the market risks unit of BPCE's group risk management department. Sensitivities for each risk type are calculated daily;
- 6 theoretical overall stress scenarios have been set centrally and are calculated on a weekly basis. The components of these stress scenarios may relate to equity, interest-rate, credit, currency or commodity factors.
- 11 historical stress scenarios have been set centrally and are calculated on a weekly basis. These stress scenarios are based on historical crises from the 1987 crash to the 2009 rally.

MLT investment portfolio:

- 6 theoretical overall stress scenarios have been set centrally and are calculated on a weekly basis. The components of these stress scenarios may relate to equity, interest-rate, credit, currency or commodity factors.
- 11 historical stress scenarios have been set centrally and are calculated on a weekly basis. These stress scenarios are based on historical crises from the 1987 crash to the 2009 rally.

Banking book (MLT investment and HQLA portfolio):

- GRM has monitored credit stress since June 2012 on bonds in the banking book, and the results have been reported to institutions since January 2013. Stress is calibrated on the basis of the European sovereign crisis in the second half of 2011, and shocks are defined for the following sectors:
  - sovereigns: the shock is adjusted according to the country and maturity,
  - financials: the greater of 70% of the spread and 50 basis points,
  - corporates: the greater of 70% of the spread and 30 basis points.

Other cross-business indicators

- the warning threshold relates to the unrealised loss and/or underlying position;
- the daily stop loss corresponds to the unrealised loss beyond which open positions must be unwound, in order to fix the loss resulting from the strategy. It corresponds to the unrealised loss on the open position;
- the maximum annual loss on the business relates to the amount of the annual gain/loss (sum of realised and unrealised gains and losses since 1 January of the current year).

Market risk monitoring system

Organisation of Banque Palatine's trading room

The organisation of Banque Palatine's trading room ensures that the front, middle and back offices are fully independent, as recommended by regulations. It makes the risk management division's control function more transparent.

Front office

The front office initiates market transactions subject to limits and indicators defined for each type of instrument, which are validated by the credit committee, the ALM committee, the finance committee and the audit and internal control committee.

Traders are subject to behavioural limits. Each new member of staff signs a document setting out his/her limits and the type of transactions he/she is authorised to carry out. When a trader resigns, his/her IT authorisations are immediately revoked in the Bank's systems and platforms.

Financial middle office

A financial middle office was set up on 15 January 2013, reporting to the head of the banking production division of the finance and banking production segment.

Its main assignment is to double-check front-office transactions, except for spot transactions that are subject to another double-checking process, correct and cancel transactions, calculate trading-room results and update client files, particularly with respect to MiFID.

The middle office has set up first-level controls, which are supervised at the second level by the risk management division's market risk department.

Back office

The back office of the finance and banking production segment’s banking production division handles almost all of the front office's transactions, via an interface. Transactions are processed using specialist ECM (Evolan Capital Market) management software.

For products where there is no interface between the front and back offices, tickets are sent by the front office to the middle office for validation and then sent to the back office, which inputs transactions into its preconfigured transaction support system so that the transactions can be included in the IT system's accounting module (SAB). The back office conducts first-level permanent controls for administrative operations.

Market risk department

The department is part of the risk management division, and its task is to carry out second-level controls on financial activities across the front, middle and back offices. Its controls cover indicators defined by Groupe BPCE's financial risk function.

It also carries out administration work on the front-office system (Kondor+) and platforms used by the front office.

In 2013 and 2014, the market risk department prepared a cross-business financial risk map in conjunction with the operational risk department, in order to create a single map of the Bank's risks and first- and second-level controls.

The market risk department comprises six people (on a FTE basis) who have the skills needed for it to fulfil its function.

Taking into account the various risk components: limit controls

Trading staff themselves conduct first-level permanent control of limits as part of individual limits restricting their actions. They receive information in real time and some of them have access to automated monitoring data via the Kondor+, Reuters and EBS systems.

Bank counterparty limits are input by the market risk department in the Kondor+ system and any breach is immediately detected.

Desk managers and the head of finance have responsibility for first-level control.

The risk management division’s market risk department performs second-level controls in the manner set out below.

The back office of the finance and banking production segment’s banking production division is the final element in the organisational framework. It conducts permanent controls for administrative operations.

Scope covered

All financial transactions are covered by controls and limit monitoring. In principle, no new activities may be started up unless at least the limits and resources used to monitor them have been defined.

Reporting documents containing the results of market transactions are sent to the executive and supervisory bodies.

Group-wide monitoring of controls relating to Lagarde report recommendations

To ensure that best practice as set out in the Lagarde report is applied by banks, specific controls are monitored by the risk management department. BPCE’s risk management division carries out quarterly assessments relating to Lagarde report recommendations on the basis of permanent controls managed with contributing institutions, and results are presented to the group market risk committee.

Those controls were updated as part of the overhaul of management segments, and relate to compliance with the Lagarde report's recommendations:

- monitoring of traders' nominal positions;
- monitoring of cash flows (margin calls and payments, guarantee deposits, realised gains/losses);
- in-depth responses to requests for information made by a clearing house;
- monitoring of trade cancellations and amendments from the same trader;
- confirmation of transactions with all counterparties;
- compliance with the "Chinese wall" between the front and back offices and ensuring that the middle and back offices are organised in a cross-business manner;
- security of IT systems and protection of access codes;
- supervision of unusual behaviour (e.g. a failure to take leave).

In 2014, Banque Palatine finished putting into place these comprehensive controls.

Market risk limits

Managers set and review global risk limits as and when necessary, and at least once per year. They inform the supervisory body about those limits. The limits take into account the company's capital and, if appropriate, its consolidated capital, and whether the breakdown of capital within the group is suited to the risks incurred.

In 2014, limits were validated in the audit and internal control committee meeting of 11 February 2014.

Limit compliance disclosure procedure

If a warning threshold is breached, the desk head immediately informs the head of finance and the market risk department. If the market risk department confirms the breach, it must pass that information to the other staff.

If a position limit is breached, to take the necessary steps at the earliest opportunity, the desk head must inform the head of finance, the executive management committee member in charge of finance and banking operations, the chief risk officer and the market risk department.

If a stop loss is breached, the positions that generated the losses must be unwound immediately in the market. The head of finance, the executive management committee member in charge of finance and banking operations, the chief risk officer and the market risk department are informed.

If a maximum annual loss is breached, trading book activity must cease immediately, and only transactions originating with clients may be handled. An extraordinary finance committee meeting must be held to review the situation and decide arrangements for continuing trading book activity.

In all cases, breaches are reported in the next finance committee meeting and recorded in the minutes to that committee meeting, which are then sent to the executive management committee member concerned. The audit division is also informed.

Counterparty risk

Intra-day counterparty risk is monitored *ex ante* on new securities investments (sovereigns, corporates and banks) and in real time by the bank counterparty and client system. Bank and client limits are input by the market risk department into the Kondor+ KGR module. In the event of a breach, a warning appears on the screen of the salesperson or trader.

Counterparty risk on financial transactions is monitored *ex post* by the market risk department for bank and client forex positions, and by the risk monitoring unit in the risk management division for fixed-income derivatives transactions.

Special attention is paid to the securities portfolio as part of efforts to monitor internal ratings and agency ratings. This monitoring is presented to the audit committee and to the audit and internal control committee.

Material incidents

Material risk limits were presented to the supervisory body and validated on 22 September 2009.

Risk type	Criterion	Threshold
Market risk	Internal trading unit VaR and/or market loss	20% breach of the global limit and/or cumulative market loss representing 1% of regulatory core capital
Interest-rate risk	Sensitivity of the NPV of the static gap to a 200bp interest-rate shock (Basel II indicator)	20% breach of the gap NPV limit
Liquidity risk	5-year gap observation ratio	20% breach of the limit
Settlement risk (see operational risk)	Based on undelivered securities	Amount over 30-days past due

In 2014, no breach was observed.

Results of second-level controls on market risks

Main deficiencies noted in 2014

In 2014, the focus was on implementing the September 2013 recommendation by the Group's *Inspection générale* division regarding controls on Lagarde report recommendations. All actions and controls requested were defined and finalised at 31 December 2014.

The market risk department is the permanent control correspondent for financial transactions.

Controls were entirely overhauled between 2013 and late 2014 to adjust to changes in group guidelines, the development of the trading room as regards client transactions and the department's new control methods covering the front, middle and back offices.

A risk map that also covers operational risks was compiled.

Controls on limits, the allocation of transactions and results remain in force while changes are being implemented.

Summary of the audit scope

Internal audit checks that remedial measures are performed within a reasonable time.

Internal audit organises a quarterly review of recommendations to check progress and to gauge any difficulties encountered.

Audit recommendations are monitored and commented on by the audit and internal control committee.

Recommendations are monitored through Groupe BPCE's RECO application, which can be accessed via the intranet. Audited entities monitor the recommendations assigned to them, and internal audit monitors all recommendations.

Crisis simulations

Banque Palatine does not use any internal model and is only concerned by these simulations as part of Groupe BPCE; calculations are made by the group risk management division.

Operational risk

The group risk charter defines operational risk as the risk of loss resulting from an inadequacy or failure attributable to internal procedures, staff and systems or external events.

The definition only excludes strategic risks.

According to this definition, operational risk includes accounting, legal, regulatory and tax risks, along with risks related to the safety of people and property and IT systems.

Operational risk is inherent to all Banque Palatine's activities. It is analysed, managed and measured on the basis of a global system, based on identifying and assessing risks – and setting up action plans to manage them – as well as actively managing incidents and monitoring risk prediction indicators.

Operational risk monitoring organisation

Banque Palatine's operational risk function, through its action and organisation, helps enhance financial performance and reduce losses by ensuring that the operational risk management system is reliable and efficient within the bank.

The operational risk management policy applied to Banque Palatine is based on standards and methods defined by the operational risk department of Groupe BPCE's risk management division for the whole group.

In accordance with operational risk standards and methods, the operational risk function operates across all entities consolidated or controlled by Banque Palatine (Palatine Asset Management and Ariès Assurances) and across all activities that involve operational risk, including outsourced activities within the meaning of article 10 of the French executive order of 3 November 2014 relating to internal control (internal and external service providers).

The system is co-ordinated by the operational risk department and supported by 47 correspondents across the bank's various business lines and support functions. The scope includes Banque Palatine and its Palatine Asset Management (PAM) subsidiary.

The operational risk department is in charge of the permanent monitoring of operational risk (excluding compliance risk), organised around the identification, assessment and monitoring of action plans for all of the bank's activities. The system relies on the reporting of incidents, the assessment of an operational risk map and the monitoring of risk indicators.

Operational risks are managed through an operational risk and security committee, which decides on the implementation of the operational risk management policy and ensures the effectiveness of the system by monitoring risk levels and the main incidents. It looks at major and recurring risks and approves the monitoring of action plans to mitigate risks and reduce exposure to them. The committee also deals with IT security.

To do that, the operational risk department must:

- deploy among users the group methodologies and tools, with necessary adjustments arising from the specific characteristics of the Bank and its business lines, applied in conjunction with the group risk management division;
- ensure the quality of data produced and check that the data collected are complete;
- carry out a periodic review of incidents, steps to resolve incidents, progress with action plans, and the formalisation of corresponding management and control procedures;
- check that the various business lines and functions are committed to and comply with the defined arrangements and that they each carry out the steps required to ensure enhanced management of these risks;
- lead the operational risk and security committee.

The head of the operational risk department is also a member of the quality committee.

The operational risk correspondent of the Palatine Asset Management subsidiary takes part in the Bank's operational risk and security committee meetings. In those meetings, the correspondent presents the main operational risks in the period under review.

The head of risk management also takes part in Palatine Asset Management's quarterly audit committee meetings, which always feature an update on operational risks.

Operational risk measurement system

As part of the capital requirement calculation process, Groupe BPCE currently uses the Basel II standardised approach. Corep regulatory reporting documents are produced in this respect. At 31 December 2014, the capital requirement relating to the coverage of operational risk was €44 million as opposed to €43.07 million at end-2013.

The bank currently uses the group's operational risk system to apply the methodology adopted by the group risk division and to collect the information needed for the proper management of operational risk.

This system allows the bank to:

- assess operational risks resulting from group frameworks, in order to define the bank's risk profile as part of a single risk map;
- manage the reporting of incidents that generate or could generate a loss;
- support the disclosure of warnings for incidents of over €150,000 and material incidents within the meaning of Article 98 of the order of 3 November 2014 on internal control at credit institutions;
- have access to risk prediction indicators allowing it to act upstream of incidents and manage environmental risk factors.

The database enables operational divisions to record losses directly and validate them, in compliance with the four-eyes principle and a full delegation of powers framework, which is set out by a circular made available to all entities concerned. The gross losses arising from incidents are covered by a delegation of powers framework, which is periodically reviewed and involves the whole chain of command up to the executive management committee for amounts of over €25,000.

Through this reporting system, the Bank also has an operational risk scorecard that is generated every quarter on the basis of data collected.

Work done in 2014

Banque Palatine's operational risk management system is managed in accordance with operational risk guidelines and governance rules validated by the group risk management committee. As new guidelines and rules are adopted, the system adjusts to BPCE's new procedures.

A new framework was delivered in April 2013 with Groupe BPCE's PARO operational risk management system.

The annual review of the operational risk map is intended to highlight the bank's recurring risks and major risks (in terms of frequency and losses), through an exhaustive review of the scope, with the aim of:

- identifying the risks to be monitored and the processes most exposed to operational risks;
- define, if necessary, new risk indicators;
- prioritise, define and implement preventative and remedial action plans depending on the risk mapping results.

The risk mapping campaign took place between April and October 2014, based on major risk ratings (circle 1), covering 111 risks including 22 specific circle-1 risks.

In accordance with group standards, "group circle 1" risks are made up of potentially major risks or recurring risks reported by the group and/or scenarios adopted by the profession. "Group circle 1" risks also include risks such as potentially major risks or recurring risks that are specific to Banque Palatine's activities (former trading room activities), actual incidents seen in 2013 and 2014 and borrower insurance risks.

The risk rating process in 2014 involved a forward-looking analysis to identify the various operational risk situations capable of affecting the bank's activities.

Those ratings were based on the back-testing of realised risks, expert opinion, Group benchmarks (2013 ratings), and risks of fines and sanctions.

Major risk management systems are monitored in particular by the operational risk and security committee.

In 2014, two new business-line procedures were established regarding legal activities and regulated real-estate professions. The general procedure is updated on an ongoing basis, and the last update was in December 2014. Specific operational procedures have been in place since 29 September 2013 and are regularly updated; the last update was in September 2014.

Material incidents, including incidents reported through the warning procedure, are analysed to determine their causes and to initiate action plans if required.

The main risks are in the two Basel categories of "external fraud" and "execution, delivery and process management". 63% of the action plans presented to the operational risk and security committee relate to the "execution, delivery and process management" category and 18% to the "external fraud" category.

There were no material incidents at Palatine Asset Management in 2014.

The Bank must also immediately disclose to the ACPR any loss provided for or definitive in nature amounting to over 0.5% of its capital in accordance with Article 17 ter of French regulation 97-02.

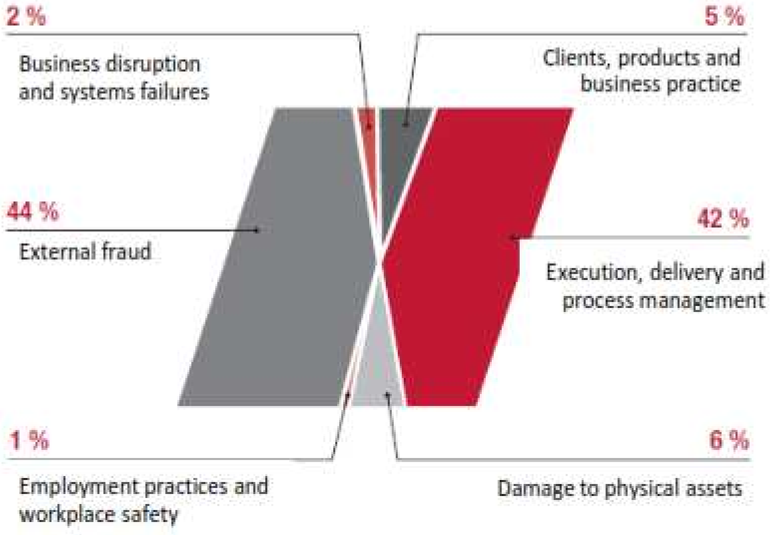
No such incident was reported in 2014.

Losses during the year

Losses during the year by category of event (number)

Net loss incidents (i.e. where the loss exceeds any amount recovered) totalled 1,020 in 2014, with 43% relating to "external fraud" and 42% to "execution, delivery and process management".

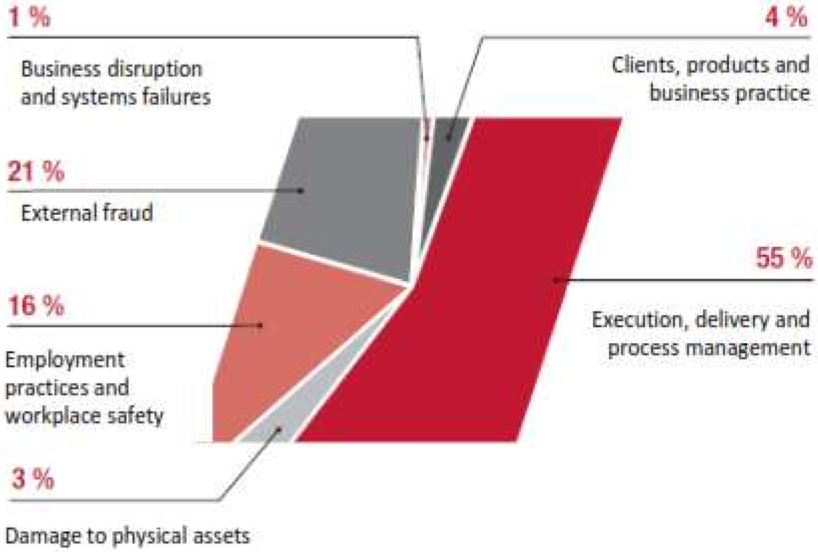
Total number of net losses



Losses during the year by category of event (amount)

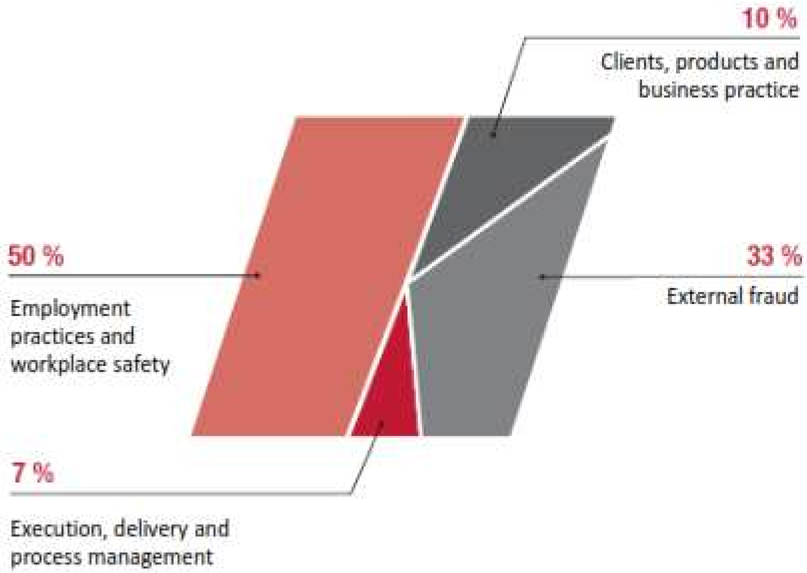
Net loss incidents (i.e. where the loss exceeds any amount recovered) totalled 1,020 in 2014, with 22% of their aggregate amount relating to "external fraud" and 55% to "execution, delivery and process management" (one incident accounted for 61% of total losses in that category).

Total sum of net losses



2014 warnings by category of event

Estimated loss warnings in 2014



2 Asset-liability management risks

Global interest-rate risk

The group's executive management and credit institutions use asset-liability management to secure current and future revenue and thereby support the development of the group's institutions. It enables the group to measure and manage structural balance-sheet risks (liquidity, interest-rate and exchange-rate risks) by producing relevant information consisting in particular of standardised management indicators, which are analysed regularly.

BPCE, as the group's central body, guarantees the group's liquidity and solvency, and those of each network (French act no. 2009-715 of 18 June 2009). BPCE must therefore be capable of supervising total available liquidity and of having the resources to distribute it quickly and easily to its affiliates that express a need for it. Given the solidarity between institutions that stems from the central body's responsibility for its affiliates' solvency and liquidity, the same rules apply to all group institutions.

Within the group, the ALM framework sets out the Groupe BPCE asset-liability management rules applicable to the group's credit institutions. Those rules are defined by the Group ALM committee. The framework is a tool for all participants in the ALM function, who are tasked with implementing it, and for all participants in the group risk and audit functions, who are responsible for checking the proper implementation of the rules and principles set out.

As part of this work, Banque Palatine's executive management and the ALM committee determine the ALM policy based on indicators (which may or may not be subject to limits), the balance-sheet structure, forecasts and risk aversion.

Role of Banque Palatine's ALM committee

The committee is a decision-making body that is responsible for the financial management of the banking book, subject to limits set by executive management based on proposals by the audit and internal control committee and in compliance with group rules. As the entity responsible for ensuring a balance between commercial and financial concerns as regards sales operations and the management of client transactions, and for the funds transfer pricing (FTP) policy, it is the main forum for discussions between those responsible for the finance and development functions.

It is chaired by the Chief Executive Officer and meets at least once per quarter.

Its role is to:

- govern the bank's asset-liability management by controlling and monitoring interest-rate and liquidity risks across the bank's consolidated scope. It ensures the ongoing application and stability of the indicators presented;
- determine the direction of operational management by validating the financial transactions to be carried out, monitoring transactions decided in previous committee meetings, and monitoring compliance with interest-rate and liquidity risk limits, on both a static and dynamic basis;
- validate financial forecasts that affect balance-sheet indicators on a dynamic basis and monitor them;
- define, implement and monitor the overall ALM policy;
- validate parameters and assumptions used. In doing this work, it must apply targets (in terms of volume and margins) regarding future production, releasing rules and behaviour-modelling techniques, and take into account implied options, particularly concerning early redemption and renegotiation;
- determine funds transfer prices in accordance with national rules.

Role of Banque Palatine's finance committee

It implements financial guidelines adopted by the ALM committee at the operational level.

It meets every month, and its role is to:

- translate the strategic guidelines and programmes adopted by the ALM committee into market transactions that it is responsible for executing;
- monitor market movements and supervise risk on banking book positions;
- examine the execution of previous programmes and specify any adjustments;
- assess movements in results from all portfolios, the risks of the various instruments given market developments, and portfolio management arrangements (volumes, asset allocation, volatility, loss alerts, monitoring of OCI.

System for measuring and monitoring global interest-rate risk

The framework that sets out the Groupe BPCE asset-liability management rules is determined by the central body.

It brings together all elements, assumptions, modelling rules, conventions and scenarios involved in producing global indicators for interest-rate risk, option risk, liquidity risk and currency risk as part of asset-liability management. The framework is defined by the Group ALM committee and then validated by Groupe BPCE risk management committees.

It represents the reference document for teams in charge of managing and controlling the ALM policy.

Banque Palatine uses Fermat ALM software to assess global interest-rate risk and liquidity risk.

Version 10 of the software was deployed in 2013. Within Fermat, most parameters are common to all group entities.

Interest-rate risk can be measured using two different, complementary approaches:

- a static approach, i.e. measuring risk until on- and off-balance sheet transactions existing on the analysis date are extinguished;
- a dynamic approach that includes activity forecasts for the current year and subsequent years.

Indicators and limits

Banque Palatine calculates:

- a regulatory indicator that is subject to a limit: the Basel II indicator.

  It is used for financial communication (industry benchmarking) and for determining the economic capital allocated to ALM. Given the revision of conventions, this indicator cannot be used as a management indicator, although its regulatory limit of 20% must be complied with. It is being replaced in the ALM system by a static interest-rate gap indicator;
- two interest-rate risk indicators that are subject to limits:
  - static gaps on fixed-rate exposures.

    The bank's gap position is measured and is subject to limits. Initially, the analysis relates to on- and off-balance sheet transactions existing at the balance-sheet date, as part of a static approach.
  - on a dynamic basis, the sensitivity of interest margin over a rolling two-year future period.

    Over a management horizon (a rolling two-year period), the Bank measures the sensitivity of its results to possible movements in interest rates, business forecasts (new business and customer behaviour) and sales margins.

Releasing rules

Releasing rules are group standards implemented through the group ALM system.

In retail banking, two types of items are distinguished from the releasing rules point of view: items with and without contractual maturities. Items with contractual maturities (repayment loans, PEL home purchase savings plans etc.) are run off in accordance with their contractual terms, with or without the application of an early redemption or home purchase savings model. Items without contractual maturities are run off in the conventional way.

In terms of the static analysis, only statistical early redemption figures are used to measure liquidity risk.

The main releasing rules are as follows:

- a retail demand deposit amortisation rule that conservatively assumes the immediate withdrawal of the volatile portion, with the stable portion being run off over a long period;
- an amortisation rule for regulated savings accounts that conservatively assumes the immediate withdrawal of the volatile portion, with the stable portion being run off over a long period;
- equity benefits from a long-period run off. Amortisation of the interest risk is faster;
- a model relating to home purchase savings is applied in the Banque Palatine network.

Global interest-rate risk supervision system

Interest-rate risk limits

The limits monitored by Banque Palatine are those of the Group ALM framework.

They include the 20% regulatory limit on the Basel II indicator.

Banque Palatine complied with that limit in 2014.

Two other interest-rate risk indicators are subject to limits as stated in the introduction:

- static gap position on fixed-rate exposures relative to equity;
- interest margin sensitivity.

Banque Palatine complied with those limits in 2014.

<table>
<tr><th>Risk factor</th><th>Indicators</th><th>Limits</th><th>Frequencies</th></tr>
<tr><td rowspan="7">**Interest-rate risk**</td><td>NPV sensitivity limit under Basel 2 (alignment with the industry method taking into account capital)</td><td>**20% of regulatory capital**</td><td>quarterly</td></tr>
<tr><td>Static gap position on fixed-rate exposures relative to gross equity</td><td><table>
<tr><td>Year</td><td>**1**</td><td>**2**</td><td>**3**</td><td>**4**</td><td>**5**</td><td>**6**</td><td>**7**</td><td>**8**</td><td>**9**</td><td>**10**</td></tr>
<tr><td>Parent-company limit</td><td>95%</td><td>95%</td><td>90%</td><td>85%</td><td>80%</td><td>70%</td><td>60%</td><td>50%</td><td>50%</td><td>50%</td></tr>
<tr><td>Retail banking limit</td><td>76%</td><td>76%</td><td>72%</td><td>68%</td><td>64%</td><td>56%</td><td>48%</td><td>40%</td><td>40%</td><td>40%</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Reference level</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Year</td><td>**11**</td><td>**12**</td><td>**13**</td><td>**14**</td><td>**15**</td><td>**16**</td><td>**17**</td><td>**18**</td><td>**19**</td><td>**20**</td></tr>
<tr><td>Parent company</td><td>50%</td><td>45%</td><td>40%</td><td>35%</td><td>30%</td><td>25%</td><td>25%</td><td>25%</td><td>25%</td><td>25%</td></tr>
</table></td><td>quarterly</td></tr>
<tr><td>Gap indicator for floating-rate exposures</td><td></td><td>quarterly</td></tr>
<tr><td>Gap indicator for capped-rate exposures</td><td></td><td>quarterly</td></tr>
<tr><td>Sensitivity limits for net interest margin on a dynamic basis</td><td>• 5% movement in margin in the first year
• 9% movement in margin in the second year
The limit applies to the most adverse scenario in the first year and the most adverse scenario in N+1 and N+2 cumulatively.</td><td>quarterly</td></tr>
<tr><td>Authorised products</td><td>List included in the ALM framework and circular</td><td>ongoing</td></tr>
<tr><td>Material incidents</td><td>Beyond the NPV sensitivity limit</td><td>quarterly</td></tr>
</table>

Reporting and interest-rate risk

Permanent control of interest-rate risk management

The Group ALM risk framework describes the permanent control organisation for interest-rate, currency and liquidity risks.

ALM reports to the finance division. ALM is in charge of managing structural interest-rate, liquidity and currency risks, and carries out first-level controls.

Within Banque Palatine, the market risk department carries out second-level controls on structural balance-sheet risks.

These first- and second-level permanent controls aim to ensure the quality and completeness of data submitted in the ALM risk management system and to secure the ALM analysis process.

ALM formalises its controls in first-level risk control reporting documents.

The risk management division formally records its controls in reports on second-level risk control including details about the quality of the risk oversight framework, compliance with limits and monitoring of feedback on limits and analysis of changes in the balance sheet and risk indicators.

The Group ALM risk framework sets out standards for reporting to be done by local risk divisions, describes control sheets and gives an overview of the report to be compiled, including the information that local risk divisions must extract from the Fermat ALM system.

Interest-rate risk management thereby forms an integral part of the internal audit control plan within assignments relating to Banque Palatine's financial activities.

Since 1 January 2008, the head of the market risk department has been the permanent control correspondent for financial activities.

As regards interest-rate risk control, the market risk department:

- ensures that all outstandings are covered, through reconciliation with accounting data;
- validates the methodology and internal models for assessing global balance-sheet management risks and profitability risks;

- checks the operational management of global balance-sheet management risks performed by the financial management division as part of a strategy devised by the balance-sheet management committee and limits adopted by executive management and monitored by the risk management committee;
- checks compliance with limits set for the various segments of the banking book.

Results of second-level controls on global interest-rate risk

The main conclusions from second-level controls on global interest-rate risk show:

- compliance with static and dynamic limits;
- the continuation in 2014 of a genuine balance-sheet management policy aimed at gradually reducing the Bank's sensitivity to a sharp rise or a further fall in short rates;
- no shortcomings in 2014.

Liquidity risk

Strategy and policy

Liquidity risk is defined as "the risk of the company concerned being unable to meet its commitments or to settle or offset a position due to market conditions" (article 10 of the French executive order of 3 November 2014 relating to internal control), "within a specified period and at a reasonable cost" (order of 5 May 2009).

From the management point of view, liquidity risk is assessed differently over the short, medium and long terms:

- in the short term, it involves assessing an institution’s ability to withstand a crisis;
- in the medium term, liquidity is measured in terms of cash requirements;
- in the long term, it involves monitoring the institution’s asset-liability mismatch level.

Type	View	Timeframe	Limits
Short term	Overnight - 1 week	7 days	Yes
Stress	Issuer, systemic, combined	3 months	Yes
Dynamic	Dynamic liquidity gap	4 years	No
Static	Liquidity gap	10 years	Yes

Financing sources and their diversification

Group level

In addition to client deposits, mainly coming from the commercial banking business and funding over 90% of client lending in this segment, the group has several issuers through which it can access the financial markets and diversify its funding sources.

BPCE has three main issuers:

- BPCE, Central Treasury (article L. 512-95 of the French monetary and financial code);
- Compagnie de Financement Foncier, a wholly-owned subsidiary of Crédit Foncier de France, which issues covered bonds backed by eligible assets consisting of first mortgages, loans to public-sector entities or fully guaranteed by public-sector entities, and securitised debt issued by special purpose entities (articles L 515 13 et seq of the French monetary and financial code);
- Natixis;
- BPCE SFH etc.

As the central body, BPCE guarantees the group's overall liquidity. BPCE is also the group's only issuer authorised to issue subordinated debt securities and hybrid securities qualifying as regulatory capital.

The group's overall liquidity position and the situations of each entity are monitored at the BPCE level. Annual financing plans approved by the Group ALM committee cover the short- and medium- to long-term needs of group entities depending on their predicted requirements and BPCE's ability to access funding in the markets.

Within the commercial banking business, the limit regarding the use of short-term resources is broken down by business indicator. BPCE's Central Treasury monitors its liquidity gap on a 1-day basis up to 5 months, then on a 1-week basis up to 10 years, and finally on a 1-month basis above 10 years.

At Banque Palatine

The ALM committee and the finance committee deal with liquidity risk. These committees monitor liquidity risk and take financing decisions.

Banque Palatine has various sources of funding from its client activities:

- savings in non-centralised regulated savings accounts, other savings plans and accounts and term accounts;
- client deposit accounts;
- issues of negotiable certificates of deposit;
- bonds issued by BPCE.

Net funding position

The net funding position represents the Bank's net reliance on market funding.

At 31 December 2014, Banque Palatine had surplus client funds of €2.14 billion.

Banque Palatine can access additional funding:

- from the BPCE-Natixis group funding platform for all of its unsecured interbank operations;
- via Natixis for borrowings as part of repo operations;
- by taking part in secured issues carried out by group SPEs (particularly BPCE SFH), in order to access long-term liquidity on more beneficial terms.

To complement its own funding sources, Banque Palatine has mainly borrowed from BPCE.

System for measuring and monitoring liquidity risk

Tools used

The tools used to monitor liquidity risk are the same as those stated in the section regarding the system for measuring and monitoring global interest-rate risk.

Assumptions used to calculate indicators used by Banque Palatine

The liquidity gap is the indicator used to measure long-term liquidity risk. It covers all of the bank's liquidity commitments at the analysis date. For confirmed but undrawn commitments, an empirical statistical analysis is performed to identify the weighting to be applied when including them in the lending figure as part of the static gap calculation.

Static liquidity gaps are measured by comparing residual liabilities with residual assets over a 10-year horizon. The observation ratio relates to average monthly balances for the first year and average annual balances thereafter.

"Liquidity" conventions correspond to the conventions applied in simulations performed to assess liquidity risk.

The releasing rules of items with no contractual maturity also depends on implied options contained in the products (e.g. extension options, conversion options, options to top-up PEL home purchase savings plans etc.). The assumptions used are the same as those used for interest-rate risk, except as regards equity, non-current assets and investments in associates.

The group risk management division ensures that Group ALM takes into account implied options when calculating indicators showing exposure to liquidity risk and validates the models implemented.

Liquidity risk monitoring indicators

Static indicators

Static liquidity risk is measured either through a liquidity gap or through "observation ratios".

The liquidity gap in a period t equals liabilities minus assets in t, taking into account average balances in t.

The bank ensures that its long-term assets and liabilities are sufficiently balanced to avoid any crisis.

Overnight/1 week **Effective from 01/01/2010**

- Indicator: overnight/1-week gaps excluding the creation of minimum reserves;
- Limits: the gap must not exceed the smaller of the bank's available collateral and the institution's portion of the €5 billion assigned to each Caisse d’Epargne and Banque Populaire network.

Observation ratios

- Indicator: observation ratio calculated on a 10-year horizon, based on average monthly balances for the first year and beyond;

  $\sum$ residual liabilities (t)/ $\sum$ residual assets (t)

- Limits: ratio ≥ 85% for the full 10-year horizon.

Dynamic indicators

Dynamic liquidity risk is measured on a short-term horizon, looking at the ability of the Bank's affiliated institution to deal with a liquidity crisis (3-month horizon).

Over the medium term, Banque Palatine anticipates treasury requirements sufficiently far in advance to make future lending more secure and at a non-prohibitive cost.

Liquidity stress relates to the dynamic liquidity gap, excluding financial forecasts, over a 3-month period. Nine scenarios are analysed: three types of stress (issuer, systemic and combined) and three intensities (moderate, major and catastrophe).

Definition of stress types:

- *issuer stress*: liquidity crisis relating to the general economic situation, prompted by a loss of confidence in the group's financial strength preventing it from accessing the capital markets.

  The scenario results in a reduction in client deposits (existing and new), and a reduction in new loan production in certain segments, with a delayed effect according to the level of stress. Most of available-for-sale securities can be sold within one month.

- *systemic stress*: liquidity crisis affecting the whole financial system, resulting in the general closure of the capital markets and serious limitations on the ability to sell assets.

  Since all banks are in the same situation, the reduction in term deposit production is smaller.

- *combined stress*: liquidity crisis affecting the whole financial system, combined with a more serious loss of confidence in the group specifically.

  The fall in deposits is greater.

Balance-sheet figures take no account of financial forecasts.

- Indicator: stressed asset-liability gap after crises (issuer, systemic and combined) over a 1-, 2- and 3-month horizon;
- Limits: breached if the stressed gap is greater than the liquidity reserve.

The liquidity coverage ratio (LCR), which measures a bank's ability to meet liquidity needs during a 30-day liquidity stress scenario, is a liquidity risk indicator that is particularly closely watched. It is monitored by local risk divisions.

The net stable funding ratio (NSFR), however, is not yet subject to monitoring by risk divisions, since its calculation has not yet been fully defined by the regulators.

Maturities taken into account are standardised at the group level, and are stated in the Group ALM framework.

Static liquidity gap

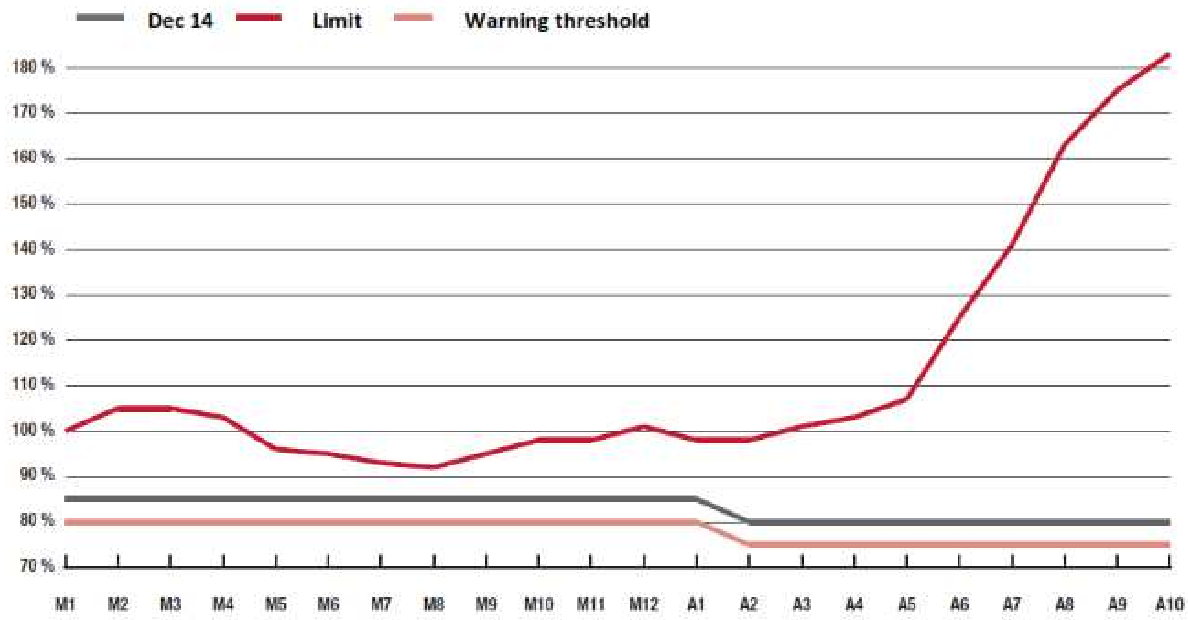
The static liquidity gap measures liquidity requirements or surpluses at future dates if the Bank were to discontinue all of its activities.

In that situation, the mid-2014 move to reinvest surplus liquidity over longer maturities – including €500 million of long-term loans to BPCE – results in a 10-month refinancing requirement.

A limit is applied to the ratio of short-term source funds to lending. The limit is 80%, with a warning level at 85%.

Banque Palatine remained within the limit throughout the period under review.

Source funds/lending ratio



Dynamic liquidity stress

The dynamic liquidity indicator allows the Bank to check that it has the collateral required to deal with issuer, systemic and combined stress situations of various intensities (moderate, major and catastrophe).

The Bank's collateral corresponds to the amount of the Banque de France's 3G pool and assets eligible for ECB operations.

The Bank has the collateral it needs to deal with all stress scenarios.

In the event of liquidity stress, the continuity plan is put into action by the chairman of BPCE's central body. The procedure describing the continuity plan is overseen by BPCE.

The continuity plan in the event of Groupe BPCE experiencing liquidity stress has been devised to deal with a liquidity crisis at the BPCE and Natixis level. It applies to all group business lines and institutions (Natixis, Banques Populaires network, Caisses d'Épargne network, Crédit Foncier etc.).

It is set out in a dedicated document that has four sections:

1. definition of the liquidity stress situation;
2. declaration and management of a liquidity stress situation;
3. liquidity continuity plan: triggering and governance;
4. general framework of action to be taken if the continuity plan is implemented.

This document is appended to the internal control annual report of our central body BPCE.

Liquidity risk supervision system

Risk factor	Indicators	References for the Group and/or Banque Palatine framework	Limits (taking into account changes that will subsequently be validated by the ALM committee)	Frequencies
	Liquidity ratio	CRBF 88-01 (ratio 4005)	100%	monthly
	overnight/1 week		€140 million	daily
	Systemic stress from a dynamic point of view (issuer, systemic and combined stress)		• 3-month liquidity gap limited to the amount of the liquidity reserve, i.e. the amount of available collateral. • Limit that must be complied with over 3 months.	quarterly
	Observation ratio: Dynamic liquidity gap			quarterly
	Static liquidity gap	ALM framework Group November 2014	Residual liabilities/residual assets ≥ 80% in the first year then 70% up to 10 years	quarterly
Liquidity risk	Static liquidity gap material incident Article 98	Order of 3 November 2014	20% breach of the 5-year observation ratio	quarterly

In 2014, all limits were complied with except the overnight/1-week limit, which was breached four times following late client withdrawals. Those breaches were resolved the day after they occurred.

Description of the general liquidity risk management organisation

Liquidity risk is supervised by:

- the ALM function (reporting to the finance division), which carries out first-level controls;
- the ALM Risks function, which carries out second-level controls.

In accordance with the Group ALM framework and the ALM Risks framework, standardised ALM controls are performed by Banque Palatine. First-level controls are performed by the ALM department of the finance division. The market risk department carries out second-level controls.

First- and second-level permanent controls aim to ensure the quality and completeness of data submitted in the ALM risk management system and to secure the ALM analysis process.

The overnight/1-week limit is subject to daily supervision by Banque Palatine's risk management division. The liquidity ratio is monitored on a monthly basis. Checks on collateral, static and dynamic liquidity gaps and liquidity stress situations are performed. In addition, Info-Liq 1 and Info-Liq 2 regulatory disclosures are checked by the risk management division based on information sent by financial management.

The market risk department extracts data from the ALM tool independently and carries out its own calculations. Limits are recalculated and reconciled with the finance division's ALM data in order to validate them.

All of these checks are submitted every quarter to the group risk management division of the BPCE central body.

Additional liquidity risk monitoring methods used by investment service providers (ISPs) that provide a conclusion guarantee.

Banque Palatine is not concerned by these methods.

Movement in liquidity cost indicators in 2014

Each institution produces an Info-Liq 2 regulatory statement for the ACPR, which sets out the cost of financing obtained during the quarter. The group's methodological documentation used to prepare the statement is supplemented by an internal procedure specific to Banque Palatine.

At the BPCE level, the Issuance department monitors medium- and long-term issues on a monthly basis (type, amount, maturity, cost) and their development over time.

Identification of liquid assets

Disposable assets are primarily those relating to the LCR reserve.

The settings of the Kondor+ system mean that the "folder" can be used to find disposable assets.

Groupe BPCE's ALM function consolidates, produces and disseminates various reporting documents relating to collateral in the liquidity reserve. It covers receivables (TRICP and EBCE) and eligible assets for ECB and Fed operations, whether or not they are part of the Banque de France's 3G pool.

Entity	Frequency	Reporting heading
BPCE, Natixis, CFF	daily	Treasury co-ordination unit
BPCE, Natixis, CFF, SCF BRED, Crédit Coopératif, Banque Palatine	weekly	Collateral eligible for ECB and Fed operations
Banque Populaire and Caisse d'Epargne	weekly	BR collateral reporting

Results of second-level controls on liquidity risk

In 2014, the Bank had no treasury difficulties, due to a sharp rise in client deposits. It should be pointed out that client lending equals less than 79% of client deposits.

Main identified shortcomings and remedial action taken

The main identified shortcoming concerned the releasing rule for negotiable certificates of deposit in the group ALM model, which positions them in terms of maturity. According to available historical data, however, most negotiable certificates of deposit are renewed.

Monitoring of recommendations resulting from permanent controls

The market risk department is the correspondent for the financial transactions unit of the compliance and permanent controls division. In that capacity, it reports every quarter on the results of its controls and draws attention to any problems that arise. That did not happen in 2014 as regards liquidity.

Arrangements for checking that remedial measures are performed within a reasonable time by competent staff

The market risk department ensures that the agreed action plans are implemented.

Description of emergency plans set up to deal with a liquidity crisis

The system devised to deal with a liquidity crisis at the BPCE level consists of several elements that apply to each Groupe BPCE financing scope:

- a system of overnight/1-week drawing limits for commercial banking entities at the Caisses d'Epargne level, which Banque Palatine has joined;
- a system of limits covering the short and long terms as regards liquidity;
- the factoring-in of BPCE's ability to raise short-term source funds in the markets;
- diversification of refinancing sources;
- monitoring of assets eligible for ECB operations;
- long-term monitoring of funding sources/uses using a static approach;
- a business continuity plan in the event of a liquidity crisis;
- the various indicators and limits allow the group to co-ordinate its short- and medium-term refinancing policy, monitor entities' liquidity risk and ensure that the group can withstand liquidity stress.

In 2014, the Bank updated its own continuity plan in the event of a liquidity crisis that only affects Banque Palatine and no other group entity.

The liquidity stress continuity plan, headed by the chairman of the BPCE central body, is described in the section about managing liquidity stress on a dynamic basis.

Collateral available to the Bank

Repo transactions: securities subject to repo transactions are only eligible to the liquidity 2 reserve, or are not eligible for the Basel III liquidity reserve.

Outstanding private receivables (capable of being sold to the Banque de France using the TRICP system) and ACC (additional credit claims) currently amount to €600 million. Funds from ECB tender operations are repaid according to the timetable decided by the group.

3 Intermediation and settlement risks

Intermediation risk

Banque Palatine delegates its custody account-holder function to Banque Fédérative du Crédit Mutuel. As part of its custody account-holder and order reception/transmission activity, Banque Palatine uses BOREAL, a technical service provider belonging to Banque Fédérative du Crédit Mutuel.

Client orders received in branches or online are sent via the BOREAL system, and are automatically and alternately routed to two CM-CIC and Natixis Securities intermediaries, to be executed in the regulated markets.

The Bank does not authorise orders using the deferred settlement system, or orders on the futures and options markets.

These two intermediaries were selected on the basis of objective best execution criteria and taking into account control over outsourced services and the final cost for the client, particularly fees charged by the place of execution, clearing fees and any fees paid to third parties including settlement fees. Other criteria such as order execution probability and the speed of routing an order to the market from the time it is received by the bank's systems are also taken into account. CM-CIC is a securities custodian for Banque Palatine and Natixis Securities is BPCE's favoured intermediary, which means that existing infrastructure can be used, thereby reducing cost.

Orders handled by the trading room (direct orders) in organised markets or over-the-counter for clients, as well as part of the internal trading unit's business, are sent to intermediaries that are duly selected and authorised by Groupe BPCE and the Bank's executive management committee after input from the risk management division as part of a request procedure initiated by the finance committee.

Those intermediaries are either subsidiaries of credit institutions and similar, or independent investment companies. The Bank regularly examines the financial data of each intermediary.

Information specific to investment service providers

Chapter V of the French executive order of 3 November 2014 relating to internal control at credit institutions requires selection arrangements to be described and intermediation risk and liquidity and settlement risk to be measured.

That obligation extends to investment service providers that provide a conclusion guarantee when trading financial instruments.

Banque Palatine is an investment service provider and is authorised to receive and send orders on behalf of third parties. As part of this business, it is responsible with respect to its order originators for the delivery and payment of the securities that it sells or buys on behalf of its clients.

However, it does not act as a clearing house (an entity that provides a conclusion guarantee for the transactions that it clears on behalf of Banque Palatine's clients).

As part of its activity receiving and sending orders on behalf of third parties and holding custody accounts, Banque Palatine handles transactions for retail-type clients almost exclusively in regulated markets, involving a very large number of orders with a small unit amount. It uses order processing systems that allow it to monitor cash and securities provisions relating to the orders it receives from its clients. Those orders are sent for execution via CM-CIC Titres (BOREAL), which monitors transactions as the entity responsible for settling them. Banque Palatine also carries out know-your-customer procedures and has a system for monitoring unusual orders.

Settlement risk

In accordance with article 10 of the French executive order of 3 November 2014, settlement risk is "the risk incurred during the period between the time when an instruction to pay for or deliver a sold financial instrument can no longer be unilaterally cancelled and the reception of the bought financial instrument or the corresponding cash".

The Bank monitors and manages settlement risk using various systems:

- for settlement in euros, the Bank uses payment monitoring software (CRISTAL), which is connected with the Target 2 and STEP1 systems for transfers using the SWIFT network;
- for settlement in foreign currencies, the Bank uses the SWIFT messaging service (Alliance software) and the SWIFT network to route these transactions to the Bank's correspondents;
- for market transactions, the Bank also uses the SWIFT messaging system and SWIFT's ACCORD software, which carries out automatic reconciliations of confirmations for forex and money-market transactions carried out for institutions that own this software;
- as regards the settlement of securities, the Bank uses BFCM's CM-CIC TITRES application and/or the eRGV workstation, enabling it to manage settlement risk on repo transactions and transactions involving securities, negotiable debt instruments and Treasury notes;
- failed trades are monitored by the Bank's service provider, which is CM-CIC TITRES and/or BFCM;
- for negotiable debt instruments, failed trades are monitored by Banque Palatine via the eRGV workstation.

If a trade is not settled during the day, the unit in charge of supervising euro payments informs the back office with a view to taking action, along with euro and foreign-currency treasurers.

As regards foreign-currency transactions, the general accounting department monitors settlement risk using the SAB reconciliation module. That module allows the automatic scoring of treasury transactions and detects any situations.

4 Legal risks

Exceptional events and litigation

None.

New doubtful loans in 2014

- 352 loans totalling €133.7 million, breaking down as follows:
  - 242 business loans totalling €116.6 million,
  - 110 individual loans totalling €17.1 million.

Total loans managed by the litigation team at end-2014

- 1,787 loans subject to recovery and insolvency proceedings, with a gross amount of €454 million;
- 120 loans subject to pre-insolvency proceedings (ad hoc mandate and conciliation) with a gross amount of €193 million.

Loans managed by the legal division at end-2014

- 85 loans breaking down between:
  - 60 where the debtor has been summoned to appear in court and 25 where a claim has been made against the debtor, for a total amount of: €373.1 million (including the Brandt loan for €352 million), with provisions totalling €4.8 million (including the Brandt loan for €3 million).

5 Financial Stability Forum recommendations concerning financial transparency

Specific financial reporting (securitisation, CDOs, RMBSs, LBOs etc.)

In accordance with recommendations made by the Financial Stability Forum regarding financial transparency, the Bank did not have any exposure at 31 December 2014 or at any time in 2014 to risks relating to CDOs, monoline exposure, CMBSs, RMBSs or special purpose entities.

Leveraged buyouts

At 31 December 2014, Banque Palatine had 146 loans in this category with an outstanding amount of €477 million, as opposed to €484 million at end-2013.

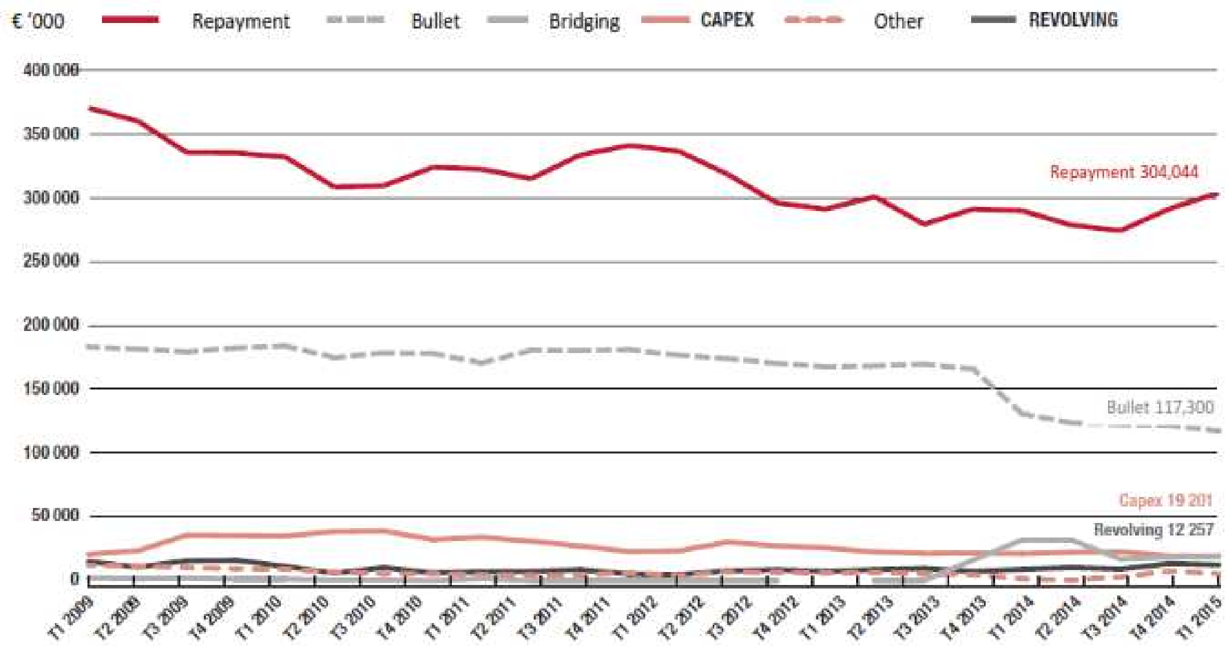
LBO outstandings equalled 5% of the Bank's total loans outstanding at 31 December 2014 as opposed to 5.7% at end-2013.

LBOs monitored by a dedicated department made up 87% of total LBO outstandings.

The table below sets out changes in the breakdown of LBO outstandings by type of loan.

These statistics refer only to LBO outstandings. They exclude short-term loans, past due items and other non-LBO exposures to the target companies.

Change in LBO outstandings by type of LBO exposure

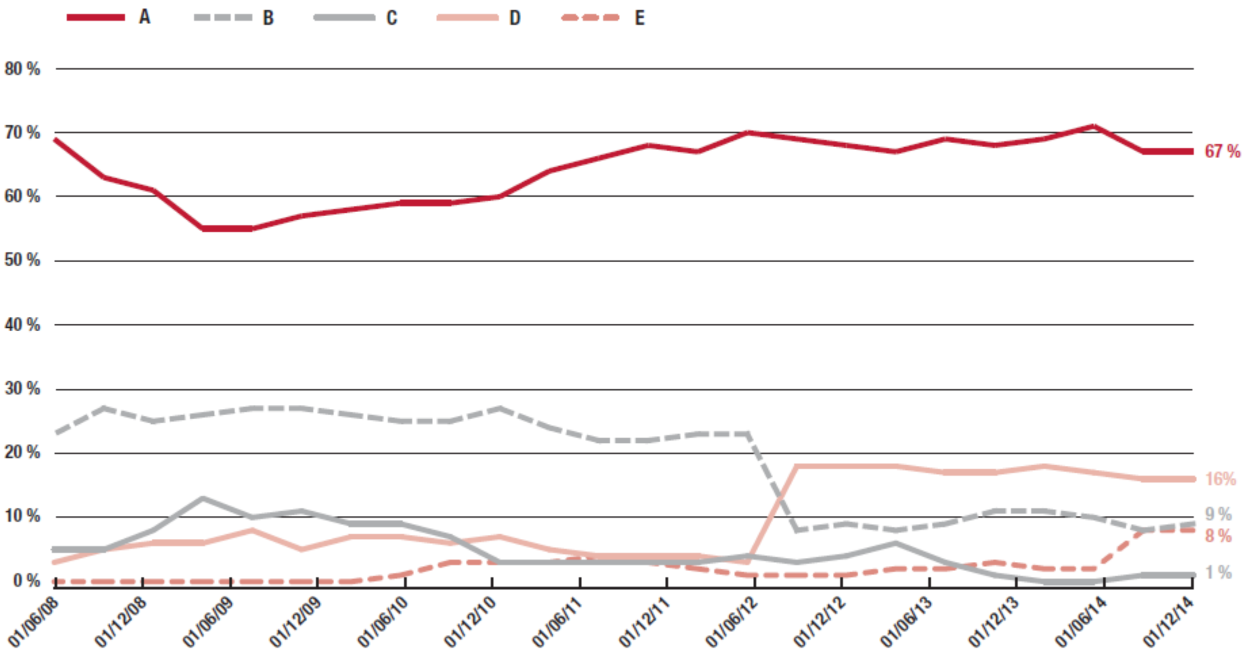


The doubtful debt ratio was 24.18% as opposed to 23.63% at end-2013, and coverage of doubtful debts by provisions was 50% as opposed to 47% at end-2013.

The cost of risk on LBO exposures was very low in 2014 at €4.9 million.

The table below shows changes in the internal classification of LBO outstandings.

Change and breakdown of LBO exposures according to the internal classification



A = performing/B = performing but requiring supervision/C = sensitive/D = doubtful/E = non-performing

6 Insurance of insurable risks

At 1 January 2014, BPCE, the parent company that wholly owns Banque Palatine, took out for itself and on behalf of its subsidiaries including Banque Palatine the following main insurance programmes to insure insurable operational risks, and to protect balance sheets and income statements:

A/ A combined “Global Banking (Damages to Valuables and Fraud)” & “Professional Liability” policy with a total indemnity capacity of €167 million per year of insurance, of which:

a) €20 million per year, combined “Fraud/Professional Civil Liability” insurance available subordinate to the amounts guaranteed set out in b) and/or c) below,

b) €52 million per claim and per year, solely reserved for “Global Banking" risk,

c) €25 million per claim and per year, solely reserved for “Professional Civil Liability" risk,

d) €70 million per claim and per year, combined “Global Banking/Professional Civil Liability” insurance available in addition to or after use of the amounts guaranteed set out in b) and/or c) above.

The maximum amount that can be paid out for any one claim under this arrangement is €108.5 million under the “Professional Civil Liability” guarantee and €109 million under the “Global Banking” guarantee in excess of the applicable deductibles.

B/ "Regulated Intermediation Liability” (in three areas: financial intermediation, insurance intermediation, real estate transactions/management) with a total maximum payout of €10 million per claim and per year.

C/ “Operating Civil Liability” covering €75 million per claim, as well as a “Subsidiary Owner Civil Liability”/“Post Delivery – Reception Civil Liability” guarantee extension for up to €30 million per claim and per year of insurance.

D/ “Company Directors Civil Liability” for up to €200 million per claim and per year of insurance.

E/ “Property Damage” to "Headquarter Buildings & Similar” and to their content (including IT equipment) and the resulting loss of banking business, for up to €300 million per claim.

F/ “Intangible IT Damage” (losses of data where no physical damage has occurred to the equipment storing the data) and the resulting loss of banking business, for up to €60 million per claim and per year of insurance.

This coverage extends to the whole world, for initial risk or umbrella risk.

All the insurance policies mentioned above were taken out with reputable, creditworthy insurance companies and in excess of the deductibles and Groupe BPCE’s risk-retention capacity.

5 APPENDICES TO THE MANAGEMENT REPORT

1 Report on employee-related, environmental and social information

Introduction

Groupe BPCE's sustainable development strategy

Groupe BPCE's sustainable development strategy is in keeping with international standards in this area. The group has complied with the principles of the United Nations Global Compact since 2007, renewing its commitment in 2012, while extending it to all of its entities in France and abroad.

The "Growing Differently" plan set the group's strategic ambitions for 2014-2017, drawing in part on sustainable development, with the support of the group's specialist banks including Banque Palatine.

The group is resolutely looking to the future and has set three sustainable development priorities for the 2014-2017 period: supporting green, responsible growth, promoting banking and financial inclusion, and reducing its carbon footprint.

Banque Palatine's sustainable development strategy

Workforce-related and environmental responsibility is a core concern for Banque Palatine.

Since 2008, the Bank has been analysing the nature and relevance of its actions, collecting internal feedback and identifying expectations.

This analysis work has prompted the Bank to devise a sustainable development action plan for the next four years.

The plan's aims are to:

- provide an overview of the extra-financial risks relating to our activities, in order to help us take them into account more effectively and to anticipate them, including risks relating to our image and reputation, our attractiveness, and the environment;
- give us a consistent and unifying vision that gives meaning to our actions and shows the way forward, in close connection with our business plan and strategy;
- make the most of work already done by extending existing initiatives and developing new ones that make us more capable of dealing with all the challenges we face, while making CSR an integral part of the business;
- develop organisational, workforce-related and social innovations in order to strengthen Banque Palatine today and tomorrow.

Discussions regarding the new direction resulting from the **Bank's 2014-2017 "Impulsions" strategic plan** enabled us to integrate the aforementioned analysis work, along with CSR objectives and initiatives, within a consistent, unifying vision of our business.

In June 2014, the corporate social responsibility team started reporting to the communication division, which is in charge of co-ordinating a realistic, pragmatic CSR policy.

Asserting its status as a responsible bank, Banque Palatine's four-year strategic plan includes the following main priorities:

- strengthening its human resources policy focusing on gender equality and diversity;
- developing and overseeing its CSR policy;
- supporting initiatives that demonstrate social commitment;
- creating two funds to support cultural and social projects.

1.1 Workforce-related information

Banque Palatine's "Impulsions" strategic plan involves a human resources policy that is in line with the Bank's business strategy and has three main aims:

Developing skills

- within our sales force, to enhance customer satisfaction through training that focuses on technical business-line aspects and attitude, in order to fulfil our motto "The art of banking";
- among all our managers, who need to deal with increasing complexity (financial, financial regulations, European regulations).

The aim is to give the Bank's 200 managers the knowledge, interpersonal skills and expertise they need so that as well as being effective on an individual level, they are effective collectively, by harmonising their practices.

Securing support

- from staff through a managerial charter in which the Bank asserts its desire to develop the practices that each manager must follow to deliver the Bank's strategy with respect to customers and staff.

Managers, regardless of their level, are a driver of change, and must motivate employees, secure their support and foster their skills so that they all play their part in the Bank's success and development, as well as incentivising them and giving meaning to their actions.

Modernising

- our organisations and systems, including the overhaul of our payroll systems from March 2015, with the aim of making our payroll processes as efficient as possible and reducing the cost of the payroll function.

Workforce

Banque Palatine's workforce was stable in 2014, consisting of 1,207 employees, 94.95% of whom were on permanent contracts.

Women made up most of the workforce, accounting for 53% of all employees, an increase of 1 percentage point relative to 2013. The proportion of managers was stable at 63.96%.

Breakdown of workforce by contract type, status and gender

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Total permanent and fixed-term staff including those on work-study programmes	1,207	31	1	1,206	29	1
Total permanent and fixed-term staff (excluding those on work-study programmes and vacation interns)	1,178	29	1	1,181	28	1
Number of permanent employees	1,146	29	1	1,151	28	1
Permanent employees as a % of the total workforce	94.95	93.55	100	95.44	96.55	100
Fixed-term employees, including those on work-study programmes	61	2	0	55	1	0
Fixed-term employees as a % of the total workforce	5.05	6.45	0	4.56	3.45	0
Total managers	772	27	0	770	26	0
Managers as a % of the total workforce	63.96	87.10	0	63.85	89.66	0
Total non-managerial employees	435	4	1	436	3	1
Non-managerial employees as a % of the total workforce	36.04	12.90	100	36.15	10.34	100
TOTAL FEMALE EMPLOYEES / BREAKDOWN BY AGE CATEGORY	**640**	**9**	**1**	**631**	**9**	**1**
18 - < 26 years	44	0	0	48	0	0
26 - < 31 years	82	1	0	74	1	1
31 - < 36 years	84	0	1	81	0	0
36 - < 41 years	82	4	0	84	4	0
41 - < 46 years	60	0	0	53	0	0
46 - < 51 years	81	2	0	88	3	0
51 - < 56 years	103	2	0	105	1	0
56 - < 61 years	95	0	0	90	0	0
61 years and over	9	0	0	8	0	0
Women as a % of the total workforce	53.02	29.03	100	52.32	31.03	100
TOTAL MALE EMPLOYEES / BREAKDOWN BY AGE CATEGORY	**567**	**22**	**NR**	**575**	**20**	**NR**
18 - < 26 years	23	3	nr	30	1	nr
26 - < 31 years	65	0	nr	62	0	nr
31 - < 36 years	69	1	nr	80	1	nr
36 - < 41 years	73	0	nr	67	1	nr
41 - < 46 years	80	4	nr	83	3	nr
46 - < 51 years	64	2	nr	64	4	nr
51 - < 56 years	92	5	nr	86	3	nr
56 - < 61 years	76	4	nr	82	5	nr
61 years and over	25	3	nr	21	2	nr

nr = not relevant / na = non available / nm = not material

Breakdown of hires by contract, status and gender

Groupe BPCE offers the opportunity to work in a people-centred company while taking advantage of the career and mobility opportunities of a large corporate group.

In 2014, the total number of people hired on permanent contracts by Banque Palatine was 69, the same as the number of people hired on fixed-term contracts.

The breakdown by age and gender was stable compared with 2013.

Although the number of people hired on permanent contracts was the same in 2014 as in 2013, the number of managers hired on permanent contracts increased by 15, while the number of non-managerial employees hired on permanent contracts fell by 16.

In 2014, a plan to create 15 new jobs was validated as part of the strategic plan to support business development. At 31 December 2014, five of those jobs had been filled through external recruitment, including four managers.

In 2014, seven employees were recruited on permanent contracts from Groupe BPCE, as opposed to four in 2013.

As a result, Banque Palatine remains a major economic force in its business sector, and in its core business. It is pursuing its recruitment policy by attending recruitment fairs in France, and has no employees outside France. In 2014, it attended six recruitment fairs in Paris (Université Paris Dauphine, one for full jobs and one for work-study programmes) and in other French regions (Néoma Reims, Audencia Nantes, IUP Caen and EM Grenoble).

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Total number of managers hired on permanent contracts	39	1	0	24	1	0
Total number of managers hired on fixed-term contracts	5	0	0	13	1	0
Total number of non-managerial employees hired on permanent contracts	30	0	0	46	1	0
Total number of non-managerial employees hired on fixed-term contracts	64	0	0	66	1	0
Total number of women hired on permanent contracts	38	0	0	43	1	0
Total number of women hired on fixed-term contracts	48	0	0	48	0	0
Total number of men hired on permanent contracts	31	1	0	27	1	0
Total number of men hired on fixed-term contracts	21	0	0	31	2	0

Breakdown of departures by contract, reason and gender

The number of people leaving Banque Palatine was the same in 2013 and 2014, when 74 people left the Bank, including nine moving to Groupe BPCE (five in 2013).

For Banque Palatine, the number of people retiring accounted for 27.02% of total departures in 2014, a slight fall relative to 2013.

Redundancies represented 12.2% of all departures in 2014.

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of employees on permanent contracts leaving Banque Palatine	74	0	0	74	2	0
of which number of people retiring	20	0	0	26	1	0
People retiring as a proportion of total permanent staff	1.75%	0	0	2.26%	3.57%	0
of which redundancies	9	0	0	5	0	0
Redundancies as a proportion of total permanent staff	0.79%	0%	0	0.43%	0%	0
Average length of service of permanent employees leaving Banque Palatine	14.17	0	0	15.85	16.08	0
Departures of permanent female staff and breakdown by reason	**38**	**0**	**0**	**38**	**0**	**0**
Resignation	15	0	0	13	0	0
Termination	2	0	0	2	0	0
Transfer within the group	5	0	0	1	0	0
Retirement	11	0	0	15	0	0
Voluntary redundancy	4	0	0	4	0	0
End of probation period	1	0	0	2	0	0
Other reason	0	0	0	1	0	0
Departures of permanent male staff and breakdown by reason	**36**	**0**	**nr**	**36**	**2**	**0**
Resignation	12	0	nr	8	0	0
Termination	7	0	nr	3	0	0
Transfer within the group	1	0	nr	4	0	0
Retirement	9	0	nr	11	1	0
Voluntary redundancy	5	0	nr	4	1	0
End of probation period	2	0	nr	3	0	0
Other reason	0	0	nr	3	0	0

Remuneration

Average basic pay was stable for both managers and non-managerial staff in 2014.

In July 2014, employees who had worked for Banque Palatine throughout 2013 received an individual employee statement. The statement highlights all the elements of the remuneration received by each employee.

The first page gives details of the employee's personal situation (date of arrival, classification, job title, type of contract etc.) and training undertaken during the year.

Pages 2 and 3 summarise the employee's total annual remuneration (basic salary, variable remuneration, bonuses, health insurance benefits, other occupational benefits etc.) and the taxable income calculation.

The last page shows deferred remuneration (incentive and profit-sharing plans etc.) and the breakdown of social-security contributions.

The Bank started a project to overhaul the variable remuneration system for all staff, which became effective from January 2015.

The new system aims to be **simple, fair** and **objective.**

For people in commercial and managerial roles, the system aims to simplify the criteria that must be met to trigger variable remuneration. Only three criteria now apply, in accordance with the Bank's strategic growth ambitions, and the attainment thresholds will be set to reward achievement, effort and outperformance in an objective manner.

Support functions will also be covered, and the current uncertainty regarding bonus awards will be replaced by a variable remuneration system based on team and entity targets, with payments dependent on the extent to which targets are attained.

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Mean basic salary for men on permanent contracts, managers (€ '000)	58	77	nr	58	74	nr
Mean basic salary for men on permanent contracts, non-managerial (€ '000)	32	nr	nr	32	0	nr
Mean basic salary for women on permanent contracts, managers (€ '000)	50	72	nr	49	71	nr
Mean basic salary for women on permanent contracts, non-managerial (€ '000)	31	31	38	31	31	37
Median basic salary for men on permanent contracts, managers (€ '000)	54	68	nr	54	67	nr
Median basic salary for men on permanent contracts, non-managerial (€ '000)	32	0	nr	31	0	nr
Median basic salary for women on permanent contracts, managers (€ '000)	46	60	nr	46	60	nr
Median basic salary for women on permanent contracts, non-managerial (€ '000)	31	31	38	30	31	37
Year-on-year change in median basic salary for men on permanent contracts, managers	0.97%	1.80%	nr	0.98%	(9.28)%	nr
Year-on-year change in median basic salary for men on permanent contracts, non-managerial	0.21%	nr	nr	1.88%	nr	nr
Year-on-year change in median basic salary for women on permanent contracts, managers	0.38%	0.00%	na	1.30%	(5.66)%	nr
Year-on-year change in median basic salary for women on permanent contracts, non-managerial	1.44%	1.29%	1.31	0.46%	(2.96)%	2.77%

Work organisation

Organisation of working hours

The Bank's workweek for employees working on a collective work schedule is 39 hours, and the allocation of days off in lieu is based on an average workweek of 35 hours over the year. The working time of managers is calculated in days, and they are required to work 206 days per year.

Certain employees may choose to work on a part-time basis.

In 2014, 72 employees on permanent contracts (versus 66 in 2013) had adjusted working hours – 87.5% of whom were women – making up 6.3% of all employees on permanent contracts.

Structure of permanent employees working part-time by gender and status

Indicators	**2014**	**2013**

	BP	PAM	Ariès	BP	PAM	Ariès
Breakdown of female permanent employees on the payroll at 31/12 by working hours (% of full time)	63	4	nr	59	4	nr
20%	0	0	nr	1	0	nr
30%	1	0	nr	0	0	nr
50%	7	0	nr	6	0	nr
60%	5	0	nr	5	0	nr
70%	0	1	nr	0	1	nr
80%	44	1	nr	43	2	nr
90%	6	2	nr	4	1	nr
Breakdown of male permanent employees on the payroll at 31/12 by working hours (% of full time)	9	2	nr	7	1	nr
20%	0	0	nr	0	0	nr
30%	0	0	nr	0	0	nr
50%	4	0	nr	3	0	nr
60%	1	0	nr	1	0	nr
70%	1	0	nr	1	0	nr
80%	3	1	nr	2	0	nr
90%	0	1	nr	0	1	nr
Number of women on permanent contracts working part-time, non-managerial	30	0	nr	30	0	nr
Number of women on permanent contracts working part-time, managers	33	4	nr	29	4	nr
Number of men on permanent contracts working part-time, non-managerial	4	0	nr	4	0	nr
Number of men on permanent contracts working part-time, managers	5	2	nr	3	1	nr

Overtime

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Overtime (hours)	11,239	0	nr	9,454	0	nr
Persons concerned	175	0	nr	158	0	nr

Absenteeism

The overall absenteeism rate at Banque Palatine was 5.52% in 2014, lower than in 2013.

Since 2014, this indicator has been monitored on a monthly basis, with comments made in the executive management committee by the human resources division, which presents information regarding absences by reason, by division and, for the development division, by region.

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
absenteeism rate: days of absence / days worked* by employees on the payroll at 31/12	5.52%	5.65%	nr	6.38%	10.10%	nr

Training

The training policy fully supports the Group's ambitions for the integration, training, and skills development of its employees.

Training policy

The banking industry is fast-moving and demanding, and Banque Palatine's training efforts accounted for 5% of its payroll costs, with over 27,000 hours of training provided. This shows its commitment to increase its investment in developing the skills of its staff.

The Bank's training efforts in 2014 were in line with the targets set for the 2012-2014 period, and factor in the provisions of the Groupe BPCE forward-looking jobs and skills management agreement of 28 October 2011:

- as regards the human resources management policy, to support Banque Palatine's development by monitoring changes and developments in the business skills required to implement its strategy;
- to foster the professional development of employees and maintain their employment, partly by listening to their requirements and encouraging employee-management dialogue;
- to comply with industry agreements, particularly regarding lifelong continuing professional development, in order to secure employees' professional development and to maintain their employability;
- to enable all employees to develop their skills throughout their career, and to give them an active role in managing their development, in accordance with the quantitative and qualitative requirements of Banque Palatine's economic and workforce-relations unit – including at its Palatine Asset Management (PAM) subsidiary – in accordance with the principle of professional equality between men and women;
- to support employees in the later stages of their careers.

In addition, these training efforts factor in the provisions of the generational contract specific to Banque Palatine's economic and workforce-relations unit, which is currently being drafted and whose principles are as follows:

- giving young people (aged under 30) job opportunities;
- employing older people, following on from the 2012-2014 seniors action plan;
- passing knowledge and skills between the generations.

To achieve these objectives, Banque Palatine's economic and workforce-relations unit intends to propose and implement training and skills-development systems for employees, regardless of their age, length of service, gender or type of contract.

Integration of new employees

- introducing an integration course consisting of a two-day seminar and supplemented, if appropriate, by a tour of the bank;
- allocating staff to dedicated business-line courses.

Support for employees throughout their professional careers

- providing employees with information about their right to a skills audit.

Increasing career security and maintaining employment through professional development courses

- Banque Palatine's economic and workforce-relations unit has made particular use of professional development courses for employees returning from full-time parental leave, long-term leave or long-term illness.

Support for staff who have not undertaken any training for five years

- every year, the human resources division assesses the situation of employees who have not undertaken any training, excluding regulatory training, for five years. Such staff have priority access to the training plan.

Implementation of the seniors plan

- ensure that the proportion of employees receiving training who are aged 55 and over remains at least in line with the proportion of the workforce made up by people aged 55 and over in the previous year;
- ensure that employees aged over 45 have priority access to professional development courses, to help them develop their qualifications provided they meet eligibility criteria;
- ensure that DIF individual training rights are used for purposes identified during meetings held to assess the latter stages of an employee's career, as described in article 3-1 of the seniors plan;
- offer employees aged 58 and over a retirement-preparation course devised by Groupe BPCE's human resources division.

Where appropriate, support for employees in roles that are particularly subject to change

Employees in roles that are exposed to technological, organisational and/or regulatory changes have preferential access to the training plan.

As regards training plans, Banque Palatine has adopted transformative initiatives on the following themes:

- private banking market:
  - professional development of managers and co-ordinators in this business line, in the fields of commercial supervision and management;
  - adoption of a system for analysing technical wealth management skills, aimed at putting together and rolling out a training plan suited to staff requirements;
- regulatory:
  - a new multi-year training system regarding the safety of people and property;
  - enhanced prevention practices regarding efforts to combat money laundering (centralisation of warnings);
- technological developments:
  - support for the upgrading of Banque Palatine software.

In addition, in order to minimise costs, Banque Palatine has addressed the ways it delivers training, focusing on:

- the use of in-house experts in designing and co-ordinating training, who themselves have received training in these two areas in order to ensure the best possible quality of teaching;
- the relocation of training sessions outside Paris;
- development of the distance learning offering via e-learning and virtual classrooms, which represent an innovative, interactive learning opportunity.

In 2014, Banque Palatine adopted the main aspects of its training policy for 2015, with three aims:

- support for the operational implementation of the 2014-2017 strategic plan across its three objectives of development, modernisation and securing staff support;
- preparations for implementing the following points in relation to the French professional development act of 5 March 2014:
  - developing employees' skills and qualifications to boost their progress through work appraisals;
  - securing lifelong learning via personal training accounts;
- speeding up the professional development and progress of managers in their core duties, through the creation of a training system over three years.

Progress appraisals

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Employees attending a progress appraisal as a proportion of the entity's total workforce	42%	0%	nr	43%	10%	nr

Hours of training in 2013

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Average number of hours of training per manager	22.73	1.77	0	20.31	3.18	nr
Average number of hours of training per non-managerial employee	23.27	0.95	3	22.53	39.18	nr
Average number of hours of training per employee	22.92	1.66	3	21.11	6.91	nr
Average number of hours of training by gender						
Men	25.11	2.11	0	21.87	4.03	nr
Women	20.99	0.58	3	20.42	13.30	nr

Use of the CICE competitiveness and jobs tax credit

The aim of the CICE is to enhance the competitiveness of companies and thereby enable them to make efforts in investment, research, innovation, training, recruitment, expansion into new markets and the adoption of environmentally friendly and energy-efficient methods, and to increase their working capital.

For Banque Palatine, the CICE amounted to €798,740 in respect of remuneration paid in 2013, and for Palatine Asset Management it amounted to €5,025.

The tax credit in respect of remuneration paid in 2013 was allocated to the following projects in 2014:

- IT investment

  Contribution to IT investments as part of a project to support commercial development: SAB AT. The upgrade of SAB AT (graphical workstation, enhanced customer summary sheets, relationship initiation and new individual-customer credit instructions) is intended to enhance the Bank's knowledge of customers in order to increase commercial effectiveness. Support for the SAB AT project includes expenditure on licences and the use of resources (service providers, additional fixed-term staff etc.).

- Training

  Investment in a virtual-classroom based training system (software, hardware etc.) that meets the following objectives: expanding the range of training provided in highly specific subject areas; supplementing existing learning opportunities (classroom-based and e-learning); limiting costs and demands on staff in terms of time and travelling; promoting access to training.

- Recruitment

  Development of the Bank's online reputation (tools, communication initiatives etc.) to confirm its position as a first-choice employer.

- Career management

  Contribution to the improvement of HR career-management tools, including wider use of HR appraisals and staff reviews. The aim is to develop an overview of the Bank's skills with respect to its areas of development, to assess any gaps and to set up appropriate action plans to address them.

Employee relations

Organisation of employee-management dialogue

Health and safety

Within the Group, policies and budgets relating to health and safety conditions fall within the remit of each of the entities and the CHSCT committees established with employee representatives.

As well as expenditure on specific programmes to improve occupational health and safety, Group companies implement more traditional monitoring and prevention programs.

For several years, the average number of meetings with the CHSCT committees of companies within the scope has been very significant, demonstrating the desire to build a lasting, constructive employee-management dialogue with the help of these committees.

Any plan to carry out a substantial change to the organisation is reported to and discussed with the relevant geographical CHSCT and then with the works council. For example, staff representative bodies have been consulted on transformative projects such as overhauling the Credit business line, defining the role of head of regional management, and reviewing the variable remuneration system.

The Bank is planning to hold talks with representative union organisations in 2015 on the following themes: equal opportunities as an extension of the action plan in force in 2014, the disability policy, working hours and the organisation thereof, and forward-looking jobs and skills management. The latter subject is a crucial one, and the aim is to increase visibility on employees' career and training paths, to make them more employable and to give them an active role in managing their professional development.

The agreements signed were the subject of an "all employees" memo sent by the communication division, and can be consulted on the intranet.

Collective bargaining agreements

In 2014, Banque Palatine signed four collective agreements with representative union organisations and unilaterally implemented a plan of action:

- an amendment to the working hours-reduction agreement signed on 4 July 2014;
- an incentive plan agreement signed on 30 June 2014;
- an amendment to the memorandum of understanding relating to staff representation within the Banque Palatine economic and workforce-relations unit;
- an agreement relating to employer contributions under the group savings plan signed on 28 November 2014.

  The agreement, signed by all representative union organisations, specifies that all Bank staff receiving remuneration under an incentive plan with respect to 2014 will be able to receive a contribution from the Bank topping up their investment in the group savings plan. For any investment of 2014 incentive bonuses into the group savings plan, the Bank will contribute up to €670, calculated as follows:

  - for the first €300 of incentive bonuses invested, the employer contribution will be 140%;
  - above €300, the employer contribution will be 30%, limited to €250.

These new arrangements will come into force from the payment of incentive bonuses in April 2015.

Professional equality action plan

This plan of action was signed on 3 February 2014, and follows on from the commitments made by the Bank for several years. It sets out commitments and progress targets in the following areas:

- equal opportunities and gender equality relating to jobs;
- access to training, particularly the managerial training programme provided by the group;
- identification of high-potential female staff and their enrolment into the Talent Palatine programme;
- career management, including quantitative commitments regarding the percentage of managers and operational managers consisting of women;
- definition of criteria allowing any unjustified remuneration differences between women and men to be identified and eliminated;
- closure of the salary gap after women return from maternity leave.

Occupational health and safety

Health and safety at work

Improving quality of life in the workplace

Several years ago, all of the Group's companies, including Banque Palatine, set up systems for managing psychosocial risks.

A three-year psychosocial risks plan of action has been implemented since December 2013, including primary prevention initiatives to reduce these risks at source.

Measures relate to appraisal meetings, HR meetings, the assessment of workloads in staff reviews, the work equipment environment and change management.

The plan also includes secondary prevention initiatives aimed at limiting the impact of psychosocial risks. They include initiatives relating to training, awareness-raising, accident and incident analysis. Finally, the plan of action includes individual support systems and prevention procedures in the event that a psychosocial risk situation arises.

In 2014, no agreement was signed with unions and staff representatives regarding health and safety at work.

Workplace accidents, occupational illnesses

Workplace accidents

The number of workplace accidents rose slightly in 2014 due to an exceptional event, i.e. a fire at a branch in Marseille, during which four employees inhaled toxic fumes.

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of workplace accidents recorded during the year, with and without lost time	15	1	0	9	1	0
Number of fatal accidents recorded during the year	0	0	0	0	0	0
Number of work days lost	22	0	0	8	3	0
Severity rate	0.010	0	0	0.004	0.056*	0
Frequency rate	6.35	18.78	0	4.11	18.78*	0

** corrected figure.*

The number of work days lost is stated as the number of calendar days. It relates solely to workplace accidents, and excludes travel accidents.

No occupational illness was reported or recognised in 2014.

Equal treatment

Diversity policy

True to its cooperative values, Groupe BPCE is a full-service bank that is open to all and accessible to customers on a local level.

As a signatory to the Diversity Charter since 2010, Groupe BPCE has established objectives in three priority areas: equality between men and women, employing people with disabilities, and equal-opportunity hiring.

Anti-discrimination policy

Groupe BPCE has taken concrete actions to promote diversity so that its own workforce better reflects its customer base.

In January 2015, Banque Palatine also started talks with unions regarding equal opportunities.

Stated and shared objectives to promote equal opportunities between men and women

In line with the Groupe BPCE strategic plan, a Banque Palatine strategic plan was launched in 2014 with the aim of formalising, developing and co-ordinating initiatives to promote gender equality and diversity, implementing a genuine CSR policy within the Bank and strengthening communication regarding these initiatives.

One of the main initiatives adopted, which has been implemented since January 2015, is to carry out a disability analysis, with the aim of signing an agreement.

The results of the Financi’elles 2014 survey, in which Banque Palatine took part, will enhance the discussions held by the working party in this area, and will allow the bank to prioritise the initiatives to be taken. The main items of the survey will be discussed in 2015 in Banque Palatine's Women's Day, which has been taking place every year since 2010.

As regards gender equality, related themes are being addressed through the appointment of a gender equality correspondent within the company and that correspondent's participation in working parties organised by Groupe BPCE.

In 2014, 53% of Banque Palatine's employees were women, and 54% of female employees are managers. Banque Palatine is aiming for a better balance of men and women in its various business areas and management layers, but also wants to continue monitoring changes in the gender mix by classification and the so-called "glass ceiling". The indicator it is monitoring is the annual change in the "fishbone diagram", which shows the point of inflection of the male and female curves as being between grades H and I.

It should be noted that one woman joined the executive management committee in 2014, alongside four men, and that three of the 18 members of the Bank's executive committee are women.

As part of measures to support the career development of women within the Bank, it continued to assist women in 2014 with its "Réussir sa carrière au féminin" training programmes for female managers. That initiative will be continued in 2015.

Creation of women’s networks

Banque Palatine's women's network "Palatine au Féminin" was created in 2010 and around 50% of the Bank's female employees are members.

In support of the HR policy of gender equality, these networks are valuable forums for discussion and mutual assistance, through mentoring, business, workforce-related and social committees.

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Male/female ratio, non-managerial (average male salary / average female salary)	1.03	nr	nr	1.03	nr	nr
Male/female ratio, managers (average male salary / average female salary)	1.17	1.07	nr	1.17	1.05	nr
Number of female employees who took parental leave in the last financial year	14	0	0	16	0	0
Number of male employees who took parental leave in the last financial year	0	0	nr	0	0	nr
Number of female employees who returned to work after taking parental leave	10	0	0	11	0	0
Number of male employees who returned to work after taking parental leave	0	0	nr	0	0	nr

Major efforts in support of disabled people

Major efforts in support of disabled people

Groupe BPCE is maintaining its commitment to employment for people with disabilities.

In 2014, during its Disabilities Week, Banque Palatine reaffirmed its commitment to employment for people with disabilities.

Senior management confirmed its desire to support disabled people by inviting staff from both head offices and Banque Palatine's executive management committee to a performance by Compagnie MisenAct of playlets on the theme of disabilities at work. After the performance, a drinks party organised by a disability-oriented social enterprise was held to promote its services and encourage the use of services offered by companies that employ people with disabilities.

Throughout Disability Week, the Bank's intranet featured articles by disabled employees, their teams, the disabilities representative and a company employing people with disabilities, along with an interview with Groupe BPCE's head of Procurement, Communication and Events. The aim was to look at expenditure from the CSR point of view and to increase employees' awareness about disabilities in the workplace.

The disabilities representative organises personal, fully confidential support in order to meet the needs of staff, for example helping them to obtain recognised disabled worker (RQTH) status. In 2014, the disabilities representative was also able to adjust the working hours of certain employees because of their roles and type of illness.

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of disabled employees excluding those working for a disability-oriented social enterprise	50	1	0	50	1	0
Percentage of total permanent employees who are disabled, excluding those working for a disability-oriented social enterprise	4.14	3.22	0	4.14	3.44	0

International Labour Organization

Groupe BPCE’s growth is pursued in accordance with fundamental human and social rights wherever it does business.

Banque Palatine does not have any employees outside France carrying out its international activities. Given its geographical presence, which is restricted to France, it complies with the fundamental and priority conventions of the International Labour Organization.

In April 2012, during its Sustainable Development week, Groupe BPCE renewed its commitment to the United Nations Global Compact for all group entities. The aims of the Global Compact are compatible with those of ISO 26000 and Global Reporting Initiative (GRI) criteria in terms of group reporting. One of the commitments of the Global Compact concerns respect for human rights.

1.2 Environmental information

Groupe BPCE’s environmental approach

Efforts to reduce the group's environmental impact focus on lowering the carbon footprint caused by major sources of greenhouse gases, including energy, buildings, procurement, and travel.

Banque Palatine's environmental approach

Banque Palatine, with the encouragement of Groupe BPCE, is continuing to implement actions intended to reduce its carbon footprint:

- by reducing its energy consumption;
- by improving the energy efficiency of its buildings;
- by encouraging its staff to limit their energy consumption at its main sites.

Informing employees about environmental protection

As regards business travel, Banque Palatine encourages its employees to use the cleanest forms of transport, particularly trains.

Users of company or fleet cars have been sent a booklet on environmentally friendly driving, produced in-house, which will form part of the health and safety at work booklet that will be distributed in 2015.

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Petrol consumed by company cars (litres)	1,209	2,254	nr	1,148	1,734	nr
Petrol consumed by fleet cars (litres)	30	nr	nr	nr	nr	nr
Diesel consumed by company cars (litres)	50,455	3,873	nr	49,186	1,914	nr
Diesel consumed by fleet cars (litres)	74,790	nr	nr	nr	nr	nr
Business travel in private cars (km)	205,257	nr	10,859	171,247	nr	3,000
Business travel by train (km)	2,977,592	32,012	3,422	2,724,102	1,616	762
Business travel by air, short-haul (km)	845,185	14,812	nr	673,407	3,548	1,298
Average grams of CO_2 per km for company and fleet cars	102	nr	nr	109	na	nr
Business travel by air, medium- and long-haul (km)	39,233	nr	nr	32,669	nr	nr

Most meeting rooms and a large proportion of workstations are equipped with videoconferencing and teleconferencing equipment, in order to limit and optimise travel.

Work is still being done in partnership with suppliers to optimise delivery rounds, in order to reduce greenhouse gas emissions and the number of deliveries.

One-off courier deliveries within Paris are done by bicycle.

Sustainable use of resources

As Banque Palatine is a service-based business, it is not concerned by issues relative to noise pollution and ground use. Its offices and commercial premises often cover several floors so its ground occupancy is much smaller than that of an industrial activity spread over a single level.

The same is true for water, air and soil pollution, in view of the nature of its activities.

With respect to light pollution, Banque Palatine refers to the regulation in force since 1 July 2013 limiting light pollution, energy consumption and night-time lighting for non-residential buildings such as shops and offices. Accordingly, it has installed timers in its lighting systems. It commenced several initiatives in 2014, which will be continued in 2015, including:

- the installation of energy-saving systems (low-voltage lighting, LEDs etc.) in the NFA equipment within branches;
- installation of timers, presence detectors and dimmer switches.

Water management

The Bank does not have a significant impact on water consumption and wastewater besides personal use in its offices and branches. However, several initiatives are in place to reduce water consumption, including efforts to encourage employees to reduce their water consumption.

Banque Palatine group indicators	2014	2013
Total water consumption (m^3)	259,346	na
Rainwater recovery (m^3)	na	na
Total water consumption per m^2 of floorspace	9	na
Total spending on water (€ '000)	4.5*	6.9*

* *This figure corresponds to the amounts of bills paid directly by Banque Palatine. Water consumption included in building charges is not recognised.*

Raw materials consumption

Banque Palatine group indicators	2014	2013
Total paper consumption (tonnes)	68.3	65.2
Total paper consumption per employee (kg)	56.6	55.0
Of which total consumption of recycled paper or FSC or PEFC-certified paper (tonnes)	68.3	32.3
Proportion of purchased paper tonnage consisting of recycled paper	0%	49%

Energy consumption

Banque Palatine group indicators	2014	2013
Total final energy consumption (KWh)	4,337,162	4,243,444
Total energy consumption per heated/occupied m^2 (KWh)	147.9	147.9
Total fuel oil consumption	nr	nr
Total natural gas consumption (kWh)	144,523	230,614
Total electricity consumption (kWh)	4,192,639	4,012,830
Total consumption of district heating systems*	na	na
National consumption of district cooling systems	nr	nr
Share of renewable energy in total final energy consumption (kWh) (blue meters)	892,844	1,080,761

* *At head office. Not distinguished as separate items in bills.*

Spending on energy

The increase in spending relating to cleaning services is the result of several factors. Firstly, a higher-quality cleaning service was required to ensure the highest level of wellbeing at work for employees, only certified organic products are used in cleaning, and service providers are required to make optimal use of consumables.

Banque Palatine group indicator	2014	2013
Total spending on cleaning services	773	588

Climate change

Groupe BPCE was the first bank in France to publish its carbon review each year as a way of tracking its own greenhouse gas emissions. In 2014, the French environment and energy management agency (ADEME), CSR research centre ORSE, and consulting firm Carbone 4 used this initiative as a model for the banking sector.

This tool, which is used to carry out the group's sector carbon audit, enables it to create greenhouse gas (GHG) emissions assessments using a method compatible with that of ADEME, the ISO 14064 standard, and the Greenhouse Gas Protocol. However, emissions caused by bank products (indirect footprint) are excluded from the analysis.

After three years spent collecting carbon data using a stable benchmark shared by all of the Group’s companies, the method is able to provide: an estimate of each company’s greenhouse gas emissions and a map of those emissions by item and scope. Each year, this tool shows the level of emissions and how it has changed, and allows users to establish a local plan for reducing emissions.

Since 2013, Banque Palatine has been able to regard its carbon indicator as reliable. The indicator will be monitored, with the intention of reducing it over the years.

A member of the procurement team has undertaken carbon audit training, because the activities and practices that will be crucial in reducing emissions are the responsibility of the general resources division.

Banque Palatine group indicators	2014	2013
Scope 1: Direct combustion of fossil fuels, excluding leaks of refrigerant gases (tonnes of CO_2 equivalent)	432	455
Scope 2: Electricity consumed (tonnes of CO_2 equivalent)	326	312

Pollution and waste management

Resources used to prevent environmental risks and pollution

For 2014, Banque Palatine recorded no provisions or guarantees to cover environmental risks in its financial statements.

Its activities have no major direct impact on the environment. Environmental risk mainly arises from its banking business. This risk arises when environmental criteria are not taken into account in the projects being financed.

Waste management

Banque Palatine implements measures to avoid all forms of pollution and damage to natural resources caused by its operations. It is committed to reducing and streamlining the consumption of commodities and seeks to maximize the efficiency of its waste management system in order to produce less waste.

The Bank complies with regulations on recycling and ensures that its subcontractors are also compliant with respect to the following:

- waste arising from work on Group buildings;
- waste electrical and electronic equipment (WEEE);
- office furniture;
- light bulbs;
- management of liquid refrigerants;
- office consumables (paper, printed material, ink cartridges, etc.).

To improve waste management, the Bank has asked its provider to manage the destruction of confidential documents across its whole network, which explains the increase in expenditure on this service.

Banque Palatine group indicators	2014	2013
Total spending on waste management services by provider (€ '000 ex-VAT)	68	31
Total non-hazardous waste (tonnes)	508	488
Total hazardous waste (tonnes)	nm*	na
Total waste produced by the bank (tonnes)	508	825
Total recycled waste (tonnes)	na	na

* *Not meaningful.*

Recycling

Banque Palatine group indicators	2014	2013
Number of recycled ink and toner cartridges	210	480*
Number of neon fluorescent tubes collected	1,374	3,778*
Batteries collected (kg)	20	34
Electrical and electronic equipment (EEE) collected (tonnes)	na	3.0*

* *Extrapolated on the basis of the provider's figures at 30/06/2013, taking into account efforts to reduce consumption in the last two months of the year.*

Biodiversity management

Biodiversity is an important component of Groupe BPCE's environmental stance, alongside other aspects such as reducing the carbon footprint and developing green banking products.

In France, companies are legally required to take biodiversity into account.

Banque Palatine focuses on financing companies in France, mostly small and medium-sized businesses that have little exposure to environmentally controversial projects.

1.3 Responses to social issues

Groupe BPCE's commitment to economic and sustainable development focuses on four priorities: local financing, support for local development, respect for fair practices, and financing ecological and energy transition.

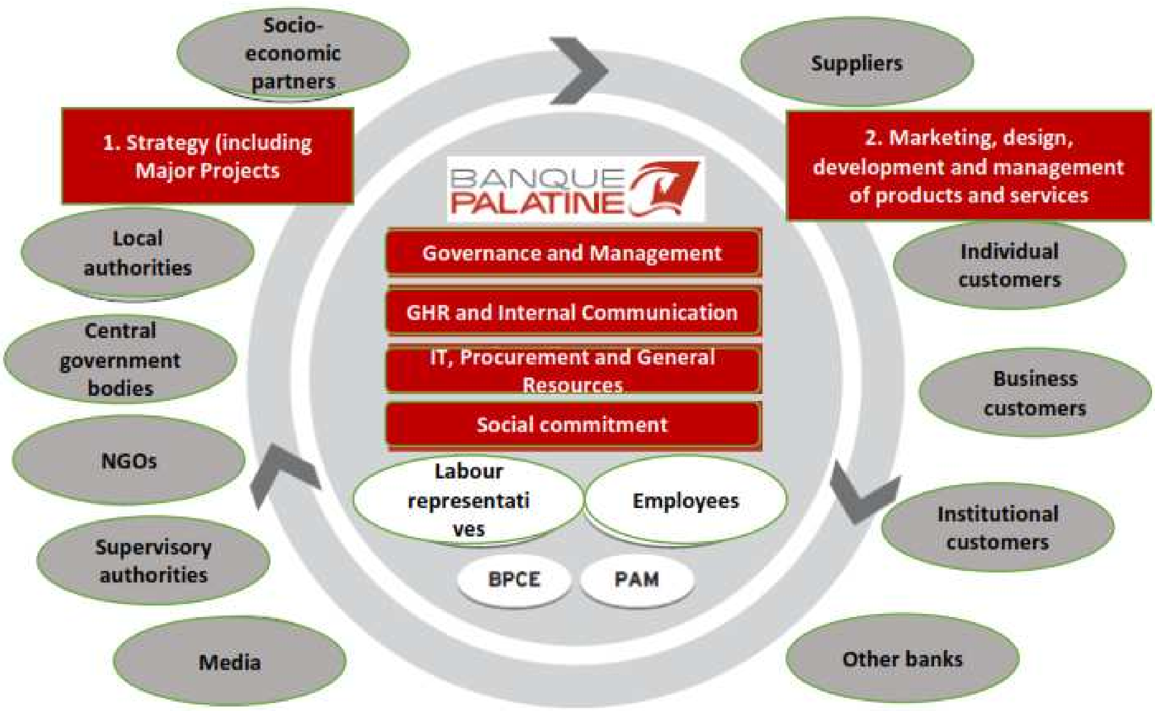
Local impact

As regards employment, Banque Palatine cannot take into account local issues arising in its regional development because of its scale and core business, and accordingly it has no impact on local populations.

Relations with stakeholders

Stakeholder map

Banque Palatine's main stakeholders are as follows:



Supporting the development of medium-sized businesses and assisting the emergence of new international leaders are priorities for Banque Palatine.

As a result, capitalising on the work done by its small and medium-sized business performance monitoring unit, Banque Palatine has created an educational website (www.financersonentreprise.com) and the Palatine medium-sized business circle ("Cercle Palatine des ETI"), which is a discussion and interaction forum for such businesses.

Socially responsible investing

Within the group, there are three structures that offer socially responsible investment[1] (SRI) products: Natixis Asset Management, Ecofi Investissements (Crédit Coopératif's asset management company) and Banque Palatine, through its asset management subsidiary Palatine Asset Management.

As of 31 December 2014, Banque Palatine via its Palatine Asset Management subsidiary had €92.2 million of assets under management in SRI funds, via six funds investing in equities, diversified assets, bonds and money market instruments.

Two equity funds and a diversified fund were awarded the Novethic label in 2014: Palatine Or Bleu, which focuses on water (the largest fund, with €33.6 million of assets under management), Gérer Multifactoriel Euro and Palatine Actions Défensives Euro.

Innovation and product development

The high price of energy and commodities is prompting faster growth in green investments.

As a full-service bank, Groupe BPCE is able to contribute to all types of projects in the four main categories of green growth financing: energy efficiency, companies investing in greenhouse gas reduction, companies involved in managing and recycling natural resources, and new eco goods and services.

Since 2010, Banque Palatine has been involved in the wind and photovoltaic solar power sector, investing €30.5 million in 2014 either directly or as part of consortiums. Accordingly, its share of installed capacity in wind power projects is 8 MWp, and its share of photovoltaic projects is 13.6 MWp, including 6.2 MWp in wholly owned projects.

Partnerships and cultural sponsorship

Banque Palatine wants to be an active participant in its community and contribute to public debate, and reasserted its desire to support social engagement initiatives in 2014 and the years to come.

In 2014, the bank undertook various partnership and cultural sponsorship initiatives, and the main ones are described below:

Supporting the arts

The seventh Palatine historical novel prize awarded to Patrick Grainville for "Bison"

On Tuesday 8 April 2014, the seventh Palatine historical novel prize was awarded to Patrick Grainville for "Bison", published by Éditions du Seuil, during an evening attended by almost 300 people in the magnificent setting of the Musée Carnavalet. "Bison" recounts the epic story of George Catlin, who in 1828 gave up his comfortable, sophisticated life, left his family and went to discover the Sioux tribes in the plains of America.

This well-known literary prize has been supported by Banque Palatine since 2008, and each year recognises a novel that stands out through its historical accuracy, quality of writing and original story.

Cannes Directors' Fortnight, 14-25 May 2014

Banque Palatine's CEO and media/audiovisual department visited Cannes for the Directors' Fortnight in 2014, which the Bank supported for the fourth consecutive year. The Bank is one of a select group of French banks supporting professionals working in the film and audiovisual industries.

The Directors' Fortnight is an independent, free and non-competitive event that runs in parallel to the Cannes Film Festival. It is open to all forms of cinematographic works, including shorts and feature films, fiction and documentaries.

The event is an excellent fit with Banque Palatine's ethos, and since it began it has given a platform to a number of talented people from around the world who are well known today.

Photojournalist Henri Dauman's Manhattan Darkroom exhibition

Henri Dauman is a leading photojournalist who has worked for Life Magazine, the New York Times, Newsweek and Forbes, and has turned his profession into a real art form. He has been a close observer of the USA over the last 50 years, and this unique retrospective gives us a fresh insight into major figures in American culture, including John and Jacqueline Kennedy, Andy Warhol, Elvis Presley, Marilyn Monroe and many others.

Through its sponsorship of this event, Banque Palatine wanted to highlight the talent of a man who an excellent observer of his time, and support this brilliant illustration of the art of photojournalism. The exhibition was entirely funded by private donations, proving that cultural initiatives can be made possible with the support of responsible, committed companies.

[1] *Definition of SRI: On 1 July 2013, the AFG (French Asset Management Association) and the FIR (Forum for Responsible Investment) clarified the definition of Socially Responsible Investment (SRI) for the industry. "SRI refers to an investment that aims to reconcile economic performance with social and environmental impact by financing companies and public entities that contribute to sustainable development, regardless of their sector of activity. By influencing market players' governance and behaviour, SRI promotes responsible business."*

Supporting the development of education

Renewed commitment to diversity at Sciences-Po

Banque Palatine is pursuing its commitment in support of the priority education agreements programme developed by Sciences-Po, a French university specialising in human and social sciences.

Banque Palatine's CEO and the director of Sciences-Po signed a new three-year partnership agreement in 2014.

Since 2010, Banque Palatine has provided support in the form of bursaries and tutoring for several deserving students attending the university as a result of the priority education agreements programme.

The aim is to encourage people from diverse backgrounds to undertake higher education, taking into account social and geographical criteria. Currently, 105 schools across France are working with Sciences-Po, in rural communities, deindustrialised areas, overseas territories and the suburbs of large cities. 1,301 students have already been accepted to study at Sciences-Po through the initiative.

Banque Palatine and Sciences-Po are both institutions with strong social awareness, and firmly believe that:

- diversity is a source of wealth;
- equal opportunities and social cohesion are crucial issues;
- mixing people of different cultures, educational backgrounds and professional aspirations leads to vital intellectual stimulation.

Sub-contractors and suppliers

Responsible procurement policy The AgiR project

In 2012, BPCE Procurement launched the "*Agir ensemble pour des achats responsables*" (“Working Together for Responsible Procurement”) project. This responsible procurement approach (“AgiR”) is part of an overall goal to achieve comprehensive, sustainable performance by involving Group companies and suppliers.

It is based on commitments made by Groupe BPCE when it signed the Responsible Supplier Relations charter in December 2010. This charter was designed to incentivise businesses to adopt responsible practices in dealing with their suppliers. The goal is to change relations between clients and suppliers in order to build a lasting, balanced relationship between them based on mutual trust, with the aim of supporting France’s economy by giving precedence to partner-based strategies, dialogue and the expertise of procurement professionals.

This policy defines the Group’s responsible procurement approach and the commitments of the procurement function, business divisions and suppliers of Groupe BPCE. It was ratified in April 2013 after ordinary consultations with the companies affiliated with BPCE Procurement, including Banque Palatine.

The Bank’s head of procurement was invited to apply and circulate this policy within the Bank and among its supplier panel with respect to the following areas:

- procurement process;
- procurement performance plan: updating expressions of requirements and their environmental impact, ensuring the optimal total cost, increasing co-operation with suppliers, using suppliers from the social economy;
- supplier relations, in order to assess their CSR performance using national reference listings.

Disability and responsible procurement policy (“PHARE”)

Banque Palatine supports the group's PHARE programme, and accordingly has appointed a disability representative in its procurement and general resources department in response to the increasing number of responsible procurement matters. The disability representative works with a representative from the human resources division.

Since 2012, to promote and reward group entities working with companies that employ people with disabilities, the group set up its "Les Victoires PHARE" programme. In 2012, Banque Palatine won the "special category" prize in Groupe BPCE's first "Victoires PHARE" awards, rewarding collective action taken within the Bank that helped to change the way that people with disabilities are represented.

In 2014, the "Victoires PHARE" awards became part of the "Trophées Achats" awards, which reward deserving procurement initiatives through a "CSR Procurement" category, showing that responsible procurement is now part of the group's DNA and no longer a separate area of procurement.

Banque Palatine's most recent initiatives to use companies employing disabled people include the video coding of some of its cheques by members of the Association des Paralysés de France (APF). Banque Palatine sends over 300,000 cheques per year to APF in Rennes to be video coded.

In 2014, the Bank began awarding contracts for the collection and destruction of confidential documents from branches outside Paris, for example in Lille and Bordeaux.

Other projects are being assessed in 2015 to increase the use of companies working with disabled persons.

Training in anti-money laundering policies and procedures

Indicators	2014	2013

	BP	PAM	Ariès	BP	PAM	Ariès
Proportion of the total workforce consisting of disabled employees (resulting in tax reductions), including those working for disability-oriented social enterprises (figures on the DOETH statement)	0.025	0.054	nr	0.026	0.046	nr

Subcontracting policy

The use of temporary staff is determined by the choices and needs of each group company. The group makes relatively little use of temporary staff, who make up less than 0.5% of the total workforce. This shows the Group's ongoing efforts to strike the right balance between job requirements, workload and staff allocated.

Fair commercial practices

Anti-corruption

In accordance with internal control measures and the group’s compliance charter, the compliance and permanent controls division has set up several controls under its financial security and ethics and compliance frameworks. In 2014, Banque Palatine did not receive any penalty for any anti-competitive, anti-trust or monopolistic behaviour.

These arrangements are reflected in the Bank's procedures and documentation, including in the following areas:

- financial security – efforts to combat money laundering and terrorist financing / internal and external fraud;
- embargo management;
- prevention of conflicts of interest;
- gifts, benefits, and invitations;
- intermediaries and financial partners;
- confidentiality;
- employee training and awareness-raising;
- whistleblowing system;
- control systems;
- monitoring and reporting.

These arrangements are based on an operational risk map that identifies risks for each process, and on a risk management system that includes the following.

- Financial security (efforts to combat money laundering, terrorist financing and internal and external fraud): a procedure and a training system for money laundering and terrorist financing, along with a procedure for handling external fraud. The system for combating external fraud is based on a framework procedure that includes the fraud handling process and two appendices dealing with cheques and transfers, covering preventative measures to be adopted, recommendations for the bank's staff and recommendations to be made to customers. In addition, messages are sent frequently to the branch network, referring to types and cases of fraud encountered within the Bank or the group. Compliance and network managers also regularly undertake awareness-raising initiatives among relationship managers and customer service managers in the network, as part of annual meetings on the subject.
- as regards the prevention and handling of internal fraud, there is only one internal process currently in force in the Compliance department. The group framework procedure distributed in 2014 will be applied by Banque Palatine in 2015. To this end, an authorisation request has been made to the CNIL (French Data Protection Commission).
- Conduct: internal rules, the compliance and conduct charter, a whistleblowing procedure and a specific year-end message sent to all staff concerning gifts and benefits received.

For each theme, monitoring is performed and remedial and preventative action is taken to address any risks that arise.

Training in anti-money laundering policies and procedures

Banque Palatine group indicator	2014	2013
Proportion of employees who have received anti-money laundering training from the entity (excluding ALD)	10%*	85%

* *This percentage reflects the number of employees who completed their training in 2014. The vast majority of employees were trained in 2013.*

The 2014 indicator was obtained by adding together the number of employees attending classroom-based anti-money laundering/terrorist financing training and those who completed an e-learning module (essenti@).

Security policy implemented by Banque Palatine with respect to its customers

To ensure the security of its customers' personal data, Banque Palatine takes the following measures:

- at the global level, the Bank applies rules established by Groupe BPCE's information system security policy;
- in particular, any access to applications within the information system, including those that manage customer data, takes place using a username specific to each Bank employee and a password. The authorisations system only allows Bank staff to access applications and data that are authorised for the performance of their duties;
- a system to anonymise customer data is in operation, allowing changes in the information system to be tested using real data from ordinary production;
- Banque Palatine's remote banking sites use Groupe BPCE's secure architecture via Direct Ecureuil Internet, the Caisses d'Epargne remote banking site managed by the IT-CE economic interest group. A strong authentication system for online customers will be set up in 2015, to enable customers to enter payee details themselves, among other functions;
- tests regarding external intrusions into the information system are carried out each year to check that data are resistant to hacking, particularly Bank customer data.

Quality policy

Banque Palatine's quality culture and commitment to serving the end customer are the result of specific efforts and team management that encourage all staff to commit to innovative methods, which primarily reward customer satisfaction. All teams are assessed and encouraged to get involved in continuous improvement initiatives.

Banque Palatine, like Groupe BPCE, has put customer satisfaction at the heart of its strategy. To enable it to deliver on this commitment and assess its performance, it systematically measures the quality of customer relationships.

Providing customers with the best possible service and ensuring excellent customer relations are at the heart of Banque Palatine's quality commitments. Its motto – "The art of banking" – conveys a novel approach based on listening to customers, optimising processes and motivating all staff to serve end-customers.

For Banque Palatine, listening to customers is central to its approach. It talks to its customers – both individuals and businesses – as often as possible, to find out their requirements and to improve perceived service. This approach also helps the Bank provide a tailored service and establish close ties with all its customers.

Mystery branch visits and calls are regularly carried out to evaluate the quality of service offered to customers.

All these efforts to listen to customers are used to build improvement plans in each market and business line. Banque Palatine establishes best practice, which it then disseminates within its organisation.

Like any service company, the Bank must have full control over its production processes (lending, electronic publishing, payment instruments, IT and internet services etc.) and develop them in line with customer expectations.

In 2014, the Bank carried out:

- one survey of private banking customers and one survey of business customers;
- one relationship initiation survey per six-month period in 2013, i.e. two surveys per market;
- six surveys for specialised businesses: real estate, trading floor, private banking, regulated real-estate professionals, international and PAM (industry survey);
- two surveys for large corporate customers and media/audiovisual customers.

In 2013:

- 96.6% of new client businesses were "satisfied overall" with their relationship with Banque Palatine;
- 92.5% of new individual customers were "satisfied overall" with their relationship with Banque Palatine.

Indicators	2014	2013
New client businesses satisfied overall	96.2%	96.6%
New individual customers satisfied overall	95.6%	92.5%

Satisfaction of trading floor customers	100%	100%
Satisfaction of large corporate customers	98.2%	-
Satisfaction of media/audiovisual customers	100%	-

Banque Palatine's quality approach and its supervision comply with the international EFQM excellence model.

Banking products and services

Banque Palatine has an approval procedure for new banking and financial products and services aimed at its customers. In particular, the procedure aims to ensure that the risks associated with marketing products to customers are adequately managed. It does this by ensuring that all relevant regulatory requirements are taken into account in a product’s design, promotional literature and sale.

It draws on the various areas of expertise within the Bank (including in particular legal, finance, risk, information systems and compliance). Together, the contributions of these experts are used to validate each product before it is brought to market.

Customer disability policy

Banque Palatine has taken steps to facilitate access to banking services for persons with disabilities, and 82% of its branches are now accessible. However, it should be noted that in an accessible branch, not all parts of the premises are necessarily accessible.

	2014			2013		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of branches/sales outlets/business centres	51	1	1	51	1	1
Total floorspace of the entity's buildings (m^2)	29,324	408	10	28,694	408	10
Total floorspace of the entity's administrative buildings (head office) (m^2)	11,518	408	10	12,494	408	10
Total floorspace of the entity's branches and business centres (m^2)	17,805	nr	nr	16,200	nr	nr
Number of branches accessible to persons of reduced mobility	41	nr	nr	41	nr	nr
Proportion of the entity's branches accessible to persons of reduced mobility	82%	nr	nr	82%	nr	nr
Number of accessible branches (Disability Act of 2005)	82%	nr	nr	82%	nr	nr

1.4 Conclusion

Banque Palatine's motto "The art of banking" conveys its demanding and ambitious definition of the banking profession, and the Bank is strongly committed to:

- being a bank that does not just provide financing but that is a genuine partner, providing day-to-day support for its business and individual customers;
- maintaining personal, long-term, unique relationships with customers and all stakeholders;
- being a responsible and proactive bank in terms of its environmental, workforce-related and social actions and its provision of banking services to the real economy.

Banque Palatine group's CSR reporting methodology

The information presented in this report is the result of collective efforts by Banque Palatine's various divisions (human resources, general resources, compliance and permanent controls, operational risks, corporate secretariat and communication). Those efforts have resulted in CSR indicators that are relevant to the activities, specific features and aims of the Banque Palatine group.

The information published reflects the Banque Palatine group's desire to achieve transparency and describe objectively its most relevant actions – those undertaken in the past as well as new ones – which show its ongoing commitment to CSR.

Reporting period

The published data covers the period from 1 January 2014 to 31 December 2014.

Reporting scope

In 2014, the CSR reporting scope included Banque Palatine and its wholly owned subsidiaries Palatine Asset Management and Ariès Assurances.

Details on workforce-related data

- Headcount figures at 31 December 2014 represent a snapshot at that date of the number of people with an employment contract or a corporate office at each entity (permanent contract, fixed-term contract, professional development contract, apprenticeship or suspended contract). They include people departing on 31 December 2014 and those whose contract has been suspended. Fixed-term contracts include fixed-term work-study contracts (professional development contracts and apprenticeships).
- Hires include external hires and people moving from fixed-term contracts/apprenticeships/professional development contracts to permanent contracts. People moving from fixed-term to permanent contracts are recorded as a departure from the fixed-term category and a new hire in the permanent category. If a person goes from one fixed-term contract to another with no break, only the first is recorded as a hire.
- Departure data take into account people on permanent contracts leaving between 1 January and 31 December 2014 for any reason. Details are given for the following reasons of departure: resignation, termination, transfer within the group, retirement, voluntary redundancy, end of probation period and other reasons.
- When calculating the mean average basic salary for people on permanent contracts, the theoretical gross annual salary is taken into account. Variable remuneration is not taken into account in the calculation. The headcount figure used is the number of people on permanent contracts at 31 December.
- Types of absence used to calculate the indicator are: illness (including long-term illnesses but excluding absences for invalidity), maternity, paternity, workplace accidents, travel accidents, authorised leave (family events, compensatory rest, leave for people aged over 55) and exceptionally authorised absences (recuperation).
- Training: Training includes courses that qualify and do not qualify for OPCA funding, use of DIF individual training rights, e-learning and time spent within the company as part of professional development contracts. For e-learning, the amount of time spent connected to the training system is taken into account. The figure includes training undertaken both during and outside working hours.

Details on environmental data

- Paper consumption: data were obtained by extrapolating consumption figures at end-September 2014. Almost all paper consumed is in A4 format.
- Gas consumption is estimated on the basis of cost and the average price per kWh.
- Energy consumption excludes consumption via district heating/cooling for the two central buildings, which account for 44% of the group's floorspace. Only those two buildings use that kind of energy.
- In 2014, fuel consumption was extrapolated for the month of December.
- Currently, given the company's business (lending, asset management, financial services), adjustments for climate change are not regarded as a relevant theme.

2 Five-year financial summary

Article R. 225-102 of the French Commercial Code

(in thousands of euros)	2010	2011	2012	2013	2014
• **SHARE CAPITAL AT YEAR-END**					
Share capital	538,803	538,803	538,803	538,803	538,803
Number of shares(1)	26,940	26,940	26,940	26,940	26,940
• **OPERATIONS AND RESULTS FOR THE YEAR**					
• Revenues	451,217	496,657	505,969	471,678	498,169
Income before tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	128,363	127,812	125,413	120,618	133,810
Income taxes	(8,241)	(22,526)	(16,100)	(18,706)	(21,864)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	53,002	57,186	46,036	37,729	53,505
• Dividend payments(2)	34,214	18,319	19,936	19,396	39,602
• **EARNINGS PER SHARE (€)**					
Revenues	16.75	18.44	18.78	17.51	18.49
Income after tax, employee profit-sharing, but before depreciation, amortisation, and impairment and provisions	4.23	2.03	3.86	3.63	3.93
Income taxes	(0.31)	(0.84)	(0.60)	(0.69)	(0.81)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	1.97	2.12	1.71	1.40	1.99
Dividend per share(2)	1.27	0.68	0.74	0.72	1.47
• **EMPLOYEE DATA**					
Average headcount	1,222	1,209	1,195	1,185	1,193
o/w managerial	746	755	769	758	770
o/w non-managerial	*476*	*454*	*426*	*427*	*423*
Total payroll	58,609	65,396	61,188	62,822	64,478
Amount of employee benefits during the period	36,983	27,072	32,304	30,936	32,474

(1) Earnings per share are calculated based on the number of shares outstanding at the date of the Annual General Meeting.
(2) Subject to approval by the Annual General Meeting.

3 Terms in office and duties held by corporate officers

Article L. 225-102-1 para. 3 of the French Commercial Code

Pierre-Yves Dréan	
DoB: 31 January 1960 **Term in office: 14 February 2014-14 February 2019**	• Banque Palatine: chief executive officer with effect from 14 February 2014 • Palatine Asset Management: chairman of the supervisory board and chairman of the remuneration committee • CEGC: director • OCBF: Banque Palatine's permanent representative • Palatine Étoile 9: Banque Palatine's permanent representative **Previous appointments**: • Banque Palatine: chairman of the management board until 14 February 2014 • CE Capital: Banque Palatine's permanent representative

Thierry Zaragoza	
DoB: 9 January 1961 **Term in office: 14 February 2014-14 February 2019**	• Banque Palatine: executive vice-president and effective manager with effect from 14 February 2014: • Ariès Assurances: chairman of the supervisory committee • GIE Caisse d'Épargne Syndication Risque: Banque Palatine's permanent representative, member of the supervisory board • Palatine Asset Management: vice-chairman of the supervisory board, chairman of the audit committee, member of the remuneration committee • Societe Foncière d'Investissement: chairman **Previous appointments**: • Banque Palatine: member of the management board until 14 February 2014 • Uni Étoile 7: director

Jean-Marc Ribes	
DoB: 14 September 1963 **Term in office: 1 December 2012-28 July 2014**	• Banque Palatine: executive vice-president until 28 July 2014 • Palatine Asset Management: member of the supervisory board, member of the remuneration committee until 28 July 2014 • Unigestion: director until 28 July 2014 • Uni-MT: non-voting director until 28 July 2014 **Previous appointment:** • Banque Palatine: member of the management board until 14 February 2014

Jean-Yves Forel	
DoB: 17 May 1961 **Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016**	• BPCE: chief executive officer, member of the management board in charge of commercial banking and insurance • Banque Palatine: chairman of the board of directors, chairman of the remuneration committee with effect from 14 February 2014 • Crédit Foncier de France: director • BPCE International et Outre Mer: chairman of the board of directors • CNP Assurances: director • Sopassure: chairman and chief executive officer • Écureuil Vie Développement: BPCE's permanent representative, director • Natixis Algérie: chairman and chief executive officer • Natixis Coficine: director • Media Consulting & Investment: director • Partécis: director **Previous appointment:** • Banque Palatine: chairman of the supervisory board until 14 February 2014

Marguerite Bérard-Andrieu	
DoB: 31 December 1977 **Permanent representative with effect from 14 February 2014**	• BPCE: executive vice-president in charge of strategy, legal affairs, corporate secretariat and compliance – general management committee. • Banque Palatine: BPCE’s permanent representative with effect from 14 February 2014 • BPCE IOM: director • Coface: BPCE’s permanent representative, director • Issoria: chairman of the SAS and chairman of the board of directors since 30 June 2014 • Issoria International Trading: chairman of the SAS • Maison France Confort: director • Natixis Coficine: director • Nexity: CE Holding Promotion’s permanent representative, director • S-Money: chairman and chairman of the board of directors **Previous appointment:** • Banque Palatine: BPCE’s permanent representative, member of the supervisory board until 14 February 2014

BPCE	
Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016	• Banque Palatine: director • Actif Immo Exploitation: director • Albiant-IT: director • Alliance Entreprise: member of the management committee • Alpha Demeter: director • Andromède: chairman • Anubis: manager • Arses: manager • Association des BP pour la Création: director • Assurances BP IARD: director • Axeltis: director • Banque des Antilles Françaises: director • Banque Privée 1818: director • Banques Populaires Covered Bonds: member of the supervisory board • Basak 1: chairman • Béhanzin: chairman • BP Création: chairman • BPCE Assurances: director • BPCE Services: director • BPCE SFH: director • BPCE Trade: director • Cape 1158 GIE: director • Cape 1159 GIE: director • Cassiopée: chairman • CB Investissement: director • CE Holding Promotion: director • Cephée: chairman • Ciloger: member of the supervisory board • Ciloger Habitat: member of the supervisory board • Ciloger Habitat 2: member of the supervisory board • Ciloger Habitat 3: member of the supervisory board • Cirra: director • Click and Trust: director • Climène: chairman • Coface: director • Cofimage 16: director • Cofimage 17: director • Cofimage 18: director • Cofimage 22: director • Cofimage 23: director • Cofimage 24: director • Cofimage 25: director • Compagnie de Financement Foncier SCF: director • Crédit Foncier de France: director • Crédit Logement: director • Caisse de Refinancement de l'Habitat: director • Delphos: chairman • Drennec GIE: director • DV Holding: member of the supervisory board • Écureuil Crédit : director • France Active Garantie: director • Fongépar: director • FLCP: member of the supervisory board • GCE Covered Bonds: director • CE Syndication Risque: chairman of the supervisory board • Écolocale: director • Écureuil Vie Développement: director • GCE Mobiliz: director • GCE ODE 007: director

BPCE	
	• GCE Participations: chairman • Habitat en Région Services: director • Horus: chairman • Houni: chairman • Ides Investissements: director • I-BP: director • Ingépar: director • IT-CE: chairman of the supervisory board • Isis: chairman • Issoria: chairman • Issoria International Trading: chairman • LBPAM Obli Revenus SICAV: director • Les Éditions de l'Épargne: director • Le Livret Bourse Investissement SICAV: director • Le Livret Portefeuille SICAV: director • Lotus 1: chairman • Madiba: chairman • Menes: manager • Menelik: chairman • Mihos: chairman • MFC: director • Muge 2: chairman • Muge 3: chairman • Muracef: director • Natixis: director • Natixis Altair IT Shared Services: director • Natixis Assurances: director • Natixis Consumer Finance: director • Natixis Euro Aggregate SICAV: director • Natixis Financement: director • Natixis Global Asset Management: director • Natixis Impact Nord-Sud Développement SICAV: director • Natixis Interépargne: director • Natixis Lease: director • Natixis Paiements: director • Nefer: chairman • Norscut: director • Osiris: chairman • Panda 1: chairman • Panda 2: chairman • Panda 3: chairman • Panda 4: chairman • Panda 5: chairman • Panda 6: chairman • Panda 7: chairman • Panda 8: chairman • Panda 9: chairman • Panda 10: chairman • Perle 1: chairman • Perle 2: chairman • Perle 3: chairman • Perle 4: chairman • Petrel 1: manager • Petrel 2: manager • Ramses: chairman • Salitis: chairman • Satis: chairman • SEA 1 GIE: director • Sedar: chairman • SE Map: member of the supervisory board

BPCE

- Sepamail EU: director
- SER2S: member of the supervisory board
- Seth: chairman
- SGFGAS: director
- Siamon: chairman
- Sifa: director
- Socram Banque: director
- STET: member of the supervisory board
- Surassur: director
- Tadorne Aviation GIE: director
- Tafari: chairman
- T2S Africa: director
- T2S MED: director
- T2S Outre-Mer: director
- T2S Pacifique: director
- TEOS: chairman
- Tevea International: director
- Trévignon GIE: director
- Turbo SA: director
- Vigéo: director
- Visa Europe Ltd: director

Previous appointment:

- Banque Palatine: member of the supervisory board until 14 February 2014

Max Bézard

DoB: 5 March 1965

Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016

- BPCE: head of group management control
- Banque Palatine: director, member of the audit committee
- BPCE IOM: member of the supervisory board

Previous appointment:

- Banque Palatine: member of the supervisory board until 14 February 2014

Jean-Charles Boulanger

DoB: 1 June 1947

Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016

- Caisse d'Épargne Aquitaine Poitou-Charentes: chairman of the steering and supervisory board, member of the audit committee, member of the CSR strategy committee, chairman of the remuneration and selection committee
- Banque Palatine: director, chairman of the audit committee
- FNCE: director
- Natixis Interépargne: director
- Natixis Intertitres: director
- Société Locale d'Épargne La Rochelle-Rochefort-Royan (local savings company): chairman

Previous appointment:

- Banque Palatine: member of the supervisory board until 14 February 2014

Maurice Bourrigaud

DoB: 21 January 1958

Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016

- Caisse d'Épargne Auvergne Limousin (CEPAL): chairman of the management board
- Banque Palatine: director, member of the audit committee
- Agathe: chairman
- Écureuil Crédit: CEPAL's permanent representative, member of the supervisory board
- FNCE: director
- Fondation pour l'Art, la Culture et l'Histoire: director
- IT-CE: CEPAL's permanent representative, member of the supervisory board
- Muracef: CEPAL's permanent representative, member of the supervisory board
- Natixis Lease: director

Previous appointments:

- Banque Palatine: member of the supervisory board until 14 February 2014
- Natixis Assurances Partenaires: director

Yves Breu	
DoB: 3 April 1950	• Banque Populaire de l'Ouest: chief executive officer • Banque Palatine: director • Atea Voyages: chairman • Banque Privée 1818: director • Fédération Bancaire Française: vice-president of the Brittany regional committee • Fédération Nationale des Banques Populaires: Secretary • Fondation d'Entreprise Banque Populaire: director • I-BP: director • Ingénierie et Développement: chairman • SA Montgermont 1: director • Orchestre Symphonique de Bretagne: director • Ouest Logistique Voyages: chairman • Ouest Transaction: director • Ouest Croissance Gestion: member of the supervisory board • Sociétariat BPO: chairman • Union des Entreprises pour l'Ille et Vilaine: member of the executive committee • Union des Entreprises - Medef Bretagne: member • University of Rennes 1: director • IGR-IAE Rennes: director **Previous appointment:** • Banque Palatine: member of the supervisory board until 14 February 2014
Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016	

Jean-Claude Cette	
DoB: 2 January 1942	• Natixis Factor: director **Previous appointments**: • Banque Palatine: member of the supervisory board until 14 February 2014 • Banque Palatine: director until 15 April 2014 • Caisse d'Épargne Provence-Alpes-Corse: chairman of the steering and supervisory board until 29 April 2014 • Fédération Nationale des Caisses d'Épargne: member of the office • Société Locale d'Épargne Aix-Perthuis (local savings company): chairman
Term in office from 14 February 2014 to 15 April 2014	

Gonzague de Villèle	
DoB: 23 January 1953	• Banque Populaire Val de France: chief executive officer • Banque Palatine: director • Banque Privée 1818: director • Banque Tuniso-Koweitienne: BPCE IOM's permanent representative, director • FNBP: vice-chairman • I-BP: Banque Populaire Val de France's permanent representative, director • Ouest Croissance Gestion: Banque Populaire Val de France's permanent representative, member of the supervisory board • Patrimoine et Commerce: member of the supervisory board • Val de France Transactions: chairman **Previous appointment:** • Banque Palatine: member of the supervisory board until 14 February 2014
Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016	

Jean-Pierre Gabriel	
DoB: 14 August 1946	• Caisse d'Épargne Bourgogne Franche Comté (CEBFC): chairman of the steering and supervisory board, member of the audit committee, member of the CSR strategy committee, chairman of the remuneration and selection committee • Banque Palatine: director • Fédération Nationale des Banques Populaires: CEBFC's permanent representative • Hotel Tremplin: director • Le Renouveau: vice-chairman of the board of directors • Natixis Lease: director • Slowfood: director • Societe Locale d'Épargne Sud Côte d'Or (local savings company): chairman of the board **Previous appointment:** • Banque Palatine: member of the supervisory board until 14 February 2014
Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016	

Michel Grass

DoB: 12 November 1957

Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016

- Banque Populaire Bourgogne Franche-Comté: chairman
- Banque Palatine: director
- Yonne Chamber of Commerce and Industry: tenured member
- Fédération Nationale des Banques Populaires: vice-chairman
- Natixis Global Asset Management: director
- Natixis: director
- City of Sens: deputy mayor
- Le Sénonais commune: vice-president of the community

Previous appointment:

- Banque Palatine: member of the supervisory board until 14 February 2014

Pascal Marchetti

DoB: 13 June 1964

Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016

- Banque Populaire des Alpes: chief executive officer
- Banque Palatine: director, member of the audit committee
- Banque de Savoie: Banque Populaire des Alpes' permanent representative, vice-chairman and audit committee member
- Coface: director, member of the audit committee
- La Compagnie des Alpes: Banque Populaire des Alpes' permanent representative, member of the board of directors
- I-BP: Banque Populaire des Alpes' permanent representative, director, member of the audit and risk committee
- Priam Banque Populaire: Banque Populaire des Alpes' permanent representative, director
- Naxicap Partners: member of the supervisory board
- Innovafonds: member of the steering and supervisory board

Previous appointment:

- Banque Palatine: member of the supervisory board until 14 February 2014

Benoît Mercier

DoB: 4 February 1953

Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016

- Caisse d'Épargne Lorraine Champagne-Ardenne (CELCA): chairman of the management board
- Banque Palatine: director
- Association de Préfiguration du Centre des Congrès de Metz Métropole: CELCA's permanent representative, director
- Albian-IT: director, member of the office, of the economic committee and of the remuneration committee
- Banque BCP Luxembourg: director
- BPCE Domaines: CELCA's permanent representative, director
- BPI – regional committee for Lorraine: CELCA's representative, qualified personality
- CEFCL: manager representing CELCA
- CEGC: director
- FBF – FBF Lorraine's regional committee: chairman
- Fédération Nationale des Caisses d'Épargne: member of the office and director
- Fondation Caisse d'Épargne pour la Solidarité: vice-chairman
- Fonds de Dotation de l'École d'Enseignement Supérieur ICN: chairman of the board of directors, CELCA's representative
- GIE BPCE Achats: chairman
- GIE IT-CE: CELCA's permanent representative, member of the supervisory board,
- Habitat en Région: CELCA's permanent representative, director
- Livret Bourse Investissement: BPCE's permanent representative, director

Previous appointment:

- Banque Palatine: member of the supervisory board until 14 February 2014

Bernard Niglio

DoB: 10 August 1949

Term in office: from 29 July 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016

- Caisse d'Épargne Provence-Alpes-Corse: chairman of the steering and supervisory board
- Banque Palatine: director, member of the remuneration committee
- Association Andrh: national director
- FNCE: office member
- IMF Créasol: director
- Natixis Factor: director
- OP Istres: director
- PFIL OEBI Martigues: director
- Société Locale d'Épargne Provence Ouest (local savings company): chairman

Raymond Oliger	
DoB: 3 September 1945 **Term in office: from 14 February 2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31 December 2016**	• Banque Populaire Lorraine Champagne: chairman of the board of directors • Banque Palatine: director, member of the remuneration committee • Fédération Nationale des Banques Populaires: chairman of the board of directors • Natixis Asset Management: director • Confédération Internationale des Banques Populaires: vice-chairman • BCP Luxembourg: vice-chairman **Previous appointments**: • Banque Palatine: member of the supervisory board until 14 February 2014 • BPCE: Non-voting director

Michelle Barbotin	
DoB: 7 June 1953 **Supervisory board meeting of 14 February 2014**	• Banque Palatine: member of the supervisory board representing employees

Brigitte Briffard	
DoB: 29 December 1958 **Term in office: from 14 May 2014 until the employee elections to be held in 2017**	• Banque Palatine: director representing employees

Matthieu Godefroy	
DoB: 3 July 1979 **Term in office: from 14 May 2014 until the employee elections to be held in 2017**	• Banque Palatine: director representing employees

Murielle Guempik	
DoB: 22 April 1964 **Term in office from 16 May 2012 to 23 January 2014**	• Banque Palatine: member of the supervisory board representing employees

Hervé Le Sage	
DoB: 3 December 1962 **Term in office from 16 May 2012 to 27 January 2014**	• Banque Palatine: member of the supervisory board representing employees

4 Remuneration and benefits awarded to Banque Palatine's senior executives and corporate officers

Article L. 225-102-1 of the French Commercial Code

(a) Amounts due in respect of 2013: all remuneration due on a pro rata basis in respect of duties performed in 2013, regardless of the date of payment.
(b) Amounts paid in 2013: all remuneration actually paid and received in 2013 (due in 2012 and paid in 2013 + due in 2013 and paid in 2013) in respect of duties performed during the period.
(c) Amounts due in respect of 2014: all remuneration due on a pro rata basis in respect of duties performed in 2014, regardless of the date of payment.
(b) Amounts paid in 2014: all remuneration actually paid and received in 2014 (due in 2013 and paid in 2014 + due in 2014 and paid in 2014) in respect of duties performed during the period.
n/a: not applicable.
n/r: not relevant.

Senior executives

	Amounts in respect of 2014		**Amounts in respect of 2013**	
Pierre-Yves Dréan	**Due[c]**	**Paid[d]**	**Due[a]**	**Paid[b]**
Fixed remuneration	€290,000	€290,000	€290,000	€290,000
Variable remuneration	€223,532	€111,766	€223,299**	€111,650***
Exceptional remuneration				
Directors' fees	€17,000	€17,000	€17,000	€17,000
Housing allowance	€40,000	€40,000	€40,000	€40,000
Benefits in kind	-	€16,942	-	€17,123

*** BP's and BPCE's 2013 variable element.*
**** 50% of 2013 variable element.*

	Amounts in respect of 2014		**Amounts in respect of 2013**	
Thierry Zaragoza	**Due[c]**	**Paid[d]**	**Due[a]**	**Paid[b]**
Fixed remuneration	€190,000	€190,000	€190,000	€190,000
Variable remuneration	€98,482	€81,895	€95,000	€81,720
Exceptional remuneration		€16,587		€13,280
Contractual bonus		€15,000		
Directors' fees	€6,750	€6,750	€6,000	€12,000
Benefits in kind		€10,228		€9,245

	Amounts in respect of 2014*		**Amounts in respect of 2013**	
Jean-Marc Ribes	**Due[c]**	**Paid[d]**	**Due[a]**	**Paid[b]**
Fixed remuneration	€117,854	€117,854	€190,000	€190,000
Variable remuneration	€53,788	€37,640	€95,000	€81,720
Exceptional remuneration		€16,148		€13,280
Directors' fees			€4,000	€8,000
Benefits in kind		€2,023		€3,468

** From 1 January 2014 to 28 July 2014.*

Table 4 – Stock options awarded to executive directors during the 2014 financial year

Names of executive directors	Date of grant	Type of options	Value of options	Number of options awarded	Exercise price	Exercise period
No stock options were awarded during the 2014 financial year.						

Table 5 – Stock options exercised by executive directors during the 2014 financial year

Names of executive directors	Nbr and date of the plan	Number of options exercised during the year	Exercise price
No stock options were exercised during the 2014 financial year.			

Table 6 – Performance shares awarded to executive directors during the 2014 financial year (bonus shares associated with performance criteria)

Performance shares awarded by the annual general meeting	Number and date of plan	Number of shares awarded	Value of shares	Number of options awarded	Vesting date	Date of availability	Performance conditions
No performance shares were awarded to executive directors during the 2014 financial year							

Table 7 – Performance shares available for executive directors during the 2014 financial year (availability of bonus shares associated with performance criteria)

Availability of performance shares	Number and date of plan	Number of shares that have become available	Vesting terms
No performance shares were available for executive directors during the 2014 financial year (no award of this type of share)			

Table 8 – Past awards of stock options and bonus shares during the 2014 financial year

Names of executive directors	Date of grant	Type of options	Number of options awarded	Adjusted subscription price	Start date for exercise of options	Expiry date
No stock options or bonus shares were granted during the 2014 financial year						

Table 9 – Stock options awarded to and exercised by the 10 employees other than directors who were awarded the most during the 2014 financial year

Name of non-director employee	Nbr and date of the plan	Number of options awarded and exercised during the 2014 financial year	Weighted average price
No stock options were awarded or exercised by Banque Palatine employees during the 2014 financial year			

Table 10 – Post-employment benefits awarded to executive directors

Names of executive directors	Start of term	End Term	Employment contract	Supplementary pension scheme	Payments or benefits due or potentially due owing to the sale or change in duties	Payments under a no-compete clause
Pierre-Yves Dréan Chairman of the management board	1 Dec. 2012	14 Feb. 2014	No	Réunica: pay-as-you-go system Allianz: defined-benefit pension	GSC: unemployment insurance for senior executives Enforced loss of office benefit	No
Chief executive officer	14 Feb. 2014	14 Feb. 2019				
Jean-Marc Ribes Member of the management board	2 Dec. 2008 1 Dec. 2012	1 Dec. 2013 30 Nov. 2017	Yes	Réunica: pay-as-you-go system	No	No
Executive vice-president	14 Feb. 2014	28 July 2014				
Thierry Zaragoza Member of the management board	2 Dec. 2008 1 Dec. 2012	1 Dec. 2013 30 Nov. 2017	Yes	Réunica: pay-as-you-go system	No	No
Executive vice-president	14 Feb. 2014	14 Feb. 2019				

Directors

	Amounts in respect of 2014		Amounts in respect of 2013	
Jean-Yves Forel	Due[(c)]	Paid[(d)]	Due[(a)]	Paid[(b)]
Fixed remuneration	€500,000	€500,000	€500,000	€500,000
Variable remuneration	€413,022***	€215,999****	€431,997*	€23,103**
Exceptional remuneration	€0	€0	€0	€0
Directors' fees*****	€0	€0	€0	€0
Benefits in kind	€4,344	€4,344	€2,899	€2,899

* *Variable element in respect of 2013, of which €215,999 was paid in 2014 and the balance deferred over three years in equal instalments of €72,000. In 2015, the amount awarded definitively will be €77,076. **Amount paid in 2013 in respect of the 2012 variable element.*

*** *Variable element in respect of 2014, of which €205,511 will be paid in 2015 and the balance deferred over three years in equal instalments of €68,837.*

**** *Amount paid in 2014 in respect of the 2013 variable element.*

*****Received by BPCE.*

	Amounts in respect of 2014		Amounts in respect of 2013	
Marguerite Bérard-Andrieu	Due[(c)]	Paid[(d)]	Due[(a)]	Paid[(b)]
Fixed remuneration	€300,000	€300,000	€300,000	€300,000
Variable remuneration	€129,599	€129,599	€91,218	€91,218
Exceptional remuneration	€0	€0	€0	€0
Incentive plan	€17,039	€17,039	€4,895	€4,895
Directors' fees*	€0	€0	€0	€0
Benefits in kind	€1,324.38	€1,324.38	€0	€0

* *Paid to BPCE.*

	Amounts in respect of 2014		Amounts in respect of 2013	
Max Bézard	Due[(c)]	Paid[(d)]	Due[(a)]	Paid[(b)]
Fixed remuneration	€250,000	€250,000	€230,000	€230,000
Variable remuneration	€111,825***	€111,825****	€79,925*	€79,925**
Exceptional remuneration	€0	€0	€0	€0
Incentive plan	€16,852	€16,852	€8,825	€8,825
Directors' fees*	€0	€0	€0	€0

Benefits in kind	€729	€729	€14	€14

* Paid to BPCE.

	Amounts in respect of 2014		Amounts in respect of 2013	
Jean-Charles Boulanger	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees	€11,000	€11,000	€9,500	€18,750
Benefits in kind	n/a	n/a	n/a	n/a

	Amounts in respect of 2014		Amounts in respect of 2013	
Maurice Bourrigaud	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees	€10,000	€10,000	€11,500	€21,500
Benefits in kind	n/a	n/a	n/a	n/a

	Amounts in respect of 2014		Amounts in respect of 2013	
Yves Breu	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees*	€0	€0	€0	€0
Benefits in kind	n/a	n/a	n/a	n/a

* Paid to Banque Populaire de l'Ouest.

	Amounts in respect of 2014*		Amounts in respect of 2013	
Jean-Claude Cette	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees	€2,500	€2,500	€7,500	€13,500
Benefits in kind	n/a	n/a	n/a	n/a

* Resigned on 15 April 2014.

	Amounts in respect of 2014		Amounts in respect of 2013	
Gonzague de Villèle	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees	€4,500	€4,500	€4,500	€10,500
Benefits in kind	n/a	n/a	n/a	n/a

	Amounts in respect of 2014		Amounts in respect of 2013*	
Jean-Pierre Gabriel	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees	€6,000	€6,000	€3,000	€3,000
Benefits in kind	n/a	n/a	n/a	n/a

* With effect from 30 August 2013.

	Amounts in respect of 2014		Amounts in respect of 2013*	
Michel Grass	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees	€6,000	€6,000	€3,000	€3,000
Benefits in kind	n/a	n/a	n/a	n/a

* *With effect from 30 August 2013.*

	Amounts in respect of 2014		Amounts in respect of 2013	
Pascal Marchetti	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees	€6,500	€6,500	€4,500	€11,500
Benefits in kind	n/a	n/a	n/a	n/a

	Amounts in respect of 2014		Amounts in respect of 2013	
Benoît Mercier	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees	€4,500	€4,500	€7,500	€13,500
Benefits in kind	n/a	n/a	n/a	n/a

	Amounts in respect of 2014*		Amounts in respect of 2013	
Bernard Niglio	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/r	n/r
Variable remuneration	n/a	n/a	n/r	n/r
Exceptional remuneration	n/a	n/a	n/r	n/r
Directors' fees*	€3,000	€3,000	n/r	n/r
Benefits in kind	n/a	n/a	n/r	n/r

* *With effect from 29 July 2014.*

	Amounts in respect of 2014		Amounts in respect of 2013	
Raymond Oliger	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/a	n/a
Directors' fees*	€11,800	€15,300	€19,414	€31,466
Benefits in kind	n/a	n/a	n/a	n/a

* *Including directors' fees paid by BPCE.*

Brigitte Briffard	Amounts in respect of 2014* Due(c)	Paid(d)	Amounts in respect of 2013 Due(a)	Paid(b)
Fixed remuneration	n/a	n/a	n/r	n/r
Variable remuneration	n/a	n/a	n/a	n/a
Exceptional remuneration	n/a	n/a	n/r	n/r
Directors' fees**	€0	€0	n/r	n/r
Benefits in kind	n/a	n/a	n/r	n/r

* *Effective 14 May 2014.*

** *Paid to the CGT.*

Murielle Guempik	Amounts in respect of 2014** Due(c)	Paid(d)	Amounts in respect of 2013 Due(a)	Paid(b)
Fixed remuneration	n/r	n/r	n/a	n/a
Variable remuneration	n/r	n/r	n/a	n/a
Exceptional remuneration	n/r	n/r	n/a	n/a
Directors' fees*	n/r	n/r	€0	€0
Benefits in kind	n/r	n/r	n/a	n/a

* *Paid to the CGT.*

** *Resigned on 23 Jan. 2014.*

Matthieu Godefroy	Amounts in respect of 2014* Due(c)	Paid(d)	Amounts in respect of 2013 Due(a)	Paid(b)
Fixed remuneration	n/a	n/a	n/r	n/r
Variable remuneration	n/a	n/a	n/r	n/r
Exceptional remuneration	n/a	n/a	n/r	n/r
Directors' fees	€4,500	€4,500	n/r	n/r
Benefits in kind	n/a	n/a	n/r	n/r

* *Effective 14 May 2014.*

Hervé Le Sage	Amounts in respect of 2014** Due(c)	Paid(d)	Amounts in respect of 2013 Due(a)	Paid(b)
Fixed remuneration	n/a	n/a	n/a	n/a
Variable remuneration	n/r	n/r	n/a	n/a
Exceptional remuneration	n/r	n/r	n/a	n/a
Directors' fees*	n/r	n/r	€0	€0
Benefits in kind	n/r	n/r	n/a	n/a

* *Paid to the CGT.*

** *Resigned on 27 Jan. 2014.*

Directors' remuneration

Directors receive fees on a pro rata basis for attending meetings of the board of directors, audit committee and remuneration committee.

The overall allocation of directors' fees is submitted to a vote at the annual general meeting and the apportionment of this allocation is decided upon by the board of directors.

With effect from 2010, directors' fees due to BPCE's corporate officers and/or employees owing to their presence at board meetings of its subsidiaries, either in a personal capacity or as BPCE's permanent representative, are paid directly to BPCE.

Directors' fees due in respect of 2012 were paid in January 2013, while those due in respect of 2013 were paid in December 2013. With effect from 2014, directors' fees due in respect of a financial year are paid in December.

Remuneration payable to the chief executive officer and the executive vice-president

Fixed remuneration

Remuneration payable to Banque Palatine's corporate officers is determined by its board of directors on the recommendation of the remuneration committee.

Aside from the chief executive officer, who is remunerated solely for his duties as a corporate officer, the executive vice-president holds corporate office and also an employment contract, and so his aggregate remuneration is made up as follows: 90% is paid under his employment contract and 10% in respect of his corporate office, benefits in kind – company car and/or housing allowance.

Arrangements for determining variable remuneration

Chief executive officer

The board of directors is responsible for determining the criteria for and size of the variable element payable to the chief executive officer on the recommendation of Banque Palatine's remuneration committee.

The variable element is determined based on a combination of attainment of objectives set for Groupe BPCE's and Banque Palatine's earnings and qualitative objectives, which are not published for confidentiality reasons.

They may be adjusted annually to reflect economic conditions and/or exceptional events occurring during the year. The size of the variable element is capped at 80% of remuneration.

With effect from 2012 (n), variable remuneration of €100,000 or above is subject to an additional control rule: 50% of the amount is paid and vests upon grant, with 50% deferred and paid in thirds no earlier than 1 October of years n+2, n+3 and n+4.

The deferred portions of variable remuneration take the form of cash indexed to an indicator representing changes in the value of Groupe BPCE. The indicator adopted is net income attributable to equity holders of the parent.

Executive vice-president

The variable element payable to the executive vice-president is capped at 50% of remuneration due under his/her employment agreement, contingent upon achievement of objectives linked to the results of Groupe BPCE and Banque Palatine and qualitative objectives set by the chief executive officer, which are not published for confidentiality reasons. Where appropriate, this variable element is reduced by the amount of any employee incentive and/or profit-sharing payments received.

Exceptional remuneration

This remuneration includes incentive payments made in 2014 in respect of 2013.

Directors' fees

In accordance with Groupe BPCE's standards, directors' fees paid by group companies may be received directly members of the companies' boards of directors and supervisory boards.

Benefits in kind

Benefit in kind - company car

Lower of 40% of the total annual cost of the vehicle rental and 12% of the vehicle's purchase cost.

Benefit in kind - housing allowance

For the chief executive officer: Assessed on a real basis.

For the executive vice-president: Flat-rate calculation based on the number of rooms and level of remuneration.

Enforced loss of office benefit

Arrangements for payment of the benefit

The enforced loss of office benefit may be paid only if the term in office was terminated (dismissal by the governing body) other than for serious misconduct or transfer within Groupe BPCE. It may not be paid if the senior executive initiates his or her own departure.

Payment of the enforced loss of office benefit causes the former director to lose any entitlement to the specific supplementary pension schemes or to the retirement benefit that he or she may otherwise have claimed.

In the event of a transfer within Groupe BPCE under an employment contract, notification of the termination of this employment contract more than 12 months after the enforced loss of office, carries a right, except in the event of gross or wilful misconduct, to payment of merely the redundancy benefit laid down in the applicable collective agreement. Conversely, should notification that this employment contract has been terminated come less than 12 months after his or her enforced loss of office, termination gives a right, except in the event of gross negligence or wilful misconduct, to payment of the enforced loss of office benefit, less any benefit paid in respect of termination of the employment contract.

Determination of the benefit

The enforced loss of office benefit is payable only if Banque Palatine generated a positive net income for accounting purposes over the most recent financial year preceding the enforced loss of the relevant corporate office.

The amount of the benefit is equal to the reference monthly remuneration x (12 months + 1 month per year of service within the group). The reference monthly remuneration used for the calculation, is equal to 1/12th of the aggregate fixed remuneration (not including any benefits in kind) paid in respect of the most recent calendar year of service and the average variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service. The remuneration used to calculate the reference remuneration consists of the amounts paid in respect of the relevant corporate office.

The amount of the benefit is capped at 24 times the reference monthly remuneration, which is earned through 12 years of service with the group.

Should at least 50% of the maximum variable element be paid during the 3 most recent years of the then current term of office (or during the term of service, supplemented by the term of any prior office in the event of reappointment), the benefit shall be paid in full.

If the amounts paid do not amount to at least 33.33% of the maximum variable element over the reference period, no benefit shall be paid. If the amounts paid range between 33.33% and 50%, the amount of the benefit is calculated on a straight-line basis, at the discretion of the company's governing body.

In any event, this benefit is paid less any benefit payable for termination of an employment contract, where applicable.

Banque Palatine's chief executive office may not claim any automatic payment of a benefit should he or she not be reappointed. However, the board of directors, acting on the advice of the remuneration committee, may decide to pay an enforced loss of office benefit, taking into consideration the circumstances of the non-renewal of the term in office and his or her past career with the group. Such non-renewal shall not be followed by retirement or by a transfer within Groupe BPCE.

Retirement benefit

Chief executive officer

If so decided by the board of directors, the chief executive officer may be granted a retirement benefit equal to no less than 6 months' and no more than 12 months' remuneration for 10 years of service, without any minimum attendance requirements with the group.

Arrangements for payment of the benefit

Payment of the retirement benefit is subject to the same conditions as those applicable to the enforced loss of office benefit, i.e., it is contingent on Banque Palatine posting a positive net income in the financial year immediately preceding termination of the corporate office, and on a minimum variable element rate during the three most recent years of the current term of corporate office.

The retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine corporate officer when the claim is made.

Should the enforced loss of office benefit or non-renewal of office benefit be paid upon non-renewal of a corporate office, the executive director loses any entitlement to the defined-benefit pension plan that he or she may claim and may not benefit from any retirement benefit.

Determination of the benefit

The reference monthly remuneration used for the calculation, is equal to 1/12th of the aggregate fixed remuneration (not including any benefits in kind) paid in respect of the most recent calendar year of service and the average variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service.

The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office. The amount of the benefit is then equal to the reference monthly remuneration x (6 + 0.6y), where y is the number, and where appropriate a fractional number, of years of service within the relevant scope.

It is capped at 12 times the reference monthly remuneration, which is earned through 10 years of service with the group. In any event, this benefit is paid less any retirement benefit paid under an employment contract.

The benefit is excluded from the base used to calculate the annuities due under the defined-benefit pension plans of which the director is a beneficiary.

Executive vice-president

An executive vice-president holding both an employment contract and corporate office qualifies for a retirement benefit under the same terms and conditions as Banque Palatine's employees. This applies to Thierry Zaragoza.

Arrangements for payment of the benefit

The retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine employee when the claim is made.

Determination of the benefit

The reference salary used to calculate the benefit is 1/12th of the beneficiary's most recent annual full-time salary, including any 13th month payment.

The amount of the retirement benefit may be up to 8.4 months of the reference salary depending on his or her length of service with the group.

Supplementary pension plans

Banque Palatine's chief executive officer and executive vice-president are eligible subject to the same conditions as Banque Palatine's employees for the defined-benefit pension plan applicable to unclassified executives (Réunica). This plan is funded through a 10% contribution (7.5% at Banque Palatine's expense and 2.5% at the expense of the chief executive officer and executive vice-president) on remuneration falling within tranches A and B.

At its meeting on 14 February 2014, the board of directors authorised the chief executive officer to retain the benefit of the "Pension Guarantee" pension scheme, plus the "Spouse Annuity" cover should he die prior to his retirement, with this scheme being applicable to former Groupe Banque Populaire senior executives.

At its meeting on 29 July 2014, the board of directors duly noted the close with effect from 1 July 2014 of the "Pension Guarantee for Banques Populaires chief executive officers" differential supplementary defined-benefit pension plan, the close with effect from 1 July 2014 of the "complementary defined-benefit pension plan" supplementary pension for which Caisses d'Épargne management board chairmen were eligible, and the introduction with effect from 1 July 2014 of a single complementary "Groupe BPCE senior executives pension plan", covered by Article L. 317.11 of the French Social Security Code and its rules of procedure, the main aspects of which are as follows:

To be eligible for this pension plan, now closed to new members, the beneficiary must meet all of the criteria listed below on the day of their departure:

- they must end their professional career with Groupe BPCE. This condition is met when beneficiaries are Group employees on the day before the claim of their pension rights under the social security pension plan following voluntary retirement;
- they must prove they have served as an executive director for a period at least the required minimum (seven years) upon the claim of their pension rights under the social security pension plan.

Beneficiaries meeting the above conditions are entitled to an annuity payment equal to 15% of their reference remuneration equal to the average of their annual remuneration in the three highest-paid years in the five calendar years preceding the date of claim of their pension rights under the social security pension plan.

Annual remuneration means the total of the following types of remuneration awarded in respect of the year in question:

- fixed remuneration, excluding benefits in kind or bonuses related to duties;
- variable remuneration – not exceeding 100% of fixed remuneration – and defined as the total variable amount paid, including any portion deferred over several years and subject to attendance and performance requirements in respect of the regulations on variable remuneration in credit institutions.

The annuity is capped at four times the annual social security ceiling.

Once claimed, 60% of this supplementary pension may be paid to the beneficiary's spouse or former spouse from whom they are divorced unless the former spouse has remarried.

This plan funded entirely at the group's expense is covered by two insurance policies arranged with Quatrem and Allianz insurance companies.

The supplementary pension plans covered by Article 137−11 of the French Social Security Code in force at the group are managed pursuant to section 23.2.6 of the AFEP-MEDEF Code in the revised version it published in June 2013. They are compliant with the principles set out governing beneficiaries' status, the overall determination of basic remuneration, length of service conditions, the progressive increase in potential rights depending on length of service, the reference period used to calculate benefits and the ban on artificially inflating remuneration.

No employment contract or suspended employment contract – Unemployment insurance

The board of directors decided that the chief executive officer may benefit from private unemployment insurance cover (GSC), with the group contributing to the cost of this cover.

Since the executive vice-president holds corporate office and an employment contract, he is covered by UNEDIC unemployment insurance.

Arrangements under which remuneration is maintained for 12 months in the event of temporary inability to work

The board of directors decided that the chief executive officer should benefit from the arrangements maintaining his or her remuneration for 12 months in the event that he or she is temporarily unable to work.

Social security protection arrangements applicable to all employees

Banque Palatine's chief executive officer and executive vice-president are eligible subject to the same terms and conditions as Banque Palatine's employees for the social security protection put in place for all employees:

- IPGM (tranches A and B) and Quatrem (tranches C and D) complementary personal protection plans, entirely funded by Banque Palatine;
- the BPCE Mutuelle plan reimbursing healthcare costs.

5 Information on payment periods

Article L. 441-6-1 of the French Commercial Code

(in euros)	2014	2013	2012	2011	2010
The closing balance of amounts outstanding to all suppliers stood at	3,261,887.59	1,082,049.08	1,780,043.57	582,277.90	854,217.28
This balance breaks down as follows:					
due in less than one month	2,517,684.05	992,600.22	1,559,760.52	193,751.21	514,761.72
due in between one month and two months	461,520.87	57,130.56	199,680.12	349,624.55	207,210.85
due in between two and three months	216,430.65	11,386.86	7,238.13	16,768.25	47,202.88
due in between three and six months	64,405.21	4,340.19	13,324.31	3,259.33	1,089.15
due in over six months	1,846.81	16,591.25	40.49	18,874.55	83,953.28

6 Appropriation of income

•	**SOURCES**	
•	Net income	€53,505,191.36
•	Retained earnings;	€101,206,416.87
TOTAL		**€154,711,608.23**
•	**APPROPRIATIONS**	
•	To the statutory reserve	€2,675,259.57
•	To dividends	€39,601,996.98
•	To retained earnings	€112,434,351.68
TOTAL		**€154,711,608.23**

6 DRAFT RESOLUTIONS

First resolution

After hearing the reports of the board of directors, of the chairman of the board of directors and of the statutory auditors on the 2014 annual financial statements, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, approves the annual financial statements showing earnings of €53,505,191.36.

Pursuant to Article 223 *quater* of the French Tax Code, the general meeting approves the expenditure and charges covered by para. 4 of Article 39 of said code, which totalled €67,826.74 and gave rise to a tax charge of €25,774.16.

Second resolution

After hearing the reports of the board of directors and of the statutory auditors on the 2014 consolidated financial statements, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, approves the consolidated financial statements showing earnings of €52.746 million.

Third resolution

The general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, approves the appropriation of earnings recorded in 2014, as proposed by the board of directors:

• Net income	€53,505,191.36
• Retained earnings	€101,206,416.87
TOTAL	**€154,711,608.23**
• To the statutory reserve	€2,675,259.57
• To dividends	€39,601,996.98
• To retained earnings	€112,434,351.68
TOTAL	**€154,711,608.23**

The dividend for the 2014 financial year will amount to €1.47 per share for each of the 26,940,134 shares with a par value of €20, with no *avoir financial* tax credit attached.

Pursuant to Article 24 of the Articles of Articles of Association, shareholders may elect to receive this dividend either in cash or in shares with a par value of €20.

The new shares will have the same characteristics and carry the same rights as those shares that gave rise to the dividend. They will carry rights to receive any dividends paid on or after 1 January 2015.

After hearing the Statutory Auditors' special report, the general meeting sets the issue price of new shares at €27.8429 (issue premium of €7.8429).

The right to receive payment of the dividend in new shares will be based on a ratio of 0.05279614 new shares for each existing one.

Shareholders will have to elect to receive the dividend in shares between 21 May and 29 May 2015. Once this period has ended, the dividend may be paid only in cash.

Where the amount of dividends to which a shareholder is entitled to receive does not correspond to a full number of shares, the shareholder may opt either to:

- receive the immediately lower full number of shares plus an equalising payment in cash;
- receive the immediately higher full number of shares by paying the difference in cash.

For shareholders who have opted to receive a payment in cash, the amounts due to them will be paid out at the end of the election period, that is on 1 June 2015.

Subscription forms will be made available to shareholders.

The general meeting gives full powers to the chief executive officer to record formally the number of shares issued and the resulting increase in capital, to amend Article 6 of the Articles of Association accordingly, to enter into any agreement, to make any arrangements required for the smooth completion of the issue and generally to take appropriate and necessary action.

Pursuant to Article 47 of law no. 65-566 of 12 July 1965, the previously appropriated amounts are shown below:

Year	Number of shares	Total dividend payment	Net dividend per share
2011	26,940,134	€18,319,291.12	€0.68*
2012	26,940,134	€19,935,699.16	€0.74*
2013	26,940,134	€19,396,896.48	€0.72*

* *Not eligible for the 40% rebate.*

Fourth resolution

After apprising itself of the special report by the statutory auditors on agreements referred to in Article L. 225-38 of the French Commercial Code, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, formally acknowledges this report and approves said agreements and the terms of said report.

Fifth resolution

In consideration of the special report by the statutory auditors prepared in accordance with Articles L. 225‑38 and L. 225-42-1 of the French Commercial Code concerning Pierre-Yves Dréan, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, ratifies the request for him to join the GSC unemployment insurance scheme. In addition, it ratifies the scheme maintaining his remuneration for 12 months in the event of a temporary inability to work and the possibility for him to benefit, based on the same terms and conditions as Banque Palatine's employees from the social protection arrangements put in place by Banque Palatine. It also ratifies the terms and conditions of the benefits due or potentially due to him in the event of the enforced loss of his office as chief executive officer, the non-renewal of his corporate office and retirement by way of a retirement benefit in force until 30 June 2014 of the defined-benefit pension plan applicable to group senior executives and the "Pension Guarantee" plus a spouse annuity applicable to senior executives of the former Groupe Banque Populaire and with effect from 1 July 2014 of Groupe BPCE's "executive directors' pension plan".

Sixth resolution

In consideration of the special report by the statutory auditors prepared in accordance with Articles L. 225-38 and L. 225-42-1 of the French Commercial Code concerning Jean-Marc Ribes, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, ratifies the possibility for him to benefit on the same terms and conditions as Banque Palatine's employees from the social protection arrangements put in place by Banque Palatine and also the terms and conditions of the benefits due or potentially due to him in the event of his retirement by way of a retirement benefit in accordance with the defined-benefit pension plan applicable to unclassified executives.

Seventh resolution

In consideration of the special report by the statutory auditors prepared in accordance with Articles L. 225‑38 and L. 225-42-1 of the French Commercial Code concerning Thierry Zaragoza, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, ratifies the possibility for him to benefit on the same terms and conditions as Banque Palatine's employees from the social protection arrangements put in place by Banque Palatine and also the terms and conditions of the benefits due or potentially due to him in the event of his retirement by way of a retirement benefit in accordance with the defined-benefit pension plan applicable to unclassified executives.

Eighth resolution

After hearing the board of directors' report, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, issues a favourable opinion on the details of the remuneration due or awarded during the financial year ended 31 December 2014 to the chief executive officer Pierre-Yves Dréan, which amounted to €598,739.

Ninth resolution

After hearing the board of directors' report, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, issues a favourable opinion on the details of the remuneration due or awarded during the financial year ended 31 December 2014 to the executive vice-president Thierry Zaragoza, which amounted to €331,725.

Tenth resolution

After hearing the board of directors' report, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, issues a favourable opinion on the details of the remuneration due or awarded during the financial year ended 31 December 2014 to the executive vice-president Jean-Marc Ribes, which amounted to €553,991.

Eleventh resolution

After hearing the board of directors' report, the general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, issues a favourable opinion on the overall allocation of remuneration of any kind paid in respect of the financial year ended 31 December 2014 to all members of staff belonging to the regulated population, which amounted to €5,406,261.

Twelfth resolution

After apprising itself of the board of directors' report and the special report of the statutory auditors and deliberating in accordance with the quorum and majority voting requirements for extraordinary general meetings pursuant to the provisions of Articles L. 225-129-2, L. 225-129-6 and L. 225-138 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code, the general meeting:

1. delegates powers to the board of directors to decide to carry out, on one or more occasions, at its sole discretion, of the size and at the times it considers appropriate, issues of shares reserved for employees (or former employees) of the company;

2. decides to remove shareholders' preferential subscription right to the shares issued by virtue of this authorisation to the company's employees;

3. sets at 26 months from the present day the period of validity of this delegation of powers and formally acknowledges that this delegation renders void any prior authorisation with the same purpose;

4. decides to set at 1% of the share capital at the present day the increase in capital that may be carried out, that is an increase in the share capital in a maximum nominal amount of €5,388,020 through the issue of 269,401 new shares;

5. decides that the price of the new shares will be set in accordance with the provisions of Article L. 3332-20 of the French Labour Code;

6. decides that the board of directors will have full powers to carry out this delegation of powers subject to the aforementioned time limits and conditions:

a) setting the number of new shares to be issued and the date from which they carry a dividend entitlement;

b) setting the issue price for the new shares, as well as the period granted to employees to exercise their rights, based on the special report of the statutory auditors;

c) setting the time limits and arrangements for paying up the new shares;

d) formally recording completion of the increase(s) in capital and amend the Articles of Association accordingly;

e) completing any transactions and/or formalities necessitated by the completion of the increase(s) in the share capital.

Thirteenth resolution

The general meeting, deliberating in accordance with the quorum and majority voting requirements for ordinary general meetings, gives full powers to the bearer of a copy or excerpt of the minutes of this general meeting to complete the publicity formalities laid down in the law.

palatine.fr

optimisersonpatrimoine.com

financersonentreprise.com

cercle-palatine-eti.fr

Twitter : @banquepalatine

BANQUE PALATINE

L'Art d'être Banquier

Rapport Financier MKG 10115C - 04/2015
Création 1re et 4e de couv : Archipels