FINANCIAL REPORT

2015

GROUPE BPCE

BANQUE PALATINE
L'Art d'être Banquier

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The English language version of this report is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in French take precedence over the translation.

2015 ANNUAL FINANCIAL REPORT

Banque Palatine is a mid-sized bank serving private customers and medium-sized companies.

Banque Palatine is one of the very few national banks to operate on a human scale. Our network of 51 branches in France offers solutions and services to some 12,500 companies and 59,000 private customers, working in synergy with specialised business lines (wealth management, corporate finance, real estate, international trade finance, dealing room and more).

Wholly owned by the BPCE Group, the Bank benefits from the strength and financial guarantees of France's second largest banking Group.

Banque Palatine establishes a true financial partnership with all of its customers, through an approach founded on well-recognised business lines, strong value-added advising, regional assistance, personalisation of relations and development of solutions adapted to each customer.

Excellence, confidence, creativity and rigour: these values are most recognised in our quality of service and the dynamism of an outstanding bank.

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STATEMENT BY THE PERSON RESPONSIBLE FOR THE FINANCIAL REPORT

Pierre-Yves Dréan, Chief Executive Officer of Banque Palatine S.A.

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, 15 April 2016

Chief Executive Officer

1 REPORTS

1 Board of Directors' management report

Economic environment

In 2015, global growth stabilised. Western economies experienced stronger growth, in contrast to the mixed performance seen in emerging market economies. Activity slowed in China, stabilised in Russia and contracted further in Brazil.

In the euro-zone, growth should be close to +1.5% in 2015, following +0.9% in 2014. The acceleration was stronger in France, Italy and Spain. Drivers included a recovery in household purchasing power and a revival of investment, particularly in Italy. Germany, meanwhile, sustained the dynamic recovery first seen in 2014, growing +1.7% in 2014 after +1.6% in 2014.

In the first half of 2015, the oil price *(Brent)* firmed up from 45 dollars to over 60 dollars. The second half, however, brought a sharp drop in the crude price, which dropped 35% in six months ending the year close to 37 dollars. This trend weighed heavily on euro-zone inflation. Weak inflation led the European Central Bank (ECB) to extend its monetary easing policy. In 2015, inflation was virtually zero and medium-term inflationary expectations remained below the ECB's 2% target. Monetary policy was eased by extending the asset purchase programme beyond its initial term (to March 2017 rather than the original end-point of September 2016). The ECB also further cut the rate paid on deposits.

In the US, a healthy labour market (with unemployment below 5.0% since October 2015) and a short-term inflationary outlook persuaded the Federal Reserve (Fed) to raise policy rates by 0.25% in December. While current inflation remains modest thanks in large part to the plunging oil price, underlying inflation is near to the Fed's target of 2%. This hike was the first since 2008 and opens the way for further increases in 2016.

The Chinese economy again showed signs of weakness in 2015. Annual average growth of the Chinese economy was close to +6.8% in 2015, the weakest since 1990. Having been very volatile in the summer, the Shanghai stock market stabilised at close to its year-start levels.

In Russia, GDP slumped sharply in the first six months of the year (by 3.6% half-on-half) in the wake of the slide in commodity prices at the end of 2014. The economic impact was exacerbated by the rouble crisis and reciprocal economic sanctions imposed by both sides in the Ukrainian crisis. By the end of the year, however, GDP was stable again.

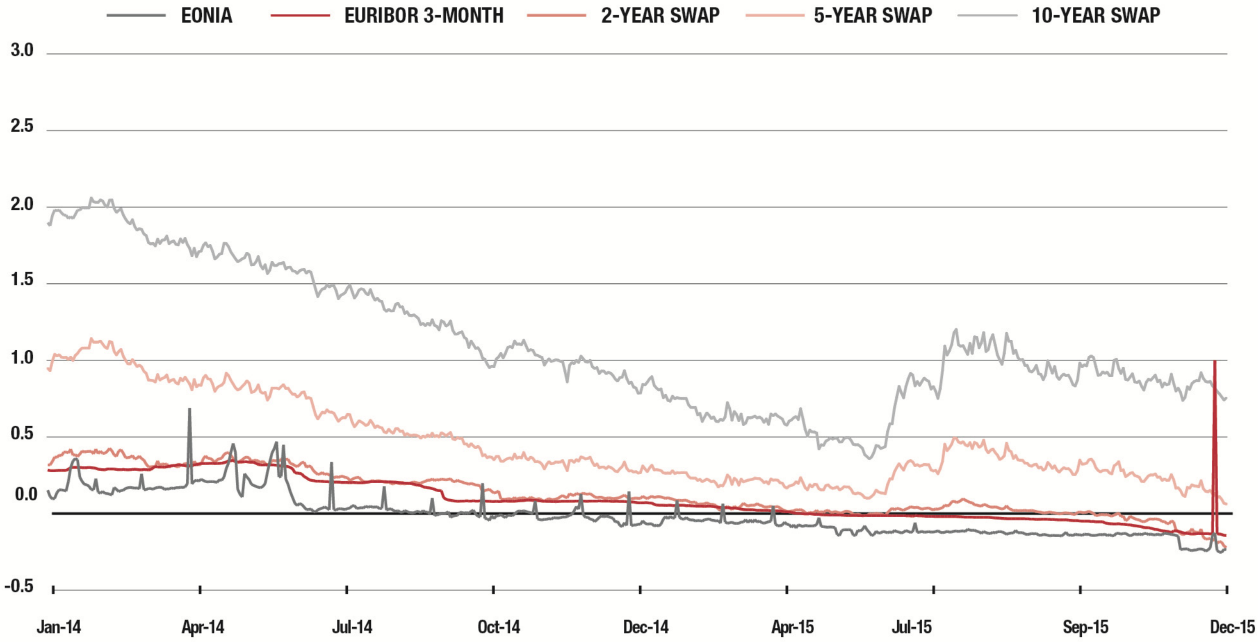
Interest rate trends

In the euro-zone, the ECB's monetary policy remained firmly expansionist with the launch of its quantitative purchase programme. The first effect of the programme was to drive down rates along the curve. By May 2015, both 5-year and 10-year swaps were at lows of 0.024% and 0.357% respectively.

Starting in the second quarter, after six unbroken years of rock bottom interest rates, the US Fed began softening up the market for monetary tightening *via* hike in policy rates. The change in Fed policy direction triggered a swift jump in swap rates, with the 10-year swap rising +50 basis points in a month. By the end of the year, the outlook for inflation and a steadily improving domestic labour market persuaded the Fed to take action, thus confirming projections.

In the euro-zone, on the other hand, inflation was still weak leading the ECB to extend its purchase programme and cut the rate paid on its deposit facility, driving money market rates deeper into negative territory so that the 3 month Euribor ended the year at -0.131%.

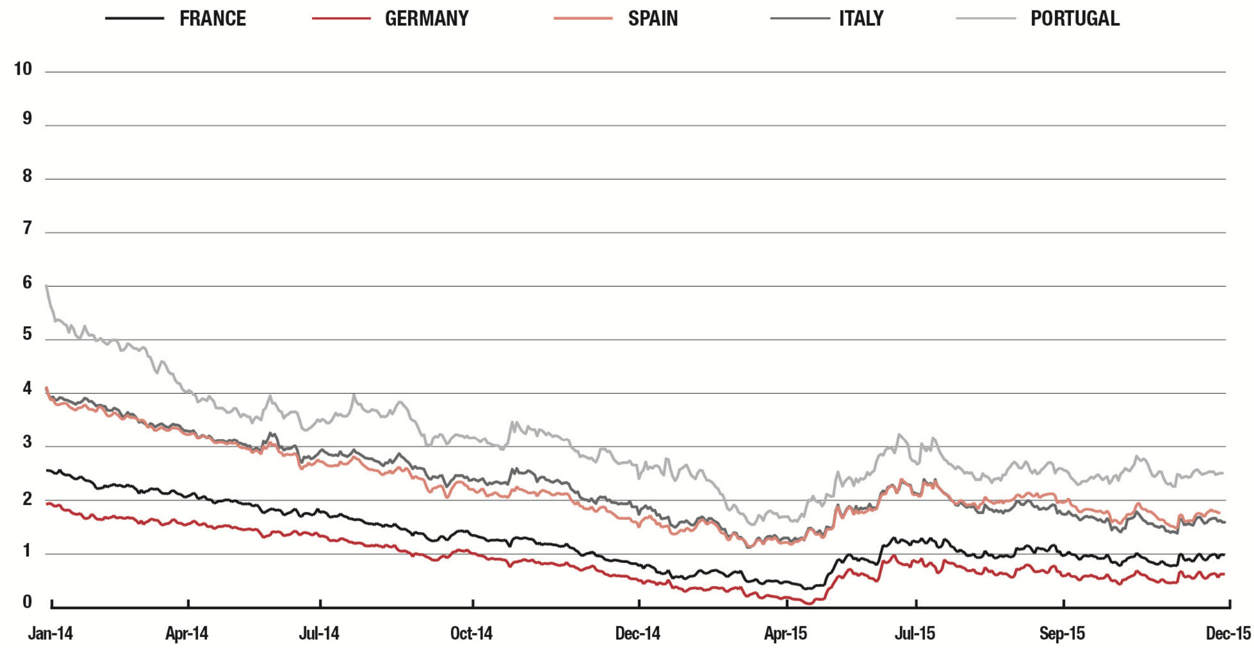
Euro interest rate trends since the beginning of 2014



In 2015, sovereign yield curves moved ever so slightly upward. The 10-year Bund had started the year yielding close to 0.53%. By year-end this had risen to 0.63%. Yields on German notes with a maturity of 5 years or less turned negative in December 2015.

Throughout the year, all euro-zone country spreads continued to tighten. The movement was due to the ECB's action in 2015, particularly its decision at the end of 2015 to push back the end-date for its quantitative easing programme *via* sovereign bond purchases.

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



Key figures

Ratings at 31 December 2015

	Moody's	Fitch Ratings
Short-term rating	P-1	F1
Long-term rating	A2	A
Outlook	Stable	Stable

Consolidated figures

Financial condition

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Equity attributable to equity holders of the parent	831.9	820.8
Tier 1 capital	694.9	726.4

Prudential ratios

	31 Dec. 2015**	31 Dec. 2014**
Core Tier One ratio	7.9%	7.9%
Tier One ratio	7.9%	8.5%
Total capital adequacy ratio	9.7%	8.8%

*** Basel III.*

Consolidated income statement

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Net banking income	325.4	318.2
Gross operating income	131.9	129.9
Net income	55.5	52.7
Cost/income ratio	59.5%	59.2%

Activities

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Total assets	17,359.3	15,721.8
Customer loans	8,317.6	7,748.9

Significant events

BPCE highlights

Highlights of the year included the disposal of non-strategic investments and the completion of the Outre-Mer strand of the "Growing Differently" strategy for 2014-2017.

Nexity

Groupe BPCE continued to sell off in 2015 blocks of shares in Nexity. It sold 20.6% of Nexity's capital in the course of the year for €413 million. This left the Group holding 12.8% of Nexity at 31 December 2015.

VBRO

Following the deal agreed on 10 December 2014, Banca Transilvania completed the sale of its 24.5% minority stake in Volksbank Romania on 7 April 2015.

Banca Carige

A 4.66% minority stake in Banca Carige was sold to Malacalza Investimenti for a total of €32.7 million leaving Groupe BPCE holding a residual 1.809% of Banca Carige's capital.

Completion of the Outre-Mer facility

In September Groupe BPCE sold all the holdings of BPCE International et Outre-mer (BPCE IOM) in Banque de la Réunion, Banque des Antilles Françaises and Banque de Saint-Pierre-et-Miquelon to the Caisse d'Epargne Provence-Alpes-Corse (CEPAC).

The deal makes it possible to refocus the Group's euro-zone Outre-Mer presence, which is now focused on its two big retail networks, Caisses d'Epargne and Banques Populaires.

Highlights of the year for Banque Palatine

Governance

At its meeting on 13 February 2015, the Board of Directors appointed Bertrand Dubus as Executive Vice-President for development, making him effective manager alongside Pierre-Yves Dréan, the Chief Executive Officer, and Thierry Zaragoza, Executive Vice-President, finance and banking production.

Pursuant to Article L. 511-89 of the French Monetary and Financial Code and Article 104 of the order of 3 November 2014, the Board of Directors, at its 20 May 2015 meeting, created a Risk Committee and an Appointments Committee to complement the existing Audit Committee and Remuneration Committee.

At the same meeting, the Board of Directors approved rules for the various Board Committees and appointed the following Directors as members of the new committees, as at 31 December 2015:

Risk Committee*	Appointments Committee
• Max BEZARD: member of the Risk Committee	• Jean-Yves FOREL: Chairman of the Appointments Committee
• Jean-Charles BOULANGER: member of the Risk Committee	• Bernard NIGLIO: member of the Appointments Committee
• Maurice BOURRIGAUD: member of the Risk Committee	• Raymond OLIGER: member of the Appointments Committee
• Jean-Yves FOREL: member of the Risk Committee	
• Pascal MARCHETTI: member of the Risk Committee	

* *The Committee Chairman had not yet been appointed at 31 December 2015.*

Banque Palatine: the leading bank for mid-sized enterprises

Banque Palatine continues to demonstrate its commitment to mid-sized companies, sponsoring more events under the aegis of the Cercle Palatine for mid-sized enterprises:

- breakfast meetings with iconic personalities including Patrick Artus, Laurent Grandguillaume and Eric Woerth;
- a meeting on international women's day with some thirty women heads of companies invited for dinner with celebrated author Diane Ducret;
- dinners with company heads in some fifteen French towns and themed dinners in Metz and Lille.

Banque Palatine also sponsored the 14th METI Grand Prix for wealth management and mid-sized companies and an exhibition by photographer Thierry Bouët entitled "Factories and People" depicting 35 mid-scale start-up firms of the French industrial scene.

Business review of 2015

Commercial banking

Corporate market

In 2015, despite a still sluggish economy in France, Banque Palatine sustained its commercial activity and stepped up its development in the mid-sized company bracket. Its activities took three main forms:

- ongoing and brisk acquisitions of new core business with sales of over €15 million, entering into 278 new relationships, an all time record and 3.3% increase on the previous year. In 5 years, the number of customers has risen from 1,394 to more than 2,161, a rise over the period of 54%;
- loans outstanding to corporate customers grew by more than 10% to €6,382 million. New lending volumes were strong across all loan categories (equipment, syndication, LBOs, short-term), reflecting a drive to support businesses with their development and their investments. During the year Banque Palatine continued to roll out new financing products: prefinancing of CICE (the competitiveness and employment tax credit) and the bond issuance range. With its full range of financing solutions, Banque Palatine continues to support the development of the French economy;
- on-balance sheet savings and deposits by companies also experienced rapid growth of close to 6% to €11,474 million.

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

- The nationwide network of Banque Palatine branches sustains the brand it has built over the years: a personalised and tailored approach that keeps it close to its customers. Its corporate business operates through 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 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 real estate investor market, made a major contribution to loan production.
- The large and institutional accounts department supported more than 150 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 function set up five years ago also enjoyed further expansion during the year. Its mission is to give customers in the industry access to the expertise of its business lines and specialised units. This means that beside offering production loans it can bring the full range of Banque Palatine's expertise to to bear on the issues faced by customers in this sector. Banque Palatine draws on its ability to bring together various players in the sector by drawing on synergies within Groupe BPCE, a long-standing financial backer of cinema and the audiovisual industries.
- Corporate finance activity was brisk, with 88 deals generating nearly €8.8 million in fee income.
- In 2015, international business lines beat the record 2014 volume of documentary credits, issuing a total volume of €1,033 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 region, in Asia and the Americas.
- The dealing room supports Banque Palatine's customers by offering an extended range of solutions:
  - hedging products based on FRAs/futures or options, enabling customers to protect against fluctuations in interest or exchange rates. To meet growing customer demand for more diverse hedging products in increasingly volatile markets Banque Palatine expanded its product range in 2015;
  - investment solutions based on plain vanilla products (CDs, medium-term notes, time deposits) and structured solutions (EMTNs). This complete line-up is designed to ensure customers have access to the solutions they need to manage both cash surpluses and restrictions.

Banque Palatine has progressively built partnerships with the specialised financing business lines of Natixis, including Natixis Lease, Natixis Factor, Natixis Garanties and the Natixis Interépargne range.

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 900 new accounts for private banking customers with over €50 thousand in assets at the start of the relationship, up 26% on the previous year.

Banque Palatine stabilised the volume of financial and on-balance sheet resources in this market, with savings totalling €4,397 million, a 2.4% increase on 2014.

Banque Palatine also supported its private banking clients by providing financing to help them realise their projects. New mortgage and personal loans grew strongly to €393 million, a 36% increase on 2014.

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

- the nationwide network of 37 branches dedicated to private customers 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, PME ISF fund investing in SMEs with wealth tax benefits, the iSelection range of tax-efficient real estate investments),
  - 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 14);
- quality of service, especially customer relationships, is another strength of Banque Palatine's private banking offering. Many training sessions were held in 2015 to provide our private banking clients with the best possible advice.

Financial activities

The 2015 financial year was marked by an increased risk of deflation. The re-emergence of this risk persuaded the ECB to adjust its monetary policy. In France, corporate loans outstanding rose after two years of weak domestic demand.

Banque Palatine invested in bonds during the first half of the year, focusing on investment grade issuers. At the end of the year, the value of the portfolio stood at close to €1.68 billion. Much of this portfolio is eligible to be posted as collateral against central bank financing and so represents a secure source of funding for Banque Palatine.

Banque Palatine maintained its targets for balance sheet management in 2015, limiting its liquidity and rate risks. By managing liquidity over the short, medium and long terms the Bank was able to keep down refinancing costs and continue to offer attractive lending terms to its customers.

Banque Palatine does not now need to rely on Groupe BPCE's guarantee of its liquidity. Its financing comes from customers, through a complete range of investment products. The ratio of loans to customer deposits stood at close to 77% at the end of 2015. The Bank therefore has a substantial customer deposit base giving it significant scope for lending to customers.

The second target is the strict control of interest-rate risk on the balance sheet. This approach allows Banque Palatine to manage changes in yields caused by interest rate movements. Careful management of its balance sheet means the Banque Palatine is well-prepared for any future changes in interest rates. The residual gap measuring global interst-rate risk is now negative, which means Banque Palatine stands to gain from any rise in rates.

Banque Palatine's financial strategy complies with regulatory ratios set by the Group. The liquidity ratio remained above 100% throughout 2015. In 2015, Banque Palatine followed a strategy of strengthening its liquidity structure to comply with the LCR targets set by Groupe BPCE. At 31 December 2015, Banque Palatine's LCR was over 100%.

Similarly, while the loan book continued to grow, the solvency ratio was sustained at high levels throughout the year, ending 2015 at 9.7%.

In December 2015, Banque Palatine issued a €150 million repayable subordinated loan, which qualifies as tier two capital under Basel III rules.

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 equity, money-market and fixed-income 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 account for more than 50% of total assets under management. Total assets under management grew by 17% over the year, boosting the Company's net income by 35%.

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.

For several years running, the flagship Uni-Hoche Sicav has achieved the top 5-year performance in Morningstar's France large-cap equity SICAV category.

Activities of the other subsidiaries

The Ariès Assurances subsidiary is specialised in the field of 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. Ariès Assurances also advises Banque Palatine customer relationship officers on setting up loan contracts and key person policies.

Changes in scope of consolidation

There were no material changes in Banque Palatine's scope of consolidation in 2015.

Consolidated and parent-company balance sheet

Consolidated balance sheet

The Bank's consolidated assets totalled €17,359 million at 31 December 2015, up €1,637 million on 2014.

The main growth in asset items was in loans and advances due from customers, up by €569 million following a strong year for new loan distribution, and loans and advances due from credit institutions, up by €797 million, mirroring the growth in liabilities.

On the liabilities side, debt securities fell by €1,959 million and amounts due to customers rose by €1,793 million, reflecting the shift in customer resources toward account deposits and away from certificates of deposit. Amounts due to credit institutions also rose by €1,502 million.

Subordinated debt rose to €191 million from €41 million at end-December 2014 following the issue of a €150 million repayable subordinated loan.

Equity increased by €11 million to €832 million, in line with the rise in consolidated retained earnings.

Parent-company balance sheet

Assets on the parent-company balance sheet at 31 December 2015 totalled €17,248 million, up €1,640 million on the level at 31 December 2014. This performance reflects the strength of loan distribution and changes in the management of interbank funding and lending.

Thus, on the asset side, loans and advances due from customers increased by €435 million and loans and advances due from credit institutions rose by €805 million.

On the liabilities side, the redirection of customer resources collected resulted in a €1,960 million fall in debt securities (certificates of deposit) and a €1,794 million rise in amounts due to customers.

Amounts due to credit institutions totalled €3,952 million, a €1,504 million increase on 31 December 2014.

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.

Subordinated debt rose by €150 million, following the issue of a repayable subordinated loan for this amount.

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

Net banking income stood at €325.4 million in 2015, up 2.3% or €7.2 million compared with 2014. Net interest income was down by €8.5 million, due in part to the €3.9 million reversal of provisions for PEL regulated home savings loans in the 2014 comparison base and in part to lower returns on assets in an adverse interest rate environment, exacerbated by renegotiations of rates on loans.

Net fee income totalled €95.6 million, up from €85.9 million in 2014. This 11.3% increase reflected remarkable business trends at both the Bank and its Palatine Asset Management subsidiary.

Net gains on financial instruments at fair value through profit or loss were up by €4.4 million thanks to plentiful business in the customer dealing room.

Finally, net income from other activities was €0.2 million, compared to a €1.5 million loss in 2014, an improvement of €1.7 million reflecting the disposal of unoccupied commercial premises.

Total operating expenses came to €193.5 million, up €5.3 million or 2.8% compared with 2014, largely reflecting trends in the Bank's costs, chiefly in external services, payroll costs and tax.

At end-2015, gross operating income therefore came to €131.9 million, up by €1.9 million (+1.5%) giving a consolidated cost/income ratio of 59.5%, compared to 59.2% in 2014.

The annual cost of risk came to €41.5 million in 2015, down €5.0 million on its 2014 level.

The share in net income of associates came to €0.5 million, unchanged on 2014, and was generated entirely by Conservateur Finance.

The change in value of goodwill (-€0.7 million) reflects impairment of goodwill in the subsidiary Ariès Assurances.

IFRS consolidated net income came to €55.5 million in 2015, up from €52.7 million in 2014, reflecting growth in the main income statement lines.

Parent-company financial statements

Net banking income was €297.9 million, a decline of €1.3 million (-0.4%) on 2014. This overall decline, however, masks a mix of increases and decreases in the various components of NBI.

Net fee income grew by €4.3 million, with lending fees growing particularly strongly. Net gains on trading book transactions were up by €4.5 million (reflecting strong activity in the customer dealing room); other net income rose by €1.8 million (disposal of vacant premises).

Conversely, net interest income and net gains on available-for-sale securities fell by, respectively, €9.3 million and €3.2 million.

Total operating expenses rose by €3.5 million to €184.7 million, a result of visible changes in payroll expenses, external services and tax.

Cost of risk stood at - €36.4 million at end-2015, down 13% compared to 2014.

Income before tax increased by €1.0 million or 1.4% to €76.4 million at end 2015.

The €3.8 million rise in tax expense reported reflects the introduction in 2015 of non-deductible taxes and contributions (SRF, TSB, etc.) and gains that were not taxable in the prior year, including the reversal of provisions for PEL risk.

On this basis, despite the growth in income before tax, net income fell by €2.8 million or 5.2% compared to 2014.

Results of the subsidiaries

Palatine Asset Management recorded net income of €12.6 million in 2015, up €3.2 million compared with 2014.

Ariès Assurances' net income totalled €0.2 million in 2015, down €0.07 million on 2014.

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 2015

At 31 December 2015, 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 2015 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 2015

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 2015, the related party agreements falling within the scope of this requirement are shown below and relate to agreements entered into by Banque Palatine and its wholly-owned subsidiary Palatine Asset Management:

- update to the additional clause on the distribution agreement between Banque Palatine and Palatine Asset Management;
- credit analysis agreement;
- investor presentation agreement.

Trading by Banque Palatine in its own shares

In 2015, 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 2015.

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
2012	26,940,134	€19,935,699.16	€0.74*
2013	26,940,134	€19,396,896.48	€0.72*
2014	26,940,134	€39,601,996.98	€1.47*

* *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 an Eexecutive Vice-President, appointed in 2015, 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.

Future outlook and expected developments

Prospects for the wider economy remain uninspiring and the regulatory environment is undergoing a profound change. In this context, Banque Palatine will continue to implement the Impulsions 2014-2017 strategic plan through an aggressive marketing strategy and a contribution from all business lines as set out in the road map.

Progress on the Impulsions strategy will accelerate in 2016 as synergies come increasingly onstream and the specialised business lines build up their contribution.

By the end of 2016, the fully implemented Impulsions projects will be helping us meet the targets for growth, modernisation and the future development of Banque Palatine.

Major initiatives concerning service levels and the Bank's overall organisation are under way to meet the needs of its core customers. Major advances in 2016 will include the optimisation of its IT backbone and the modernisation of key customer-oriented processes as it seeks to enhance its efficiency and performance. The incentivising performance-linked human resources and remuneration policy launched in 2015 will be rolled out to all Banque Palatine business lines in 2016.

Banque Palatine has been serving 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.

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 2015 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.

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 the Audit Committee and Risk Committee on 5 February 2016, then approved by the Board of Directors at its meeting on 9 February 2016.

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 remuneration.

Only certain provisions that are not relevant to Banque Palatine have been set aside, 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 points are not included: the proportion of independent members of the Board of Directors and its Committees, staggered reappointments to the Board of Directors, ownership of a significant number of Banque Palatine shares by the Directors.

The Bank has yet to achieve balanced representation of women and men on the Board of Directors and its Committees, but it has been decided and planned by the Board at its meeting of 15 December 2015, and will come into force at the general meeting in 2017 called to approve the financial statements for the year ending 31 December 2016.

The Board of Directors and its Committees have, as far as possible, one third of their members from BPCE, from the Caisse d'Epargne and Banque Populaire branch networks. This means that in order to maintain said balance mandates will not be staggered.

In addition, two 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 7.69%.

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 (balanced representation of men and women not implemented)
Employee representation	Recommendations implemented
Independent Directors	Recommendations not implemented
Board appraisal	Recommendations 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 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 and appointments

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 is elected by the managers, the other by other employees.

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

At 31 December 2015, the Board of Directors has 13 Directors who were appointed by shareholders until the end of the general meeting convened to approve the financial statements for the financial year ending on 31 December 2016 and two 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:

Directors	Age	Date of appointment	Expiry date of appointment
Jean-Yves FOREL, Chairman of the Board of Directors, member of BPCE's Management Board, Director in charge of commercial banking and insurance	54	14/02/2014	2017
Max BÉZARD, Head of Groupe BPCE strategic management control and banking activities	50	14/02/2014	2017
Jean-Charles BOULANGER, Chairman of the steering and Supervisory Board of Caisse d'Epargne Aquitaine Poitou-Charentes	68	14/02/2014	2017
Maurice BOURRIGAUD, Chief Executive Officer, Banque Populaire de l'Ouest	57	14/02/2014	2017
Brigitte BRIFFARD, elected by employees (technical staff);	57	14/05/2014	2017
Gonzague de VILLIÈLE, Chief Executive Officer of Banque Populaire Val de France	62	14/02/2014	2017
Matthieu GODEFROY, elected by employees (managerial-grade staff);	36	14/05/2014	2017
Michel GRASS, Chairman of Banque Populaire Bourgogne Franche-Comté	58	14/02/2014	2017
Pascal MARCHETTI, Chief Executive Officer of Banque Populaire des Alpes	51	14/02/2014	2017
Benoît MERCIER, Chairman of the Management Board of Caisse d'Epargne Lorraine Champagne-Ardenne	62	14/02/2014	2017
Bernard NIGLIO, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Provence-Alpes-Corse;	66	29/07/2014	2017
Raymond OLIGER, vice-Chairman of the Board of Directors of Banque Populaire Lorraine Champagne;	70	14/02/2014	2017
BPCE, represented by Marguerite BÈRARD-ANDRIEU, BPCE's Deputy Chief Executive Officer - strategy, legal affairs, corporate secretariat and compliance.	38	14/02/2014	2017

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 2015.

Changes to the Board during 2015

The Board of Directors at its meeting of 29 July 2015 accepted the resignation of Jean-Pierre Gabriel as Director with effect from 1 July 2015.

At its 15 December meeting it similarly accepted the resignation of Yves Breu as Director as from 10 December 2015.

Non-voting Directors

Pursuant to Article 19 of the Articles of Association, the ordinary general meeting can appoint up to 6 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 and employees, 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' Committees.

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, adopted at the Board of Directors' meeting of 14 February 2014, were updated at the Board's 20 May 2015 meeting to incorporate the rules of procedure for Board Committees introduced after the creation of the Risk Committee and the Appointments Committee.

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 2015 and the average attendance rate was 81.29%.

The main topics covered at the meetings in 2015 were:

- resignations of Directors;
- appointment of an Executive Vice-President;
- appointment of the Committee Chairmen and Members;
- update of the remuneration policy;
- the variable portion of Executives' remuneration;
- allocation of Directors' fees;
- related party agreements;
- creation of the Appointments Committee;
- creation of the Risk Committee;
- update of the rules of procedure for the Board of Directors
- adoption of the rules of procedure for the Board of Directors' Committees;
- approval of the Board of Directors' management report;
- approval of the Chairman's report on internal control;
- approval of the report on employee-related, environmental and social information;
- approval of the report pursuant to Article 266 of the order of 3 November 2014 on internal control;
- the report pursuant to Articles 258 and 262 of the order of 3 November 2014 on internal control;
- follow-up on inspections and discussions with the supervisory authorities;
- the mediator's report;
- arrangements for calling general meetings;
- 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 Risk Committee's report;
- the Appointment Committee's report;
- the Remuneration Committee's report;
- commercial activity;
- monitoring of the strategic plan;
- authorisation and delegation of authority to carry out issues of debt securities and their use.

Operation of the Board Committees

The Board of Directors has set up four specialised committees, responsible for preparing its decisions and making recommendations, whose duties, resources and composition are specified in the rules of the Board of Directors' Committees.

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 with voting rights selected from among the Directors on proposal of the Board's Chairman.

The members of these committees shall have the appropriate knowledge and skills to carry out the duties of the committees on which they serve.

Specifically, each member of the Audit Committee and of the Risk Committee must have the necessary skills to carry out their duties. Accordingly, each member of the Audit Committee and the Risk Committee undertakes to stay informed of changes in regulations relevant to the work of the Audit Committee and the Risk Committee. More generally, members of the Audit Committee and the Risk Committee have the knowledge, skills and expertise to understand and monitor the strategy and risk appetite of Banque Palatine and at least one member of the Audit Committee must have specialist financial or accounting skills.

The Chairman of the Board of Directors is automatically a member of each of these committees.

The Chairman of the Audit Committee cannot be Chairman of the Risk Committee and vice versa. However, the Chairman of the Audit Committee has, on a transitional basis, accepted the role of Chairman of the Risk Committee until a Director is appointed to this post.

Members of these committees cannot be either corporate officers of Banque Palatine nor be related to it by any employment contract or other subordinate relationship. They must have no business relationship with Banque Palatine other than current transactions.

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 2015, Banque Palatine's Audit Committee had the following members:

- Jean-Charles BOULANGER Chairman;
- Max BÉZARD member of the Committee;
- Maurice BOURRIGAUD member of the Committee;
- Jean-Yves FOREL member of the Committee;
- Pascal MARCHETTI member of the Committee.

Role

The Audit Committee's role is to examine in depth the issues within its remit and prepare the decisions of the Banque Palatine Board of Directors, notably in the following areas:

- oversight of the process for preparing the financial information;
- legal control of the parent-company and consolidated financial statements by the Statutory Auditors and of the independence of the Statutory Auditors, in accordance with the French Commercial Code.

It also reads those parts of the inspection reports by BPCE, the ACPR and the ECB that have direct consequences for the Banque Palatine financial statements.

The minutes of each Committee meeting are sent to the Board of Directors.

Specifically, its regular areas of concern are as follows:

Budget process

The Audit Committee reviews the draft budget prepared by executive management as well as multi-year projections. Following this review it issues a detailed opinion to the Board.

Reporting dates

The Audit Committee examines, in a timely manner, before it is presented to the Board of Directors or approved by the general meeting, Banque Palatine's annual report, including the parent-company annual financial statements (and, where applicable, the consolidated statements) and the management report.

The Audit Committee also reviews Banque Palatine's parent-company (or, if applicable, consolidated) interim financial statements for presentation to the Board of Directors.

Finally, the Audit Committee also reviews the IFRS financial statements (annual, interim and quarterly) which are sent to BPCE at the appropriate times.

The Statutory Auditors

The Audit Committee issues an opinion on the selection or reappointment of Banque Palatine's Statutory Auditors and their work programme, the results of their checks and controls, and their recommendations, as well as the follow-up to the recommendations.

It guarantees the independence of the Statutory Auditors, notably by reviewing audit fees paid and by monitoring the provision of services to related to the legal audit. It also reviews proposals for consultancy projects to be carried out by the Statutory Auditors that exceed one-third of the annual fees paid to the Statutory Auditors.

The Audit Committee can require information from the Statutory Auditors on any issue relating to their duties.

Activities

The Audit Committee met four times in 2015 with an average attendance rate of 78.75%.

The main topics covered at the meetings in 2015 were:

- the review of the quarterly, half-year and annual financial statements and the Bank's financial position;
- the draft Board of Directors' report on the annual and half-year financial statements;
- review on the draft annual report;
- 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 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 264 of the order of 3 November 2014 on the operation of internal control and risk surveillance;
- quarterly audit, risk and compliance reports;
- the Statutory Auditors' 2015 audit plan;
- review of the findings by the Audit Committee of Banque Palatine's fully controlled subsidiary Palatine Asset Management, as regards the accounting-related matters.

The Risk Committee

Composition

At 31 December 2015, Banque Palatine's Risk Committee had the following members:

- Max BÉZARD member of the Committee;
- Jean-Charles BOULANGER member of the Committee;
- Maurice BOURRIGAUD member of the Committee;
- Jean-Yves FOREL member of the Committee;
- Pascal MARCHETTI member of the Committee.

The heads of permanent control of risk and compliance and the general inspector responsible for periodic controls are invited to Committee meetings but cannot vote.

The Committee reports regularly to the Board of Directors on the progress of its work and reports any difficulties promptly.

Role

The Risk Committee issues opinions to the Board of Directors on the quality of internal control and in particular the consistency of risk measurement, administration and control systems, and proposing additional measures, where required.

Pursuant to Articles L.511-92 *et seq* of the French Monetary and Financial Code and the order of 3 November 2014 on internal control of banking firms (the Order), the Risk Committee is also responsible for assessing the effectiveness of internal control systems.

Its main duties are as follows:

permanent controls:

- regularly review, and at least twice annually, the strategies, policies, systems, tools and limits mentioned in Article 148 of the Order and the underlying assumptions and to report its conclusions to the Board of Directors;
- review the global risk exposures of Banque Palatine based on the relevant reporting statements;
- advise the Board of Directors on Banque Palatine's current and future global strategy and risk appetite;
- support the Board of Directors in its control of the implementation of the strategy by the members of the executive management and by the Head of risk management;
- support the Board of Directors in its regular review of policies enacted to comply with the Order, assess the effectiveness of measures and procedures put in place for the same end and of corrective measures implemented in response to shortcomings;
- review the annual report or reports on risk measurement and monitoring and on the internal control system;
- propose to the Board the criteria and thresholds described in Article 98 of the Order for identifying incidents that must be reported to the Board;
- oversee the follow-up to the conclusions of inspections by the ACPR and/or the ECB and of internal audits, a summary of which will be sent to it;
- review the follow-up letters sent by the ACPR and/or ECB and issue an opinion on the projects initiated in response to such letters;
- review, as part of its work, whether the prices of products and services (mentioned in books II and III of the French Monetary and Financial Code: financial instruments, savings products, banking transactions, investment services, etc.) proposed to customers are compatible with Banque Palatine's risk strategy and, if not, present an action plan to remedy the situation to the Board;
- review whether the incentives envisaged by Banque Palatine's remuneration policy and practice are compatible with the risk position to which Banque Palatine is exposed, with its capital, with its liquidity and with the probability and timing of expected benefits.

periodic controls:

- oversee the independence of internal audits, being authorised to demand or access all documents, systems and other information necessary for the proper conduct of its work;
- review the multi-year internal audit plan and its implementation.

Activities

The Risk Committee met two times in 2015 with an average attendance rate of 70%.

The main topics covered at the meetings in 2015 were:

- the quarterly report on risk, compliance and internal audit;
- the RCSI report;
- the review of the audit division's audit plan and annual budget;
- the review of governance procedures pursuant to the French Banking Separation Law and the Volcker Rule;
- review of the findings relating to the internal control of the Audit Committee of Banque Palatine's fully controlled subsidiary Palatine Asset Management.

Appointments Committee

Composition

The Committee has a Chairman and two members, all of whom were selected from among the Directors. The Chairman of the Remuneration Committee is the Chairman of the Board of Directors.

At 31 December 2015, the Committee's members were as follows:

- Jean-Yves FOREL Chairman;
- Bernard NIGLIO Committee member;
- Raymond OLIGER Committee member.

Role

The Appointments Committee prepares the Board of Directors' decisions on how Banque Palatine's Chief Executive Officer and Executive Vice-Presidents are selected and, specifically, draws up proposals and recommendations to the Board of Directors on their appointment, their dismissal and their replacement.

Moreover, the Appointments Committee:

- issues an opinion on the integrity and any incompatibilities of candidates received and proposed to the general shareholders' meeting or the Board of Directors in the event of a Director being co-opted;
- assess the balance and diversity of knowledge, skills and experience of Board members both as individuals and collectively;
- specifies the duties and necessary qualifications to be exercised within the Board of Directors and assesses the time to dedicate to these duties;
- sets a target for balanced representation of women and men on the Board of Directors and develops a policy designed to meet this target;
- assess periodically, and at least once a year:
  - the structure, size, composition and effectiveness of the Board of Directors in the fulfilment of its duties and makes whatever recommendations it considers useful to the Board,
  - the knowledge, skill and experience of members of the Board of Directors, both individually and collectively, and reports back to the Board;
- reviews the Chairman of the Board's corporate governance report;
- periodically reviews the policies of the Board of Directors on the selection and appointment of the Chief Executive Officer and the Executive Vice-Presidents and the Head of risk management, and makes recommendations on the matter;
- ensures that the Board of Directors is not dominated by a person or group of people in a way that would prejudice the interests of Banque Palatine.

Activities

The Appointments Committee met once in 2015 with an average attendance of 100%.

The main topics covered at the meetings in 2015 were:

- the principles of the diversity policy in the Board of Directors;
- Board appraisal.

Remuneration Committee

Composition

The Committee has a Chairman and two members, all of whom were selected from among the Directors. The Chairman of the Remuneration Committee is the Chairman of the Board of Directors.

At 31 December 2015, the Committee's members were as follows:

- Jean-Yves FOREL Chairman;
- Bernard NIGLIO Committee member;
- Raymond OLIGER Committee member.

Role

The Remuneration Committee provides guidance for decisions by the Board of Directors on remuneration systems.

In this role, it is responsible for putting proposals to the Board concerning:

- the level and methods of remuneration of the Chief Executive Officer and of the Executive Vice-Presidents of Banque Palatine, comprising: the level of fixed remuneration; the level of variable remuneration; benefits in kind; and any provisions regarding their pension and personal protection plans.

  Accordingly, the Remuneration Committee takes into account the targets for the current year and any potential events affecting risk and risk management within Banque Palatine. The Committee also assesses the degree to which targets have been achieved and criteria satisfied for the payment of the variable salary and to make proposals accordingly to the Board of Directors.

  The Committee meets without the Chief Executive Officer and Executive Vice-Presidents when discussing issues that affect them:
- the systems for allocating Directors' fees among the Directors and, where applicable, members of the Board Committees, and the total amount of such fees which is put to the vote at the Banque Palatine general meeting.

Moreover, the Remuneration Committee also:

- carries out an annual review of:
  - the principles underlying Banque Palatine's remuneration policy,
  - remuneration, termination benefits and benefits of any kind granted to Banque Palatine's corporate officers,

- the remuneration policy for employees of all categories, including executive management, risk-takers, persons exercising control functions and any employee whose total income puts them in the same class of remuneration and whose professional activities have a significant effect on Banque Palatine's risk profile;

- directly controls the remuneration of the Head of risk management as mentioned in Article L. 511-64 of the French Monetary and Financial Code and of the Head of compliance;
- regularly reports on its work to the Board of Directors;
- issues an opinion on any report dealing with remuneration;
- reviews and issues an opinion on the civil liability insurance policies taken out by Banque Palatine on behalf of its senior executives.

Generally, reviews any issue put to it by the Chairman of the Board of Directors relating to any of the matters listed above.

Each year, the Committee receives details of the remuneration earned by the Chief Executive Officer and the Executive Vice-Presidents, namely: fixed salary, variable salary, benefits in kind, Directors' fees or termination benefits paid in respect of their work as chief Executive Officer or Executive Vice-Presidents.

Activities

The Audit Committee met three times in 2015 with an average attendance rate of 100% to deliberate concerning:

- variable remuneration paid to senior executives in respect of the 2015 financial year and setting criteria for the variable portion payable to senior executives in respect of the 2016 financial year;
- the remuneration of the Executive Vice-Presidents;
- the approval of which employees are classed as regulated persons;
- the review to ensure remuneration policy is appropriate in terms of the level of risk run by the institution;
- the review of the report required by Article 266 of the order of 3 November 2014;
- allocation of Directors' fees;
- the update of the remuneration policy in 2015.

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 five 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 of Directors' 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 proposal of the Chief Executive Officer, the Board of Directors appointed, at its meeting of 14 February 2014, two Executive Vice-Presidents: one responsible for finance and banking production and the other for development. Neither is a Director. The latter Executive Vice-President resigned in July 2014 and was replaced in February 2015.

Members of executive management	Age	Date of appointment	Expiry date of appointment
Pierre-Yves Dréan, Chief Executive Officer	55	14/02/2014	14/02/2019
Bertrand Dubus, Executive Vice-President for development	56	13/02/2015	14/02/2019
Thierry Zaragoza, Executive Vice-President for finance and banking production	54	14/02/2014	14/02/2019

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 reaches the end of his/her term of office or is prevented from performing his/her duties, 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, Pierre-Yves Dréan, and Executive Vice-President, finance & banking production, Thierry Zaragoza, as its effective managers as defined in Article L. 511-13 of the French Monetary and Financial Code. Bertrand Dubus was also appointed as Executive Vice-President, development, at the meeting held on 13 February 2015.

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).

The Executive Management Committee

The Executive Management Committee is composed of the members of the executive management plus the Company secretary and the Head of human resources.

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 Directors and Committee Members

The 14 February 2014 general meeting set the overall allocation of Directors' fees at €159,500. The Board of Directors' meeting of 14 February 2014 distributed this allocation, which was reviewed at the Board's 29 July 2015 meeting, according to the procedures listed below, subject to a continued employment condition:

For the Board of Directors:

- 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:

- Chairman of the Audit Committee: €1,000 p.a.
- Member of the Audit Committee: €500 per meeting subject to a cap of €2,000 p.a.;

For the Risk Committee:

- Chairman of the Risk Committee: €1,000 p.a.
- Member of the Risk Committee: €500 per meeting subject to a cap of €2,000 p.a.;

For the Remuneration Committee:

- Chairman of the Remuneration Committee: €1,000 p.a.
- Member of the Remuneration Committee: €500 per meeting subject to a cap of €1,500 p.a.;

For the Appointments Committee:

- Chairman of the Appointments Committee: €1,000 p.a.
- Member of the Appointments Committee: €500 per meeting subject to a cap of €1,500 p.a.;

The Chairman of the Board of Directors, the permanent representative of BPCE and the employee-elected Director of BPCE receive none of the Directors' fees that would otherwise be due to them as these are paid in full to BPCE in accordance with Group policy.

Executive remuneration

Banque Palatine's executive remuneration is determined by its Board of Directors on the recommendation of the Remuneration Committee.

The remuneration of the Chief Executive Officer

The Chief Executive Officer receives fixed remuneration within a range defined by BPCE, as well as variable remuneration and some benefits in kind: company car, housing, GSC unemployment insurance for senior executives, pension plan, defined benefit pension plan.

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 occurring during the year. The size of the variable element 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.

The 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 remuneration capped at 50% of the annual fixed remuneration, 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.

Remuneration of regulated persons

Following the introduction of European Commission delegated regulation (EU) no. 604/2014 of 4 March 2014, Banque Palatine had to review the composition of its regulated persons at 31 December 2014. It applied the 18 criteria (15 qualitative and 3 quantitative) defined in the rules for all staff, deciding to include as a regulated person one new employee to whom one of the criteria applies.

The identification of regulated persons was approved by the human resources department supported by the risk management, compliance and permanent controls divisions.

The list was then put to the Executive Management Committee, the Remuneration Committee and, finally, to the Board of Directors, which also approved the report stipulated by Article 266 of the order of 3 November 2014 (annexed to this report).

Internal control and risk management procedures

General organisation

Groupe BPCE's internal control system is organised in compliance with all legal and regulatory requirements applying to the Group and its business activities and with the Group's corporate governance policy and structures.

Groupe BPCE internal control is organised around four principles:

- completeness of the scope of control;
- appropriateness of the controls in terms of the types of risk faced and the auditability of controls;
- independence of controls and separation of risk-taking and control functions;
- coherent internal control framework defined as a separate function.

In line with this organisation, the institution's control framework is based on three levels of control: two permanent and one periodic.

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;
- disclosure of operational risk incidents detected and the development of activity indicators for assessing operational risk;
- 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;
- making sure to support the requisite updates of the various units' control frameworks.

Three regional network managers, who previously worked in the network's regional divisions overseeing the quality of first-level controls at branch level, joined the permanent control management department on 1 January 2015 to strengthen second level controls.

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 of the Internal Control Functions chaired by the Chief Executive Officer. They also present risks to the Risk Committee, which the latter reports to the Bank's Board of Directors.

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, Risk 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 of the 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. It is supported in this work by the Audit and Risk Committees;
- The Audit Committee's role is to examine, in detail, the issues within its remit and to prepare the decisions of the Banque Palatine Board of Directors, particularly in the fields of monitoring of the preparation of financial information, the legal control of the parent-company and consolidated financial statements by the Statutory Auditors, and the independence of the Statutory Auditors in accordance with the French Commercial Code;
- The Risk Committee issues opinions to the Board of Directors on the quality of internal control and in particular the consistency of risk measurement, administration and control systems, and proposing additional measures, where required. Pursuant to Articles L. 511-92 *et seq* of the French Monetary and Financial Code and the order of 3 November 2014 on internal control of banking firms, the Risk Committee is also responsible for assessing the effectiveness of internal control systems.

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 secretary. The other Committee members are: the Executive Vice-President, finance and banking production, the Executive Vice-President, development, the Head of human resources, the Head of audit, the Head of risk 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.

The 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 Executive Vice-President, development, 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	T	All risks
Asset-Liability Management Committee	T	Global interest-rate risk Liquidity risk
Finance Committee	BM	Market risks
Pricing Committee	M	Commercial risks
Credit Committee	W	Credit risk
Development Credit Committee	W	Credit risk
Monthly Credit Risk Monitoring Committee	M	Credit risk
Provisions Committee	M	Credit risk
Operational Risks and Security Committee	Q	Operational risk
Product and Services Approval Committee	M or Q	All risks

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

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
31 December 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 2015.

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 Audit and Internal Control Committee.

The 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.

Its 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 has no operational delegations and is structured around four departments: credit risk, market risk, operational risk and a risk management and measurement departments.

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 latter's tasks. In particular, it does not have authority to grant loans and may not conduct a business analysis of lending requests.

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 Credit Committees and the Credit Committee. It also issues a formal opinion on breaches and exceptional requests.

A credit risk department was set up within the risk management division, which carries out, among other tasks, second reviews on files submitted to the Credit Committees, as well as second-level controls on credit risks.

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 division is involved in selecting transactions. It carries out a second analysis of credit applications, takes decisions on the applications within its remit, issues a formal opinion and presents the application to the Development Credit Committee or to the Bank's Credit Committee. It also issues a formal opinion on breaches and exceptional requests;
- the risk management division carries out a dialectic analysis, independently of the operational functions, of credit applications put forward by the Bank's operational entities and issues a formal opinion on applications presented to the Credit Committee. It also runs *a posteriori* controls on applications decided by the branches, commitments department and the Development Credit Committee.

It is organised around review procedures specific to individual markets. These include segmentation and internal ratings.

Groupe BPCE's 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 on exposure to a single counterparty or group of counterparties based on the nature of the counterparty in question and its rating: these are *ex ante* limits, applied on the grant of a loan and determine, where applicable, the level of delegation.

Limits are proposed by the business lines, endorsed by the risk management division and approved by the executive management. They take into account the Bank's level of capital and its loss absorbing capacity, being indirectly correlated 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 presentation by the risk management division.

Bi-monthly exposure 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, propose whether or not to downgrade them and allocate them to one of the internal risk categories and, lastly, whether they should be handled by the Provisions Committee.

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 is involved through its Chairmanship of the business line specialised committees and informed by the minutes of the various management committees reporting to it: Finance Committee, ALM Committee, Audit and Internal Control Committee as regards market risks.

Banque Palatine has put in place systems to monitor and control compliance with the French Banking Separation Law and the Volcker Rule, approved by the Risk Committee and the Board of Directors.

Organisation

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

The market risk department, reporting to the risk management division, performs second-level controls. A market room middle office was created in 2013. 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 Risk Committee is informed of its conclusions. 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 2015. The Audit Committee and subsequently the Risk Committee received a detailed analysis of each meeting.

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 April 2015 asset-liability management reference guide and in the market risk reference guide approved on 28 February 2015. All instruments in this portfolio are marked-to-market in terms of their results and positions.

Limits on customer activities and non-banking 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 as part of efforts to monitor internal ratings and agency ratings. This monitoring is presented to the Audit and Internal Control Committee and to the Risk 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, which is part of the finance and banking production division under the the Executive Vice-President for finance and banking production, is the final element in the organisational system. 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 Risk 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 Committtee and a 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 April 2015 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 internal audit division. The finance division is in charge of presenting as swiftly as possible an action plan tracked by the risk management division.

The executive body monitors the Bank's liquidity through a number of committees: the Finance Committee, the ALM Committee and the Audit and Internal Control Committee quarterly. The Risk 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 Head of human resources, 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 the 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, as well as the completeness of the security measures for goods, systems and persons. It steers the operational risk control framework and monitors the level of risk, provides second-level approval and monitors action plans to reduce exposure, including risks relating to the IT system. It reviews incidents identified and subsequently controls the follow-up of the corrective action that has been decided. 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 Risk 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 finalised in 2015, 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's Standards Committee.

Compliance

The compliance and permanent controls division reports hierarchically to the Chief Executive Officer and functionally to 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 provisionally took on the role of investment services compliance officer (RCSI) pending issuance of a professional licence by the AMF (start of January 2016). He is invited to attend various Bank Committees to fulfil this function.

The compliance and permanent controls division has:

- two departments: permanent control management and compliance & ethics;
- two services: financial security and IT security.

The permanent control management department

The role of the permanent control mangement department 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 2015 were as follows:

- roll-out of the Group PILCOP standards on compliance;
- 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.

The compliance & ethics department

Since 1 September 2015, the issues of banking compliance and investment services compliance have been dealt with together in a single "compliance and ethics" department. This new department helps streamline the compliance system, particularly regulatory watch, assessment of non-compliance risk and reporting.

Among other tasks the department contributions 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);
- compliance controls (new product and marketing process, conflict of interest management, theme-based controls, customer protection, etc.).

It is responsible for overseeing compliance with banking and financial regulations and with the rules of good conduct and professional practice to ensure the protection of customers and the integrity of financial markets.

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

The compliance risk map is based on fifteen generic risks.

Risk	Type of generic non-compliance risk
BLA	Non-compliance with regulations on anti-money laundering (Tracfin), anti-terrorism and embargoes
COI	Non-compliance with regulations on professional ethics and conflicts of interest
CRB	Non-compliance with CRBF/CPEIC/RSC regulations, regulations on civil enforcement procedures, NSF cheques, cash recycling
DCO	Non-compliance with regulations on the duty to advise or inform and the duty to warn
DDC	Non-compliance with regulations on the confidentiality of customer data or banking secrecy
DOC	Non-compliance with regulations on the documentation to provide to the customer pre- or post-contract
IeL	Non-compliance with regulations related to personal information, data protection and the CNIL (French Data Protection Commission)
NIB	Non-compliance with professional standards (CCSCF, Aeras, CFONB, codes of conduct), regulations on fees, regulations on APR/excessive interest
PDR	Non-compliance with regulations on deposits
PEE	Non-compliance with regulations on essential outsourced services
PUB	Non-compliance with regulations on products, offers, advertising, displays
RCR	Non-compliance with regulations on loans and collateral
RDM	Non-compliance with market (Euronext, MTFs, etc.) and AMF regulations
RIA	Non-compliance with regulations on brokerage: insurance/real estate/banking and payment services
VAD	Non-compliance with regulations on distance selling, canvassing

As every year, the compliance and ethics department has ranked non-compliance groups as part of a group-led procedure.

All new products and services are subject to approval by the Product Approval Committee before being brought to market. They are automatically submitted for a compliance opinion. The Committee is chaired by the Chief Executive Officer and the Head of compliance and permanent control acts as secretary. In 2015, the Committee reviewed 22 new products.

Financial security service

The financial security service is the Bank's financial crime prevention unit. It combats money laundering, terrorist financing and external and internal fraud. 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, usually following the processing of alerts generated by the Group's VIGILAB behavioural monitoring system, whose second batch of queries was deployed in June 2015.

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 2015, the financial crime prevention unit implemented the following measures:

- training in anti-money-laundering and anti-terrorist-financing procedures, particularly for new employees, private bankers and subsidiaries Palatine Asset Management and Ariès Assurances. New training materials were introduced specifically to raise awareness among sales staff on relationships with non-resident customers;
- updates to procedures for combating external fraud.

Information systems security

The information systems security officer proposes the security policy, implements it and adjusts it in conjunction with BPCE's information systems department. 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's 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 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 and Security 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 the 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.

Cyber-crime risk is monitored in cooperation with the the Group information systems security department. Banque Palatine's domain names are monitored to anticipate any potential harm to the Bank's image or attacks on customers and to strengthen the security of mobile banking applications.

(see page 42 Information systems security).

Non-compliance risk measurement and control

Non-compliance risk is monitored 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 new product goes onto the market, through the Product Approval Committee (see above "compliance & ethics" department);
- using any information received potentially relating to a customer:
  - when entering into a new relationship: through a notice concerning the highest-risk categories,
  - by working with market divisions on issues related to customer information and protection,
  - by following up any complaints in conjunction with the customer relationship service;
- by implementing 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. These compliance controls, identified in these standards, cover: 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.

Non-compliance risk surveillance

Non-compliance risk surveillance is organised around:

- systems for reporting by operational managers based on mapping of controls in each activity;
- 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;
- alerts referred up by employees;
- the whistleblowing system.

The Risk 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.

The 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 and the procedure on external fraud was updated in 2015;
- 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. The procedure, regarding the customer's regulatory file, was updated in 2015. Customers considered as posing the greatest risks are approved by the compliance division;
- 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.

AMF compliance - financial ethics

The compliance division draws on a framework ensuring compliance with the regulations and in particular the AMF's General Regulation. In 2015, the PEPICI (persons exposed to privileged information and conflicts of interest) procedure was introduced at Banque Palatine in accordance with the BPCE procedures. 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;
- annual ranking of non-compliance risks;
- 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, EAI, EMIR, 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 Risk 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 Risk 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 Risk Committee where remedial action is not taken within the agreed 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 2015 and future plans

The 2015 audit plan was given the go-ahead by the Group general inspection division and presented to the Audit Committee on 4 December 2014. In accordance with this plan and including the key decisions made during the year, the following units were audited:

- 13 units in the auditable head office scope established by the Group general inspection function;
- 16 commercial units in the commercial network;
- Palatine Asset Management (wholly-owned subsidiary of Banque Palatine);
- 1 essential outsourced services;
- 2 specific themes;
- 10 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 2016 audit plan was presented to the Audit Committee on 3 December 2015. It includes:

- 27 units in the auditable head office scope established by the Group general inspection;
- 25 units in the commercial network;
- Palatine Asset Management (wholly-owned subsidiary of Banque Palatine);
- 11 essential outsourced services;
- 1 assignments covering the Bank's information system;
- 1 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 department is made up of five people reporting directly to the Head of legal affairs.

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. Another employee has special responsibility for managing claims made against the Bank while also handling legal 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;
- 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 1,725 questions in 2015.

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 Product 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 permanent control system was reinforced in 2015-2016 with a thorough overhaul of the standards which increased the number of controls from 60 to 128.

Security watch

The security watch focuses on two main areas:

- internal technical watch to identify current trends in piracy;
- external watch using the Group's monitoring network for wider surveillance and a CERT operated by LEXSI which handles external surveillance of information leaks and hi-jacking of domain names.

Pirates, without reducing their level of already known attacks (fraud targeting the Chairman, false faxes, false websites) have also started targeting the Bank's customers by taking over their IT systems (a tactic that is happening all over the market).

Actions taken to mitigate risks

Since 2015, the Bank's risk mapping has been extended to include information services. This initial mapping is based on identified at-risk processes.

Identity management continues to improve. The central software package (Usercube) now allows the control of permissions on more than thirty applications.

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.

Intrusion tests are now an integral part of the information systems. The Head of information systems security is allocated a budget to run the tests. Two were run in 2014, one in 2015.

The Splunk software tool now deploys and collects many of the technical connection logs to the systems.

Following major changes to infrastructure in 2014 and 2015, efforts to make user actions traceable are to continue.

Business continuity

The test run of the IT recovery plan took place in 2015 as planned.

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 managed by the 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, the Group's guide to best business continuity practices was provided to help institutions in Groupe BPCE prepare their business continuity plans.

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 Committee is chaired by a member of the Executive Management Committee.

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.

A half-yearly report is produced, based on a questionnaire about Group best practice rules, using the Group's reporting software (MonPCA). It reviews the indicators and refocuses the 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 2015, 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 an IT recovery plan involving end users:

  the IT recovery plan tested the scenario in which the IT infrastructure goes down, with applications being recovered on the back-up IT site in Marne la Vallée. Some sixty employees took part in the test;
- a business continuity exercise with a transfer of users of the middle office, regulated real-estate professionals and Palatine Direct;
- training of newcomers to the BCP function;
- raising awareness of business continuity among employees by rolling out to all employees an awareness module designed by Groupe BPCE;
- training members of the operational crisis unit;
- addition of seven new activities to the framework;
- mapping skills to identify key persons and/or rare skills for Banque Palatine's business continuity plan;
- launch of the crisis management plan 12 times. Incidents were of different kinds (cyber attacks, local branch incidents, IT incidents, etc.). The business continuity plan was launched for three branches, employees were pulled out and the activities of each branch were continued at the back-up site;
- the "users withdrawn from offices" test scheduled for 24 November was postponed the day before by executive management, in light of the events of Friday 13 November, to keep travel to a minimum.

The action plan for 2016 also includes:

- continuing to draw up, in tandem with the human resources department, a plan to manage human impacts;
- 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 one business continuity exercise with a transfer of users and one business continuity exercise with the resumption of activity on back-up site's IT infrastructure, with user involvement;
- raising awareness of business continuity among new employees;
- running, in cooperation with the training department, a training course on crisis management for members of the Executive Committee who will make up the decision-taking unit in a crisis.

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 takes place in the Group’s Comptabase system. This software was introduced in 2014 and is now well understood by users.

  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 reads the accounting review’s report on activity;
  - 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

Appendix

Report required by Article 266 of the order of 3 November 2014 on internal control of banking, payments and investment services firms subject to the control of the ACPR.

Remuneration policy and practice as defined in Article L. 511-71 of the French Monetary and Financial Code.

1. Description of the company's current remuneration policy

A. Remuneration of corporate officers at Banque Palatine

Banque Palatine's corporate officers include members of the executive body (Chief Executive Officer and Executive Vice-Presidents) and the governing body (Directors).

A.1 Executive body

A.1.1 Chief executive officer

The remuneration of the Chief Executive Officer is decided by the Board of Directors on recommendation from the Remuneration Committee and is composed of the following elements:

- fixed remuneration paid in respect of the corporate office;
- variable remuneration;
- benefits in kind: company car, housing, social protection to heads of company, defined benefits pension plan.

The criteria and amounts of the chief executive Director's variable remuneration are set by the Banque Palatine 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.

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.

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 thousand.

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.

A.1.2 Executive vice-presidents

The remuneration of the executive vice presidents is decided by the Board of Directors on recommendation from the Remuneration Committee and is composed of the following elements:

- aggregate remuneration, 90% of which is paid under their employment agreement and 10% in respect of their corporate office;
- a variable remuneration capped at 50% of the annual fixed remuneration, 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.

A.2 Board of Directors

Directors receive fees on a *pro rata* basis for attending meetings of the Board of Directors, Audit Committee, Risk Committee, Appointments 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.

Under Groupe BPCE rules, the employee-elected Directors at BPCE do not receive their Directors' fees, which are instead paid directly and in full to BPCE.

B. Remuneration of regulated persons

B.1 Definition of regulated person

A Banque Palatine employee is deemed to be a regulated person if they fulfil one of the criteria set out in European Commission regulation (EU) 604/2014 of 4 March 2014.

Pursuant to the law, the remuneration of regulated persons was set and paid after consultation with risk control and compliance.

Based on the principles defined in this way, the executive management of the Company sets the rules governing variable remuneration of regulated persons which are submitted to the Remuneration Committee for endorsement and to the Board of Directors for approval. In no circumstances can these rules be set by people who stand directly or indirectly to benefit from them.

B.2 Executive remuneration

Executive remuneration is described in A.1.

B.3 Directors' remuneration

Directors' remuneration is described in A.2.

B.4 Other executive remuneration

The Company secretary's annual remuneration consists of a basic salary plus variable remuneration based on targets set and evaluated by the management. It is capped at 40% of gross annual salary.

The Head of human resources' annual remuneration consists of a basic salary plus variable remuneration based on targets set and evaluated by the management. It is capped at 30% of gross annual salary.

B.5 Remuneration of control employees

Remuneration of the heads of risk control, compliance and audit is based on targets specific to each role and in no case directly on the performance of the employees or profits from the business whose control they are responsible for. It is set independently of remuneration for the business lines whose operations they check or verify and at a sufficient level to attract qualified and experienced staff. It takes account of the achievement of targets set for the function and must be at an equivalent level - given the qualifications, skills and responsibilities exercised - to the remuneration of the professionals whose activity they control.

Fixed remuneration is linked to the level of skills, responsibility and expertise and set at a level to attract qualified and experienced persons to oversee the control functions.

Variable remuneration is based on targets specific to each role. Variable remuneration of the heads of risk control, compliance and audit/review is capped at 15% of gross annual salary under their fixed remuneration and evaluated by management.

B.6 Remuneration of other regulated persons

a) Fixed remuneration

Fixed remuneration is based on the level of qualifications, experience and skills in the professional area concerned.

b) Variable remuneration

Variable remuneration of other regulated persons is based on a framework of variable remuneration for different contribution profiles which are linked to pre-defined levels of variable remuneration.

Performance is calculated based on targets specific to each contribution profile which are determined the previous year.

The performance of an employee is assessed by their line manager, based on the level of achievement of each target and a performance curve.

This point is explained in detail starting at C.3

B.7 Proportionality principle and deferred payment

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 thousand.

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.

C. Remuneration of Banque Palatine employees[1]

Banque Palatine offers its employees a global remuneration system that seeks to:

- reward qualifications, professional development and performance;
- recognise the contribution to the Company's results.

The Bank's remuneration policy is defined by the Executive Management Committee on proposal from the HR department.

It is approved by the Board of Directors, following an opinion by the Remuneration Committee which oversees its due implementation. It reviews, among other matters, the principles and structures of remuneration at the Bank and ensures their implementation.

In all these areas, the Bank is determined to adapt its remuneration policy to ensure:

- compliance with the legal framework defined by lawmakers and professional bodies;
- the competitiveness of remuneration in light of market practice in each business line;
- the best-possible fit of variable remuneration to targets, in view of the economic environment and the Bank's development strategy.

C.1 Budget and procedure

The budgets for the various systems for increasing or awarding bonuses or variable remuneration are redefined each year and take account, among other matters, of the Bank's results and economic outlook.

The decision-making process is strictly defined: proposals for salary increases are initially assessed by managers and then approved by the Executive Management Committee after hearing the opinion of the HR department.

Proposals for salary increases of members of the Executive Committee and Management Committee are determined by the Executive Management Committee.

C.2 Rules for basic salary increases

Each employee's remuneration is reviewed under the annual salary review process.

The process covers all Bank employees and determines changes in basic salary, as well as any promotions. It is designed to reward and recognise:

- greater responsibilities taken on, reflecting significant professional development;
- potential for development, reflected by the achievement of continuous performance.

C.3 Variable remuneration not including "specialised business lines"

Banque Palatine adopted the following variable remuneration system as from 2015:

C.3.1 Definition

Performance management is the process by which a company breaks down its key annual strategic targets for the different levels of its organisation, monitors progress and finally assess how far they were achieved.

It is the operational and objective basis for variable remuneration.

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(1) Remuneration (basic salary and variable remuneration) here always means gross remuneration.

C.3.2 Persons concerned

All Bank entities are included in the project to develop the performance management and variable remuneration systems except for the corporate finance, finance, investment banking and the business leader finance divisions.

All employees in the scope defined above are eligible for the new system except for the Chief Executive Officer, the Executive Vice-Presidents, the Head of risk management, the Head of internal audit and the Head of compliance.

The persons concerned can be divided into two segments:

- individual and collective contributors: employees with managerial or commercial roles;
- purely collective contributors: employees with administrative or support roles with no management team.

C.3.3 Number and nature of performance targets

Performance targets are limited in number to focus action on the Bank's key issues.

Accordingly:

- individual and collective contributors have 3 individual targets, including 1 qualitative target, and are linked to the achievement of 1 collective target defined for the entity they work in;
- purely collective contributors have 1 team target and are also linked to the achievement of 1 collective target defined for the entity they work in.

Individual and collective contributors	Purely collective contributors
1 entity target + 3 individual targets, including 1 qualitative	1 entity target + 1 team target

Concept of entity:

In the branch network, the entity is represented by the branch that the employee is attached to; for those whose roles are at regional level, it is the region that is the entity.

In the business lines and functional divisions, the notion of entity is determined by the management team and approved by the Executive Management Committee. It can, depending on the issues and teams attached, be the division itself or a department.

Concept of team:

The team need not necessarily relate to an organisational unit (such as a 'service' or other): it is a group of several employees whose combined skills allow them to contribute to the progress a work process or to a project linked to one of the four principles of the strategic plan.

The team's aims are proposed by a Head of department or a manager.

C.3.4 Weighting of individual performance targets

Performance is assessed separately at entity and at individual or team level.

Each of the three individual targets needs to be weighted for the purposes of assessing individual performance.

This weighting, which is identical for all individual and collective contributors, is as follows:

- 40% for target 1;
- 35% for target 2;
- 25% for the qualitative target.

C.3.5 Evaluation of performance

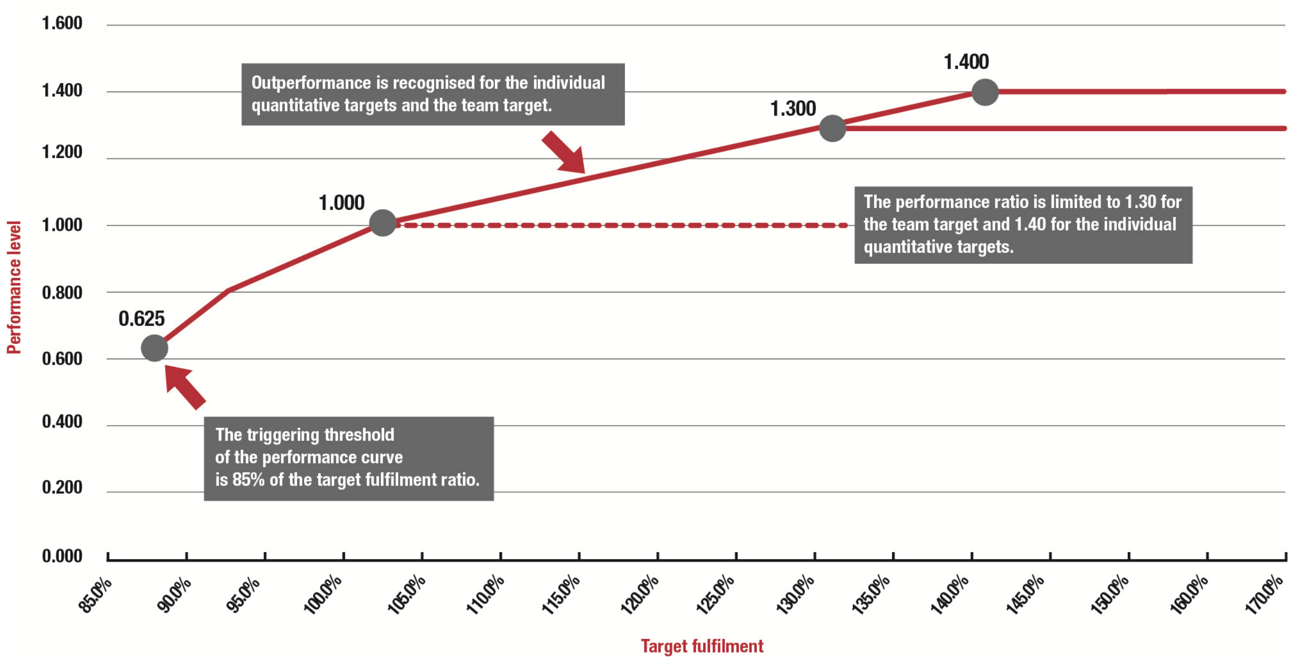
When each target is set, including the qualitative target, a scale of measurement must be defined to be able to objectively determine how far the original aim has been achieved at the year-end review.

Recognition of outperformance:

The team target and individual targets 1 and 2 allow for outperformance to be recognised, up to 130% for the team target and 140% for individual targets.

Once the degree of achievement of the target is measured, the level of performance is recorded for each target, using the following performance curve:

Target performance curve



C.3.6 Performance management calendar

Performance management in a given year n, understood as starting in December of the previous year (n-1) and ending in April of the subsequent year (n+1) when the associated variable remuneration is paid.

C.3.7 Contribution profiles

Functions were grouped into ten standardised contribution profiles, making it possible to define for each the amount and the breakdown of the on-target bonus:

Type of contributor	Persons concerned
Executive officer	Officers who are members of the Bank's Executive Committee
Head of division	Non-executives managing an operational or functional division
Head of support activities	heads of middle office, back office or support function departments
Head of service	Customer service managers, middle office, back office /or market unit managers, managers of a functional unit, managers of front office departments, Group managers
Head of business	Private bankers, large-corporate customer relationship managers, department heads or service managers of front office units in the market divisions, business managers in market divisions (except for 'regulated real estate professions')
Area manager	Branch managers in the network or similar roles
Branch manager	Network branch and 'Regulated real estate professions' managers
Customer portfolio manager	Roles including CAE/DCE, CGP/CCP/RCP/DCP in the network, Palatine Direct and 'Regulated real estate professions'
Financial operator	Middle/back office operators in the dealing room, special affairs and real estate
Other contributors	All Banque Palatine employees whose job is not covered by any of the other profiles

C.3.8 Allocation of on-target bonus by contribution profile

		Allocation of on-target bonus		
Type of contributor	On-target bonus base	Individual portion	Entity portion	Team portion
Executive officer	Annual basic salary	1/2	1/2	
Head of division	Annual basic salary	1/2	1/2	
Head of support activities	Annual basic salary	2/3	1/3	
Head of service	Annual basic salary Flat rate amount for customer service managers & Group managers	2/3	1/3	
Head of business	Annual basic salary	4/5	1/5	
Area manager	Flat-rate amount	1/2	1/2	
Branch manager	Flat-rate amount	1/2	1/2	
Customer portfolio manager	Flat-rate amount	4/5	1/5	
Financial operator	Flat-rate amount		1/3	2/3
Other contributors	Flat-rate amount		1/3	2/3

C.3.9 Bonus by contribution profile

"On-target bonus": the bonus paid when all the performance scores (individual, team, entity, bank) are 100% met.

"Bonus +": the bonus paid for individual or team outperformance when the entity and Bank performance is 100%.

"Maxi bonus": the bonus paid for individual or team outperformance when the entity performance is 100% and the Bank outperformance is at least 110%.

Depending on the functions, the calculation base is expressed either as a percentage of annual basic salary ("ABS"), or directly as its cash value.

The amounts of the "On-target bonus", "Bonus +" and "Maxi bonus" linked to the different contribution profiles are as follows (flat-rate amounts for a full-time employee):

	On-target bonus		Bonus +		Maxi bonus	
Type of contributor	% of ABS	Flat-rate amount	% of ABS	Flat-rate amount	% of ABS	Flat-rate amount
Executive officer	21.7%	-	25.0%	-	27.5%	-
Head of division	13.0%	-	15.0%	-	16.4%	-
Head of support activities	10.0%	-	12.0%	-	13.2%	-
Head of service*	5.0%	€1,500	6.0%	€1,800	6.6%	€1,980
Head of business	16.1%	-	20.0%	-	22.0%	-
Area manager	-	€12,200	-	€14,030	-	€15,433
Branch manager	-	€8,700	-	€10,005	-	€11,006
Customer portfolio manager	-	€5,800	-	€7,192	-	€7,911
Financial operator	-	€1,500	-	€1,800	-	€1,980
Other contributors	-	€900	-	€1,080	-	€1,188

* *This flat-rate amount applies to the customer service managers and Group managers; all other service managers earn a bonus based on their annual basic salary.*

C.3.10 Bank performance multiplier

For legal compliance reasons, variable remuneration must take account of the "overall results of the Bank".

This is calculated as the net income achieved for the year compared to the net income target in the budget. This ratio is then associated with a Bank performance rate, according to the following table:

Net income fulfilment ratio	Bank performance rate
Less than 85%	0.67
85% to 94.9%	0.75
95% to 99.9%	0.90
100% to 109.9%	1.00
Above 110%	1.10

C.3.11 Bonus calculation

Bonus = entity portion + individual/team portion

where the entity portion:

[Amount foreseen for an entity performance of 100%]

x[Entity performance rate]

x[Bank performance rate]

and individual/team portion:

[Amount foreseen for a performance of 100%]

x[Individual or team performance rate]

x[Bank performance rate]

C.3.12 Payment of bonus

The bonus in respect of each year's performance is paid in a single payment along with the following April's salary.

C.4 Variable remuneration, corporate

The variable remuneration is based on transactions done by the departments which are used to calculate a theoretical "bonus pool" derived by adding together each transaction bonus. Any department's bonus pool may be reduced based on cost of risk on loans outstanding.

Total variable remuneration cannot exceed 100% of the annual basic salary.

C.5 Variable remuneration, financing of senior executives

Variable remuneration is based on a percentage of fee net banking income earned. Its rate varies based on the type of transaction. The total amount may be reduced based on the cost of risk on loans outstanding.

Total variable remuneration cannot exceed 100% of the annual basic salary.

C.6 Variable remuneration, investment bankers

Variable remuneration is based on transactions passed by investment bankers to business lines that have generated an introducers' fee for the Bank.

Total variable remuneration cannot exceed 100% of the annual basic salary.

C.7 Variable remuneration, corporate advisory

Variable remuneration is paid to Corporate business partners in the network.

The amount paid is 5% of net fees, capped at €1,700 per transaction.

C.8 Variable remuneration, dealing room

Variable remuneration is based on the overall results of the dealing room and split equally among operators irrespective of their salary or status.

- Treasury: results depend on specific transactions by operators and overall management of rates and liquidity.
- Dealing room: results depend on transactions initiated by operators.

The risk management department, independent of the finance segment which includes the finance division, calculates the results. It should be noted that the bonuses of the risk management division teams does not depend on the performance of financial market professionals.

Variable remuneration is directly calculated based on net banking income generated rather than on transaction volumes (such as new deposits or certificates of deposit).

The Head of finance can also grant a discretionary component for market operators (risk management, compliance with limits, etc.) and sales staff (number of meetings, number of transactions, quality of relationships, etc.).

Total variable remuneration cannot exceed 100% of the annual basic salary.

C.9 Special case

Guaranteed variable remuneration is forbidden.

As an exception to this, variable remuneration may be guaranteed in the case of a new hiring, not including transfers within the Group. In this case, the guarantee can only apply to the first year.

D. Employee savings

D.1 Profit sharing

The French Labour Code on employee savings requires that Banque Palatine, having more than 50 employees, must give its employees a share in its profits.

The agreement is based on the Banque Palatine Economic and Social Union and also applies to the majority-owned subsidiary Palatine Asset Management.

Profit-sharing payments are tied to the firm's results. They are awarded when profits are sufficient to write down a special profit-sharing reserve, which is the amount attributed to all employees who are members of the scheme. There is no employer's contribution from Banque Palatine.

D.2 Incentives

In accordance with book III of the third section of the French Labour Code, an incentive agreement was signed on 30 June 2014. It is in line with the strategic plan and designed to support and stimulate development. The commitment of everyone, whatever their role, and a continuous focus on putting the customer first, are the drivers of the 2014, 2015 and 2016 incentive schemes.

It is based on a new formula and includes two new indicators tied to the customer capture targets.

Incentives are determined based on the degree of achievement of the following four indicators:

- the individual IFRS cost/income ratio including the cost of incentives and profit-sharing in the year;
- the number of new customers in the company's market captured during the year;
- the number of new private banking customers captured during the year;
- the percentage change in customer loans outstanding (French standard) in the year.

Payment is conditional on profits with a trigger threshold of €35 million of parent-company IFRS net income.

It is allocated to individual members, as in previous years, based on their percentage share of total annual basic salary.

D.3 Employer's contribution

An agreement on employer's contribution agreed unanimously with the unions representing employees was signed for the first time on 28 November 2014 and a renegotiation agreed with two unions on 27 November 2015.

It specifies that all Bank staff receiving remuneration under an incentive plan in respect of 2015 will be able to receive a contribution from the Bank topping up their investment in the Group savings plan.

As a result, for any investment of 2015 incentive bonuses into the Group savings plan, the Bank will contribute up to €670, calculated as follows:

- for the first €150 of incentive bonuses invested, the employer contribution will be 300%;
- above €150, the employer contribution will be 100%, limited to €220.

E. Benefits in kind

Benefits in kind (such as company cars or housing) comply with URSSAF regulations in force.

F. Changes to rules in the event of losses

In accordance with Article L. 511-83 of the French Monetary and Financial Code, the governing body, acting on proposal by the Remuneration Committee, decided that deferred variable remuneration would only be paid if the loss for the year recognised the year preceding the payment of the deferred variable remuneration was greater than or equal to the profit for the year of the allocation of the variable portion.

Deferred variable remuneration will therefore be reduced as follows:

Losses during the year	Reduction rate
More than 15.00%	30
10.00% to 14.99%	20
5.00% to 9.99%	15
0.10% to 4.99%	10

2. Decision-making process

The Remuneration Committee has three members:

- the Chairman of Banque Palatine's Board of Directors and Chairman of the Remuneration Committee;
- two Banque Palatine Directors.

Remuneration Committee members are also members of the governing body but not of the executive body of the Company and have no management role within the company.

At 31 December 2015, the Committee's members were as follows:

- Jean-Yves Forel Chairman;
- Bernard Niglio Committee Member;
- Raymond Oliger Committee Member.

The Committee met three times in 2015.

Among other things, it carries out an annual review of:

- the principles underlying the Company's remuneration policy;
- the remuneration, termination benefits and benefits of all kinds paid to members of the executive body;
- the remuneration of the heads of the risk management and compliance functions.

The Remuneration Committee issues its opinion on the proposals put forward by the executive management.

The governing body approves the principles underlying the Company's remuneration policy on the opinion of the Remuneration Committee;

3. Description of the remuneration policy of regulated persons

3.1 Composition of regulated persons

Following European Commission delegated regulation (EU) 604/2014 of 4 March 2014, the 18 criteria (15 qualitative and 3 quantitative) defined in the regulations have been applied to all Bank employees.

A Banque Palatine employee is deemed to be a regulated person if he/she meets at least one of the criteria. No exclusions were applied.

The identification of regulated persons was approved by the human resources department supported by the risk management, compliance and permanent controls divisions.

The list was subsequently submitted for approval to the Executive Management Committee.

In 2015, Banque Palatine's regulated persons were as follows:

1. Chief Executive Officer;
2. Executive Vice-Presidents*;
3. Directors*;
4. Head of human resources;
5. Company secretary;
6. Head of compliance and permanent controls;
7. Head of audit;
8. Head of risk management;
9. Head of finance;
10. Head of corporate finance;
11. Head of international affairs;
12. Head of legal affairs;

13. Head of management control;
14. Head of banking production;
15. Head of corporate market;
16. Head of real estate;
17. Head of lending;
18. Head of non-performing loans*;
19. Head of tax accounting;
20. Head of private banking market;
21. Head of banking services;
22. Deputy Head of risk management;
23. Deputy Head of corporate market;
24. Head of operational risk department;
25. Head of customer and brokerage department;
26. Head of engineering and trading department;
27. Head of ALM and MLT investment department;
28. Head of financial transactions department;
29. Head of LBO and structured loan department;
30. Head of syndication department;
31. Head of international finance department;
32. Head of international trade department;
33. Head of market risk department;
34. Head of banking management department;
35. Head of large corporates department;
36. Head of special affairs surveillance department;
37. Head of remuneration and benefits department;
38. Head of compliance and ethics department;
39. Head of permanent controls department;
40. Head of risk management and measurement department*;
41. Head of tax service;
42. Head of research services*;
43. Head of euro and foreign currency service;
44. Head of analysis service;
45. Head of financial security service;
46. Head of risk monitoring and control service;
47. Head of information systems security service*;
48. Head of international banking relationships service;
49. Dealing room sales employees*;
50. Market operators*;
51. Cash manager.

* *Functions that were filled by more than one person during 2015.*

3.2 General principles of remuneration policy

Functions	Fixed remunerations	Variable remunerations	Observations
Chief Executive Officer	A.1.1	A.1.1.	
Executive Vice-Presidents	A.1.2	A.1.2.	
Directors		A.2	
Head of human resources	C.	B.4	
Company secretary	C.	B.4	
Head of compliance and permanent controls	B.5	B.5	
Head of audit	B.5	B.5	
Head of risk management	B.5	B.5	
Head of finance	C.	C.8	Variable remuneration capped at €80,000
Head of corporate finance	C.	C.4	
Head of international affairs	C.	C.3	
Head of legal affairs	C.	C.3	
Head of management control	C.	C.3	
Head of banking production	C.	C.3	
Head of corporate market	C.	C.3	
Head of real estate	C.	C.3	
Head of lending	C.	C.3	
Head of non-performing loans	C.	C.3	
Head of tax accounting	C.	C.3	
Head of private banking market	C.	C.3	
Head of banking services	C.	C.3	
Deputy Head of risk management	B.5	B.5	
Deputy Head of corporate market	C.	C.3	
Head of operational risk department	C.	C.3	
Head of customer and brokerage department	C.	C.8	
Head of engineering and trading department	C.	C.8	
Head of ALM and MLT investment department	C.	C.8	
Head of financial transactions department	C.	C.4	
Head of LBO and structured loan department	C.	C.4	
Head of syndication department	C.	C.4	
Head of international finance department	C.	C.3	
Head of international trade department	C.	C.3	
Head of market risk department	C.	C.3	
Head of banking management department	C.	C.3	
Head of large corporates department	C.	C.3	
Head of special affairs surveillance department	C.	C.3	
Head of remuneration and benefits department	C.	C.3	
Head of compliance and ethics department	C.	C.3	
Head of permanent controls department	C.	C.3	
Head of risk management and measurement department	C.	C.3	
Head of tax service	C.	C.3	
Head of research services	C.	C.3	
Head of euro and foreign currency service	C.	C.8	
Head of analysis service	C.	C.3	

Functions	Fixed remunerations	Variable remunerations	Observations
Head of financial security service	C.	C.3	
Head of risk monitoring and control service	C.	C.3	
Head of information systems security service	C.	C.3	
Head of international banking relationships service	C.	C.3	
Dealing room sales employees	C.	C.8	
Market operators	C.	C.8	
Cash manager	C.	C.8	

The ratio of variable to fixed remuneration is capped at 100% in the Company.

3.3 Policy on variable remuneration of regulated persons

In accordance with Articles L. 511-71 to L. 511-85 of the French Monetary and Financial Code, the policy on payment of variable remuneration (staggering, percentage paid in stock, penalties) is as follows.

Proportionality principle

The rules regulating variable remuneration apply only where the amount of variable remuneration awarded in respect of a financial year is above a threshold, currently greater than or equal to €100 thousand.

The threshold is measured by adding up all variable remuneration paid during the year for different regulated functions within the Group, including those in other companies (for instance in the event of an internal transfer). If the threshold is breached, the following rules apply to each of the portions of variable remuneration, including those below the threshold.

If the amount of variable remuneration awarded in respect of a year is strictly below the threshold, the whole of the variable remuneration is paid as soon as it is granted.

If the amount of variable remuneration awarded in respect of a year is equal to or higher than the threshold, the rules of variable regulation, set out below, apply to the whole of the variable remuneration.

When an employee moves job during the year, to assess whether the €100 thousand threshold has been breached, all portions of variable remuneration granted in respect of 2015 for their different regulated functions exercised in 2015 are added.

Deferred and conditional payment of a portion of variable remuneration

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

- 50%(1) 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 balance of 50%(2) of the amount vests and is paid upon grant.

For each deferred portion, the definitive vesting is conditional on continued employment and performance. If the performance condition is not met the portion is lost (application of penalty).

The performance conditions applying to deferred portions of variable remuneration are set, on proposal of the Remuneration Committee, by the governing body of the Company granting the variable remuneration at the time of its grant.

For each deferred portion of variable remuneration in respect of a year n, the governing body establishes whether the performance conditions is met or not:

- if it is not, the deferred portion is permanently lost;
- if it is met and if the beneficiary remains in the Group, the deferred portion definitively vests and is paid no earlier than 1 October in the years n+2, n+3 or n+4.

(1) This percentage applies solely to variable remuneration below €500,000. Where variable remuneration is equal to or higher than €500,000, the percentage deferred is 60%. Where variable remuneration is equal to or higher than €1,000,000, the percentage deferred is 70%.

(2) Or 40% for variable remuneration equal to or more than €500,000, or 30% for variable remuneration equal to or more than €1,000,000.

Payment in shares or equivalent instruments

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 calculated as a rolling average of the last three years preceding the grant year and the payment years. The calculation of this average only considers the 2010 and subsequent financial years.

Any deferred portion of variable remuneration granted in respect of a given year n is revalued in each year m+1, at the publication date of income attributable to equity holders of the parent for year m (where m is greater than n), using a ratio determined by the following formula:

(IAEHP(m) + IAEHP(m-1) + IAEHP(m-2)) / (IAEHP(m-1) + IAEHP(m-2) + IAEHP(m-3))

For calculations involving financial years prior to 2010 the 2010 income attributable to equity holders of the parent is used.

The ratio is reported each year by BPCE.

Effect of departures and transfers on deferred variable remuneration of employees and corporate officers

In the case of intra-group transfers, the deferred amounts are retained and remain subject to the same rules (maturity dates, indexing, penalty clauses) set by the original Company's governing body which remains liable to pay the corresponding deferred amounts to the senior executive or employee.

In the event of death or retirement, unvested deferred remuneration vests immediately, after application of any penalty clauses.

If an employee is dismissed for any reason other than serious misconduct unvested deferred remuneration vests immediately after application of any penalty clauses.

If a term of office ends or is not renewed at the initiative of the governing body:

- and is not followed(1) by a transfer within the Group, unvested deferred variable remuneration vests immediately, after application of any penalty clauses.
- and is followed(2) by a transfer within the Group, the deferred amounts are retained and remain subject to the same rules (maturity dates, indexing, penalty clauses) set by the original Company's governing body which remains liable to pay the amounts to the senior executive.

In the event of an employee's resignation or dismissal for serious misconduct, unvested variable remuneration is lost.

In the event of non-renewal of a term of office, at the initiative of the office-holder, unvested variable remuneration is lost.

In the event of departure from the Group or death, vested amounts, including amounts paid early (see above) are paid immediately, following a decision by the governing body of the paying institution, subject to the indexing ratios.

(1) However, if a term of office ends at the initiative of the governing body and is followed by a reappointment elsewhere in the group unvested deferred variable remuneration may be lost if the governing body due to pay the remuneration and the central body so decide, giving reasons.

(2) However, if a term of office ends at the initiative of the governing body and is not followed by a reappointment elsewhere in the Group, unvested deferred variable remuneration may be lost if the governing body so decides, giving reasons, in consultation with the institution due to pay the remuneration and the central body.

4. Aggregate quantitative information on the remuneration of regulated persons

Table 1. Aggregate quantitative information on remuneration, broken down by field of activity Article 450 g) of EU regulation 575/2013

	Management body executive function	Management body supervisory function	Investment banking	Retail banking	Asset management	Support functions	Independent control function	Other	Total
Workforce	2.9	13.4	0.0	0.0	0.0	34.0	11.3	7.0	68.6
Fixed remuneration	€668,672	€133,101	€0	€0	€0	€3,410,482	€908,458	€478,902	€5,599,615
Variable remuneration	€393,098	€0	€0	€0	€0	€1,096,119	€96,144	€443,873	€2,029,234
Total remuneration	€1,061,770	€133,101	€0	€0	€0	€4,506,601	€1,004,602	€922,775	€7,628,849

Table 2. Aggregate quantitative information on remuneration, broken down by executives and employees whose activities have a significant impact on the institution's risk profile. Article 450 h) of EU regulation 575/2013

	Management body	Other	Total
Workforce	16.3	52.3	68.6
Total remuneration	€1,194,871	€6,433,978	€7,628,849
- of which fixed remuneration	€801,773	€4,797,842	€5,599,615
- of which variable remuneration	€393,098	€1,636,136	€2,029,234
- of which non-deferred	€277,098	€1,563,327	€1,840,425
- of which cash	€277,098	€1,563,327	€1,840,425
- of which shares and related instruments	€0	€0	€0
- of which other instruments	€0	€0	€0
- of which deferred	€116,000	€72,809	€188,809
- of which cash	€0	€0	€0
- of which shares and related instruments	€116,000	€72,809	€188,809
- of which other instruments	€0	€0	€0
Total variable remuneration awarded for prior years and not yet vested	€111,727	€77,567	€189,294
Amount of variable remuneration awarded for prior years and vested (after reduction)	€103,835	€77,200	€181,035
- Amount of reductions	€0	€0	€0
Termination benefits agreed	€0	€355,374	€355,374
Number of beneficiaries of termination benefits	0	1	1
Highest amount of termination benefits agreed	€0	€355,374	€355,374
Amounts paid for recruitment	€0	€0	€0
Number of beneficiaries of amounts paid for recruitment	0	0	0

In 2015, no Banque Palatine employee received total remuneration of more than €1 million.

5. Individual information

Pierre-Yves DRÉAN	Amounts in respect of 2015 Due/granted	Paid
Fixed remuneration	€290,000	€290,000
Variable remuneration	€232,000	€116,000
Directors' fees	€17,000	€17,000
Housing allowance	€40,000	€40,000
Benefits in kind	-	€17,097

Bertrand DUBUS	Amounts in respect of 2015* Due/Granted	Paid
Fixed remuneration	€175,389	€175,389
Variable remuneration	€87,694	€74,224
Directors' fees	€2,250	€2,250
Benefits in kind		€7,925

* *For period qualifying as a regulated person.*

Thierry ZARAGOZA	Amounts in respect of 2015 Due/Granted	Paid
Fixed remuneration	€205,000	€203,383
Variable remuneration	€102,500	€86,874
Profit-sharing and incentive plans		€15,626
Contractual bonus	-	€1,786
Directors' fees	€7,000	€7,000
Benefits in kind	-	€6,458

Henri GALLON	Amounts in respect of 2015 Due/Granted	Paid
Fixed remuneration	€96,000	€96,000
Variable remuneration	€14,400	€14,400
Exceptional remuneration		
Benefits in kind		€169

Marc PHILIPPE	Amounts in respect of 2015 Due/Granted	Paid
Fixed remuneration	€131,898	€131,898
Variable remuneration	€19,785	€19,785
Exceptional remuneration		
Benefits in kind		€3,501

Note: the variable remuneration shown is that granted in respect of the 2015 financial year and not that paid in 2015.

2 FINANCIAL STATEMENTS

1 Parent-company financial statements at 31 December 2015

1.1 Balance sheet and off-balance sheet

Assets

(in millions of euros)	Notes	31 Dec. 2015	31 Dec. 2014
Cash, central banks		607.3	313.9
Treasury bills and similar securities	3.3	770.1	1,061.0
Loans and advances due from credit institutions	3.1	6,468.1	5,663.2
Transactions with customers	3.2	7,900.9	7,465.5
Bonds and other fixed-income securities	3.3	934.5	640.6
Equities and other variable-income securities	3.3	2.1	2.5
Investments in subsidiaries and long-term equity investments	3.4	4.7	3.9
Investments in associates	3.4	9.3	9.9
Intangible assets	3.6	117.8	115.6
Property, plant and equipment	3.6	20.0	22.4
Other assets	3.8	209.2	183.4
Accrual accounts	3.9	204.2	126.4
TOTAL ASSETS		**17,248.3**	**15,608.2**

Off-balance sheet items

(in millions of euros)	Notes	31 Dec. 2015	31 Dec. 2014
Commitments given			
Financing commitments	4.1	1,705.3	2,570.4
Guarantee commitments	4.1	1,087.3	1,111.2
Commitments on securities		80.0	0.0

Liabilities

(in millions of euros)	Notes	31 Dec. 2015	31 Dec. 2014
Amounts due to credit institutions	3.1	3,952.0	2,448.1
Transactions with customers	3.2	9,929.5	8,135.8
Debt securities	3.7	1,944.3	3,903.8
Other liabilities	3.8	45.4	34.0
Accrual accounts	3.9	240.3	114.8
Provisions	3.10	64.0	60.1
Subordinated debt	3.11	270.8	120.5
Fund for general banking risks (FGBR)	3.12	1.3	1.3
Total equity (excl. FGBR)	3.13	800.8	789.7
Issued capital		538.8	538.8
Share premium		56.7	56.7
Retained earnings		42.1	39.4
Carried forward		112.4	101.2
Net income/(loss) for the year		50.7	53.5
TOTAL EQUITY AND LIABILITIES		**17,248.3**	**15,608.2**

Off-balance sheet items

(in millions of euros)	Notes	31 Dec. 2015	31 Dec. 2014
Commitments received			
Financing commitments	4.1	351.1	613.2
Guarantee commitments	4.1	301.4	386.5
Commitments on securities		1.2	1.8

1.2 Statement of income

(in millions of euros)	Notes	2015	2014
Interest and similar income	5.1	335.7	372.0
Interest and similar expenses	5.1	(126.0)	(153.0)
Income from variable-income securities	5.3	10.0	9.4
Fee and commission income	5.4	72.0	67.0
Fee and commission expenses	5.4	(5.8)	(5.1)
Net gains or losses on trading book transactions	5.5	12.3	7.9
Net gains or losses on available-for-sale securities and similar items	5.6	(2.4)	0.8
Other banking income	5.7	4.6	2.9
Other banking expenses	5.7	(2.6)	(2.6)
NET BANKING INCOME		**297.9**	**299.2**
Operating expenses	5.8	(173.8)	(170.4)
Depreciation, amortisation and impairment of property, plant & equipment and intangible assets		(10.9)	(10.8)
GROSS OPERATING INCOME		**113.2**	**118.0**
Cost of risk	5.9	(36.4)	(41.9)
OPERATING INCOME		**76.7**	**76.1**
Gains or losses on long-term investments	5.10	(0.3)	(0.8)
INCOME BEFORE TAX		**76.4**	**75.4**
Income taxes	5.12	(25.7)	(21.9)
NET INCOME		**50.7**	**53.5**

2 Notes to the parent-company annual financial statements

Note 1 General background

1.1 Groupe BPCE

Groupe BPCE, which Banque Palatine is a part of, also includes 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 whose members own two 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 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, 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 71.25%-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 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 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 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 €181.3 million at 31 December 2015, 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

In December 2015 Banque Palatine issued a repayable subordinated loan (PSR) for €150 million, that was wholly subscribed by BPCE.

This PSR is an instrument eligible for Basel III Tier 2 capital.

During 2015, Banque Palatine, like the other major banking institutions, received and processed many requests for home loan renegotiations from individual customers.

Since 3 July 2015, the custodian activity was transferred from Banque Palatine to CACEIS Bank.

1.4 POST-BALANCE SHEET EVENTS

No events liable to have a material effect on the 2015 financial statements occurred after the reporting 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 2015. They were approved by the Board of Directors on 9 February 2016. They will be presented to the annual general meeting on 24 May 2016.

2.2 Changes in accounting methods

Companies have no obligation to apply the IFRIC 21 “Levies” interpretation in the individual accounts per French standards but Banque Palatine has decided in the case of individuals to align the French and IFRS standards since it is an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" that is at the origin of French accounting rules on liabilities.

According to the IFRIC 21 interpretation, an entity must recognise a debt related to public authority levies only when 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. In the event that the obligation to pay the tax arises at 1 January, the latter must be registered as of that date.

The main taxes concerned by this change in accounting method are the systemic banking tax (TSB), the contribution to ACPR supervisory costs and property tax.

For simplicity and taking into account the minimal significance of the matter, the decision was made to also apply this change to the social security and solidarity contribution (C3S) by considering it a change of method of application in the individual financial statements without retroactive effect.

The social security and solidarity contribution (C3S) is now recognised on the date that triggers its payability (1 January) and no longer the year the revenue is earned.

In the statements closed at 31 December 2015, the impacts are the following: reversal of the accrued expenses at the end of 2014 for €0.7 million and recognition of the 2015 expense for €0.7 million.

No accrued expense was recognised for 2016. The C3S does not represent any expense in 2015 compared to a net expense of €0.7 million in 2014.

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 shares in 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 period based on the market price on the most recent trading day: the overall balance of differences resulting from fluctuations in prices is recognised in the income statement. 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 ANC regulation no. 2014-03.

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.

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 reflected in CRC regulation no. 2014-03.

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 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 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 differences in calculation assumptions (early retirement, discount rate, etc.) or observed between actuarial assumptions and real calculations (return on plan assets, etc.) are amortised using the corridor approach, in other words for the portion exceeding a change of plus or minus 10% of the obligations or the 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 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.

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.

Futures and forwards

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.

The Group chose the following option concerning the accounting of negative interests:

- when the return on an asset is negative, it is presented in the income statement less interest income;
- when the return on a liability is positive, it is presented in the income statement less interest expense;

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.

2.3.14 Contributions to mechanisms for banking resolution

At 31 December 2015, the procedures for feeding the deposit guarantee and resolution fund were amended by an order of 27 October 2015. The cumulative amount of contributions paid and available to the fund for deposit, guarantee and security mechanisms represent €6.7 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €1.2 million. The allocation in guarantee deposits (DDG) represents €5.5 million. Contributions paid in the form of associate or association certificates and cash guarantee deposits that are registered on the asset side of the balance sheet total €2.1 million.

Directive 2014/59/EU referred to as the BRRD (Bank Recovery and Resolution Directive) that establishes a framework for the correction and resolution of credit institutions and investment corporations and European regulation 806/2014 (SRM regulation) established the implementation of a resolution fund starting in 2015. In 2016, this fund will become a single resolution fund (SRF) between the member states participating in the Single Supervisory Mechanism (SSM). The SRF is a system for funding resolution available to the resolution authority. This system could call upon this fund as part of the implementation of resolution procedures.

In 2015, in compliance with the 2015/63 delegated regulation supplementing the BRRD directive on ex-ante contributions to the systems for financing resolution and decision no. 2015-CR-01 of the ACPR resolution panel of 24 November 2015, the amount of contributions paid and available to the fund represents €1.9 million including €1.3 million recognised as an expense and €0.6 million in the form of cash deposit guarantees that are recognised as assets in the balance sheet

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

Assets (in millions of euros)	31 Dec. 2015	31 Dec. 2014
Current accounts	*53.0*	*55.1*
Overnight loans	*2,272.0*	*680.7*
Demand accounts	**2,325.0**	**735.8**
Term accounts and loans	*4,120.4*	*4,899.8*
Subordinated and participating loans	*2.5*	*2.5*
Term accounts	**4,122.9**	**4,902.3**
Accrued interest	**20.3**	**25.1**
TOTAL	**6,468.1**	**5,663.2**

Receivables arising from transactions with the network break down into €2,273.3 million in demand accounts and €3,869.3 million in term accounts at 31 December 2015, compared with €689.4 million and €4,655.8 million respectively at 31 December 2014.

The funds collected for Livret A and LDD accounts and held centrally by Caisse des dépôts et consignations amounted to €245.2 million at 31 December 2015, up from €248 million at 31 December 2014.

Liabilities (in millions of euros)	31 Dec. 2015	31 Dec. 2014
Current accounts in credit	*240.4*	*266.3*
Overnight deposits	*157.9*	*75.0*
Other amounts due	*14.9*	*12.7*
Accrued interest on demand accounts	0.0	0.2
Demand accounts	**413.1**	**354.1**
Term accounts and loans	*3,533.3*	*2,051.6*
Securities sold under term repurchase agreements		*37.6*
Accrued interest payable on term loans	5.5	4.9
Term accounts	**3,538.9**	**2,094.0**
TOTAL	**3,952.0**	**2,448.1**

Payables arising from transactions with the network break down into €236.5 million in demand accounts and €3,296 million in term accounts at 31 December 2015, compared with €71.7 million and €1,833.2 million respectively at 31 December 2014.

3.2 Customer transactions

3.2.1 Customer transactions

Assets (in millions of euros)	31 Dec. 2015	31 Dec. 2014
Current accounts with overdrafts	**433.3**	**391.7**
Trade receivables	**172.2**	**199.7**
Export loans	*75.0*	*87.6*
Short-term and consumer credit facilities	*1,383.6*	*1,266.1*
Equipment loans	*1,746.7*	*1,647.3*
Home loans	*1,785.8*	*1,739.8*
Other customer loans	*1,920.2*	*1,718.0*
Subordinated loans	*4.7*	*4.4*
Other	*37.5*	*101.8*
Other facilities granted to customers	**6,953.5**	**6,565.0**
Accrued interest	**19.6**	**20.7**
Doubtful loans and advances (*)	**592.2**	**541.5**
Impairment of loans and advances to customers	**(269.9)**	**(253.0)**
TOTAL	**7,900.9**	**7,465.5**
(*) o/w restructured loans	*142.2*	*155.7*
o/w restructured loans reclassified as performing	*0.0*	*2.0*

Loans and advances to customers eligible for central bank refinancing where the bank is established amounted to €351.1 million.

Liabilities (in millions of euros)	31 Dec. 2015	31 Dec. 2014
Regulated savings accounts	1,015.5	990.1
Livret A savings accounts	*177.3*	*162.7*
PEL/CEL regulated accounts	*276.7*	*282.7*
Other regulated savings accounts	*561.5*	*544.7*
Other accounts and loans from customers(1)	8,892.1	7,104.3
Other amounts due	15.4	33.6
Accrued interest	6.5	7.7
TOTAL	**9,929.5**	**8,135.8**

(1) Breakdown of accounts and loans from customers

	31 Dec. 2015			31 Dec. 2014		
(in millions of euros)	Demand	Term	Total	Demand	Term	Total
Current accounts in credit	7,758.9		7,758.9	5,783.0		5,783.0
Other accounts and loans		1,133.2	1,133.2		1,321.3	1,321.3
TOTAL	**7,758.9**	**1,133.2**	**8,892.1**	**5,783.0**	**1,321.3**	**7,104.3**

3.2.2 Breakdown of outstanding loans by sector

	Performing loans and advances	Doubtful loans and advances		o/w Irrecoverable doubtful loans and advances	
(in millions of euros)	Gross	Gross	Specific impairment	Gross	Specific impairment
Non-financial companies	6,374.3	498.1	227.0	255.9	170.3
Self-employed customers	15.3	1.2	0.5	0.6	0.4
Individual customers	1,144.4	89.4	40.8	45.9	30.6
Non-profit institutions	44.4	3.5	1.6	1.8	1.2
Government and social security institutions	0.3	0.0	0.0	0.0	0.0
TOTAL AT 31 DECEMBER 2015	**7,578.6**	**592.2**	**269.9**	**304.2**	**202.5**
TOTAL AT 31 DECEMBER 2014	**7,177.4**	**541.5**	**253.0**	**333.0**	**204.9**

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

3.3.1 Securities portfolio

	31 Dec. 2015			31 Dec. 2014		
(in millions of euros)	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Gross	745.0	9.9	754.9	994.9	49.8	1,044.6
Accrued interest	14.9	0.3	15.2	15.4	1.1	16.5
Impairment	(0.0)			(0.1)		(0.1)
Treasury bills and similar securities	**759.9**	**10.1**	**770.1**	**1,010.1**	**50.9**	**1,061.0**
Gross	424.5	502.7	927.2	218.4	419.0	637.4
Accrued interest	7.6	7.1	14.7	3.6	6.7	10.3
Impairment	(7.3)	0.0	(7.3)	(7.1)	0.0	(7.1)
Bonds and other fixed-income securities	**424.7**	**509.8**	**934.5**	**214.9**	**425.7**	**640.6**
Gross	2.1		2.1	2.5		2.5
Equities and other variable-income securities	**2.1**		**2.1**	**2.5**		**2.5**
TOTAL	**1,186.7**	**520.0**	**1,706.6**	**1,227.5**	**476.6**	**1,704.1**

The market value of held-to-maturity securities stood at €515.3 million.

The change in treasury bills and related securities is explained mainly by the disposal of Spanish sovereign securities acquired for €250 million.

Treasury bills, bonds and other fixed-income securities

	31 Dec. 2015			31 Dec. 2014		
(in millions of euros)	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Listed securities	745.0	9.9	754.9	994.8	49.8	1,044.5
Unlisted securities	0.0	0.0	0.0	0.0	0.0	0.0
Doubtful loans and advances						0.0
Accrued interest	14.9	0.3	15.2	15.4	1.1	16.5
TOTAL	**759.9**	**10.1**	**770.1**	**1,010.1**	**50.9**	**1,061.0**
o/w subordinated notes	*5.0*		*5.0*	*4.9*		*4.9*

Unrealised capital gains on available-for-sale securities after deduction of hedging (mostly swapped assets) total €3 million at 31 December 2015 compared to €4 million at 31 December 2014.

Unrealised capital losses subject to an impairment provision on available-for-sale securities amounted to €7.4 million at 31 December 2015, compared with €7.2 million at 31 December 2014.

Unrealised capital gains on held-to-maturity securities amounted to €8 million at 31 December 2015. Unrealised capital gains on held-to-maturity securities amounted to €9.2 million at 31 December 2014.

Unrealised capital losses on held-to-maturity securities came to €5.3 million at 31 December 2015, stable compared with the €0.1 million recorded at 31 December 2014.

Equities and other variable-income securities

	31 Dec. 2015	31 Dec. 2014
(in millions of euros)	Available-for-sale securities	Available-for-sale securities
Listed securities	2.1	2.5
TOTAL	**2.1**	**2.5**

At 31 December 2015, equities and other variable-income securities included €2.1 million in accumulation funds (compared with €2.5 million in accumulation funds at 31 December 2014).

3.3.2 Changes in held-to-maturity securities

(in millions of euros)	01 Jan. 2015	Purchases	Redemptions	Discount/ premium	Other changes	31 Dec. 2015
Treasury bills	50.9	0.0	(40.8)	(0.3)	0.3	10.1
Bonds and other fixed-income securities	425.7	141.9	(56.1)	(0.4)	(1.3)	509.8
TOTAL	**476.6**	**141.9**	**(96.9)**	**(0.6)**	**(1.1)**	**520.0**

3.3.3 Reclassifications of assets

Reclassification owing to market illiquidity

Pursuant to the provisions of CRC regulation no. 2014-07 (previously mentioned in CRC no. 2008-17 of 10 December 2008), Banque Palatine had reclassified assets in October 2008.

Type of reclassification (in millions of euros)	Reclassified amount remaining at the end of FY 2014	Securities that matured during FY 2015	Reclassified amount remaining at the end of FY 2015	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	10.0	10.0	(0.0)	0.0		-

No reclassification has taken place since then.

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. 2014	Increase	Decrease	31 Dec. 2015
Investments in subsidiaries and long-term equity investments	*4.0*	*1.1*	*(0.3)*	*4.7*
Investments in associates	*10.8*			*10.8*
Gross	**14.7**	**1.1**	**(0.3)**	**15.5**
Investments in subsidiaries and other long-term equity investments	*(0.0)*			*(0.0)*
Investments in associates	*(0.9)*	*(0.6)*		*(1.5)*
Impairment	**(0.9)**	**(0.6)**	**0.0**	**(1.5)**
TOTAL	**13.9**	**0.5**	**(0.3)**	**14.0**

3.4.2 Subsidiaries and investments

The amounts shown are stated in millions of euros.

Subsidiaries and investments	Share capital at 31 Dec. 2015	Equity other than share capital incl. fund for general banking risks, as appropriate at 31 Dec. 2015	% interest held at 31 Dec. 2015	Carrying amount of shares held at 31 Dec. 2015 Gross	Net
A. DETAILED INFORMATION CONCERNING EACH SECURITY WITH A 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	19.2	100 %	5.8	5.8
B. GENERAL INFORMATION CONCERNING OTHER INSTRUMENTS WITH A GROSS VALUE NOT EXCEEDING 1% OR LESS OF THE PARENT COMPANY'S CAPITAL					
French subsidiaries (together)				5.0	3.5
Investments in French companies				4.2	4.2

Subsidiaries and investments	Loans and advances granted by the parent-company and not yet redeemed (incl. perpetual subordinated notes) in 2015	Guarantees and endorsements given by the parent-company in 2015	Net revenue before tax in the year to 31 Dec. 2015	Net income for the year to 31 Dec. 2015	Dividends received by the parent-company in 2015	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	39.2	12.6	9.3	0.0
B. GENERAL INFORMATION CONCERNING OTHER INSTRUMENTS WITH A GROSS VALUE NOT EXCEEDING 1% OR LESS OF THE PARENT-COMPANY'S CAPITAL						
French subsidiaries (together)	0.0	0.1			0.1	0.0
Investments in French companies	0.0	0.0			0.6	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 TARDOME AVIATION	88 avenue de France – 75013 Paris	Economic Interest Grouping
GIE CAISSE D'ÉPARGNE SYNDICATION RISQUE	50, av Pierre Mendès France - 75013 PARIS	Economic Interest Grouping
BPCE Services Financiers	50, av Pierre Mendès France - 75013 PARIS	Economic Interest Grouping
IT-CE	50, av 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	42, rue d'Anjou – 75008 PARIS	Economic Interest Grouping

3.4.4 Related-party transactions

	31 Dec. 2015			31 Dec. 2014
(in millions of euros)	Credit institutions de crédit	Other businesses	Total	Total
Receivables	**1,0**		**1,0**	**1,0**
Liabilities	**0,6**	**0,1**	**0,7**	**0,5**
Guarantee commitments given		**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. 2014	Increase	Decrease	Other movements	31 Dec. 2015
Leasehold rights and commercial goodwill	106.6	0.0	0.0		106.6
Software	27.4	6.1	(2.8)	0.0	30.7
Other	1.2	0.0	0.0	1.2	2.4
Gross	**135.1**	**6.1**	**(2.8)**	**1.2**	**139.6**
Leasehold rights and commercial goodwill	1.1		0.0		1.1
Software	18.3	5.0	(2.7)	0.0	20.6
Depreciation and impairment	**19.5**	**5.0**	**(2.7)**	**0.0**	**21.8**
TOTAL NET VALUE	**115.6**	**1.1**	**0.0**	**1.2**	**117.9**

3.6.2 Property, plant and equipment

(in millions of euros)	31 Dec. 2014	Increase	Decrease	Other movements	31 Dec. 2015
Land	20.5				20.5
Other	43.4	3.6	(3.5)	0.2	43.8
Property, plant & equipment used in operations	**63.9**	**3.6**	**(3.5)**	**0.2**	**64.3**
Property, plant & equipment not used in operations	***1.0***	***0.0***	***(0.9)***		***0.1***
Gross	**64.9**	**3.6**	**(4.4)**	**0.2**	**64.4**
Land	13.2	1.2			14.4
Other	28.7	4.7	(3.5)		29.9
Property, plant & equipment used in operations	**41.9**	**5.9**	**(3.5)**		**44.3**
Property, plant & equipment not used in operations	**0.6**	**0.2**	**(0.7)**		**0.1**
Depreciation and impairment	**42.5**	**6.1**	**(4.2)**	**0.0**	**44.4**
TOTAL NET VALUE	**22.4**	**(2.5)**	**(0.1)**	**0.2**	**20.0**

3.7 Debt securities

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Certificates of deposit and savings bonds	0.2	0.2
Interbank market instruments and money market instruments	1,869.8	3,845.6
Other debt securities	72.6	52.8
Accrued interest	1.6	5.2
TOTAL	**1,944.3**	**3,903.8**

3.8 Other assets and other liabilities

	31 Dec. 2015		31 Dec. 2014	
(in millions of euros)	Assets	Liabilities	Assets	Liabilities
Tax and social security receivables and liabilities	0.2	18.6	0.2	14.6
Security deposits paid and received	184.7	7.8	162.3	0.4
Other non-trade receivables, other accounts payable	24.3	18.9	20.9	18.9
TOTAL	**209.2**	**45.4**	**183.4**	**34.0**

Guarantee deposits paid reflect the €176.5 million in cash collateral paid at 31 December 2015, compared to €153.7 million at the end of 2014.

Guarantee deposits received reflect the €7.5 million in cash collateral collected at 31 December 2015.

3.9 Accrual accounts

	31 Dec. 2015		31 Dec. 2014	
(in millions of euros)	Assets	Liabilities	Assets	Liabilities
Foreign exchange commitments	81.0	74.5	1.9	0.0
Deferred gains and losses on forwards, futures and options used for hedging purposes	0.1	6.0	0.1	2.9
Prepaid expenses and unearned income	2.3	2.5	1.5	3.1
Accrued income/expenses(1)	18.0	61.4	23.7	67.2
Items in process of collection	51.1	67.2	31.1	33.5
Other(2)	51.8	28.7	68.0	8.1
TOTAL	**204.2**	**240.3**	**126.4**	**114.8**

(1) Accrued expenses at 31 December 2015 included €20.1 million in payroll costs (paid leave, reduction in working hour allocations, work-time management plans, payroll charges), €29.9 million in accrued interest on financial instruments (interest-rate swaps, caps, floors), compared to, respectively, €26.9 million and €27.2 million at the end of 2014.

(2) The "Other" line item records mainly syndicated loans that were due at the balance sheet date and which are waiting to allocate the funds from the partners.

3.10 Provisions

3.10.1 Changes in provisions

(in millions of euros)	31 Dec. 2014	Charges	Reversals	Uses	Other movements	31 Dec. 2015
Provisions for counterparty risk	**26.3**	**4.9**	**(3.2)**	**(0.3)**	**0.1**	**27.7**
Provisions for employee benefit obligations	**15.3**	**0.5**	**(0.3)**		**4.3**	**19.9**
Provisions for PEL/CEL regulated accounts	**3.8**	**0.0**	**0.0**			**3.8**
Securities portfolio and forwards, futures and options	*1.4*	*0.3*				*1.7*
Provisions for taxes	*0.3*		*0.0*			*0.3*
Litigation	*2.7*	*0.8*	*(1.1)*			*2.4*
Provisions for contingencies	*7.1*	*1.5*	*(4.1)*	*(0.1)*		*4.5*
Other	*3.1*	*0.8*	*(0.3)*			*3.6*
Other provisions for contingencies	**14.7**	**3.4**	**(5.5)**	**(0.1)**	**0.0**	**12.5**
TOTAL	**60.1**	**8.8**	**(9.1)**	**(0.4)**	**4.4**	**64.0**

The €4.3 million amount recorded in the "Other movements" column corresponds to the reclassification to provisions of the commitment relating to the time savings plan (CET) previously recorded in accrued expenses.

3.10.2 Provisions and impairment for counterparty risks

(in millions of euros)	31 Dec. 2014	Charges	Reversals	Uses	Translation and other movements	31 Dec. 2015
Impairment of loans and advances to customers[(3)]	243.9	77.7	(38.2)	(25.1)	2.0	260.3
Impairment of other loans and advances	3.1		(0.2)			2.9
Impairment of assets	**247.0**	**77.7**	**(38.4)**	**(25.1)**	**2.0**	**263.2**
Provisions for off-balance sheet commitments(1)	11.5	1.5	(1.1)	(0.3)		11.6
Provisions for customer credit risk[(2)]	14.8	0.1				14.9
Provisions for counterparty risk recognised as liabilities	**26.3**	**1.6**	**(1.1)**	**(0.3)**		**26.5**
TOTAL	**273.2**	**79.3**	**(39.5)**	**(25.4)**	**2.0**	**289.7**

(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) The €2 million amount includes a reclassification of interest provisions to capital provisions resulting from the capitalisation of interest due.

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 (€11.2 million in 2015).

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:

- retirements and similar schemes: pensions and other post-employment 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)	2015				2014			
	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	14,7	2.7	18.0	0.6	13.1	2.5	16.3
Unrecognised actuarial gains/(losses)	0,1	(2,8)		(2.6)	0.0	(0.9)	0.0	(0.9)
NET AMOUNT REPORTED ON THE BALANCE SHEET	**0,7**	**11,9**	**2.7**	**15.3**	**0.6**	**12.2**	**2.5**	**15.3**
Employee benefits, liabilities	0,7	11,9	2.7	15.3	0.6	12.2	2.5	15.3
Employee benefits, assets								0.0

Analysis of normalised expense for the period

(in millions of euros)	Post-employment benefits under defined-benefit plans		Other long-term benefits	2015	2014
	Supplementary pension benefits and other	Termination benefits de carrière	Long-service awards	Total	Total
Service cost	(0.1)	(0.8)	(0.2)	(1.1)	(1.0)
Interest cost	0.0	(0.2)	0.0	(0.2)	(0.4)
Benefits paid	0.1	1.3	0.2	1.5	1.2
Actuarial gains and losses	0.0	(0.1)	(0.1)	(0.1)	(0.2)
TOTAL EXPENSE FOR THE PERIOD	**0.0**	**0.3**	**(0.2)**	**0.1**	**(0.4)**

Main actuarial assumptions

	2015			2014		
	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 de carrière	Long-service awards	Supplementary pension benefits and other	Termination benefits de carrière	Long-service awards
Discount rate	1.41%	1.41%	1.41%	1.50%	1.50%	1.50%
Inflation/wage growth rate	1.52%	1.52%	1.52%	1.20%	1.20%	1.20%

The discount rate of 1.41% 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. 2015	31 Dec. 2014
Deposits held in PEL regulated home savings plans		
• plans in place for less than 4 years	97.9	85.5
• plans in place for more than 4, but less than 10 years	38.6	43.4
• plans in place for more than 10 years	126.7	135.1
Deposits held in PEL regulated home savings plans	**263.1**	**264.0**
Deposits held in CEL regulated home savings accounts	**18.7**	**18.6**
TOTAL	**281.8**	**282.7**

Loans granted

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Loans granted		
• in respect of PEL regulated home savings plans	0.1	0.1
• in respect of CEL regulated home savings accounts	0.3	0.5
TOTAL	**0.4**	**0.6**

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

(in millions of euros)	31 Dec. 2014	Net charges/ reversals	31 Dec. 2015
Provisions for PEL regulated home savings plans			
• plans in place for less than 4 years	0.7	0.3	1.0
• plans in place for more than 4, but less than 10 years	0.3	(0.1)	0.2
• plans in place for more than 10 years	2.5	(0.1)	2.4
Provisions set aside in respect of PEL regulated home savings plans	**3.5**	**0.1**	**3.6**
Provisions set aside in respect of CEL regulated home savings accounts	**0.3**	**(0.1)**	**0.2**
TOTAL	**3.8**	**0.0**	**3.8**

3.11 Subordinated debt

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Term subordinated debt	190.0	40.0
Perpetual subordinated debt	80.0	80.0
Accrued interest	0.8	0.5
TOTAL	**270.8**	**120.5**

These borrowings have the following characteristics:

Currency	Issue date	Outstandings at 31 Dec. 2015 (€ millions)	Issue price (€ millions)	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 Feb. 2017
EUR	15 Dec. 2005	25.0	25.0	3-month Euribor + 0.40%			yes	20 Feb. 2016
EUR	28 Dec. 2004	15.0	15.0	3-month Euribor + 1%	1%	28 Dec. 2014	no(2)	
EUR	20 Dec. 2005	65.0	65.0	3-month Euribor + 0.92%	1%	20 Dec. 2015	no(2)	
EUR	07 Dec. 2015	150.0	150.0	3-month Euribor + 2.29%			yes	8 Dec. 2025
TOTAL		**270.0**	**270.0**					

(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 competent authority.

3.12 Fund for general banking risks

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
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	Carried forward	Income	Total equity excl. FRBG
Total at 31 December 2013	**538.8**	**56.7**	**37.5**	**85.1**	**37.7**	**755.9**
Movements in the year	0.0	0.0	1.9	16.1	15.8	33.8
Total at 31 December 2014	**538.8**	**56.7**	**39.4**	**101.2**	**53.5**	**789.7**
Appropriation of 2014 income			2.7	11.2	(13.9)	0.0
Dividend payments					(39.6)	(39.6)
Net income for the period					50.7	50.7
TOTAL AT 31 DECEMBER 2015	**538.8**	**56.7**	**42.1**	**112.4**	**50.8**	**800.8**

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. 2015						
(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	6.5	754.9			770.1
Loans and advances due from credit institutions	2,631.3	111.4	1,329.1	2,110.6	285.8		6,468.2
Transactions with customers	1,129.0	493.3	965.0	2,774.6	2,216.7	322.2	7,900.9
Bonds and other fixed-income securities	28.0	19.1	52.3	584.1	251.0		934.5
Total uses of funds	**3,790.7**	**630.3**	**2,352.8**	**6,224.2**	**2,753.5**	**322.2**	**16,073.6**
Amounts due to credit institutions	418.7	262.5	1,781.6	1,439.3	50.0		3,952.0
Transactions with customers	8,722.2	453.4	324.4	429.1	0.4		9,929.4
Debt securities	143.1	881.0	841.7	17.4	61.1		1,944.2
Subordinated debt	0.8	25.0	0.0	15.0	150.0	80.0	270.8
Total sources of funds	**9,284.7**	**1,622.0**	**2,947.6**	**1,900.8**	**261.5**	**80.0**	**16,096.5**

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. 2015	31 Dec. 2014
Financing commitments given		
To credit institutions	**0.0**	**1,100.0**
Documentary credits	*118.9*	*115.3*
Other confirmed credit lines	*1,531.9*	*1,313.0*
Other commitments	*54.5*	*42.1*
To customers	**1,705.3**	**1,470.4**
TOTAL FINANCING COMMITMENTS GIVEN	**1,705.3**	**2,570.4**
Financing commitments received		
From credit institutions	351.1	613.2
TOTAL FINANCING COMMITMENTS RECEIVED	**351.1**	**613.2**

4.1.2 Guarantee commitments

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Guarantee commitments given		
• Confirmed documentary credit lines	67.5	75.1
• Other guarantees	7.5	10.6
To credit institutions	**75.1**	**85.6**
• Real estate guarantees	119.2	120.6
• Government and tax guarantees	81.3	73.5
• Other guarantees given	811.7	831.5
To customers	**1,012.2**	**1,025.6**
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,087.3**	**1,111.2**
Guarantee commitments received from credit institutions	301.4	386.5
TOTAL GUARANTEE COMMITMENTS RECEIVED	**301.4**	**386.5**

4.1.3 Other commitments not recognised off-balance sheet

	31 Dec. 2015		31 Dec. 2014	
(in millions of euros)	Commitments given	Commitments received	Commitments given	Commitments received
Other securities pledged as collateral to credit institutions	351,1		613.2	0.0
Other securities pledged as collateral received from customers		4,744.8	0.0	4,656.1
TOTAL	**351,1**	**4,744.8**	**613.2**	**4,656.1**

At 31 December 2015, amounts pledged as collateral under funding arrangements only concerned securities and no receivable was provided to Banque de France under the TRICP system compared to €550.3 million at 31 December 2014.

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. 2015 Hedge	31 Dec. 2015 Fair value	31 Dec. 2014 Hedge	31 Dec. 2014 Fair value
Futures and forwards				
Interest rate contracts	4.0		2.5	
Currency contracts	9.1	0.0	2.6	0.0
Transactions in organised markets	**13.1**	**0.0**	**5.1**	
Interest rate swaps	2,675.8	7.0	3,382.9	5.0
Currency swaps	6,135.6	0.0	5,423.0	0.0
Other forward and futures	71.5	0.0	29.2	0.0
Over-the-counter transactions	**8,882.9**	**7.0**	**8,835.2**	**5.0**
TOTAL FORWARDS AND FUTURES	**8,895.9**	**7.0**	**8,840.3**	**5.0**
Options				
Other options	352.1	0.5	32.2	0.0
Transactions in organised markets	**352.1**	**0.5**	**32.2**	**0.0**
Interest rate options	2,885.2	1.2	1,818.5	0.5
Currency options	1,781.5	0.0	1,663.5	0.0
Over-the-counter transactions	**4,666.7**	**1.2**	**3,482.0**	**0.5**
TOTAL OPTIONS	**5,018.8**	**1.7**	**3,514.2**	**0.5**
TOTAL FINANCIAL INSTRUMENTS AND CURRENCY FUTURES AND OPTIONS	**13,914.8**	**8.7**	**12,354.5**	**5.5**

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. 2015 Micro-hedge	31 Dec. 2015 Macro-hedge	31 Dec. 2015 Total	31 Dec. 2014 Micro-hedge	31 Dec. 2014 Macro-hedge	31 Dec. 2014 Total
Forward rate agreements (FRA)			0.0			
Interest rate swaps	5,633.2	890.4	6,523.6	5,986.4	1,010.1	6,996.5
Currency swaps	2,300.9		2,300.9	1,814.6		1,814.6
Other interest rate forwards	71.5		71.5	29.2		29.2
Futures and forwards	**8,005.5**	**890.4**	**8,895.9**	**7,830.2**	**1,010.1**	**8,840.3**
Interest rate options	5,018.8		5,018.8	3,514.2		3,514.2
Options	**5,018.8**	**0.0**	**5,018.8**	**3,514.2**	**0.0**	**3,514.2**
TOTAL	**13,024.4**	**890.4**	**13,914.8**	**11,344.5**	**1,010.1**	**12,354.5**

No transactions were transferred to another portfolio during the period.

4.2.3 Commitments on forwards, futures and options by maturity

(in millions of euros)	31 Dec. 2015			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Transactions in organised markets	13.1	0.0	0.0	13.1
Over-the-counter transactions	2,942.4	4,765.7	1,174.8	8,882.9
Futures and forwards	**2,955.4**	**4,765.7**	**1,174.8**	**8,895.9**
Transactions in organised markets	0.0	0.0		0.0
Over-the-counter transactions	2,289.0	2,601.3	128.5	5,018.8
Options	**2,289.0**	**2,601.3**	**128.5**	**5,018.8**
TOTAL	**5,244.4**	**7,367.0**	**1,303.4**	**13,914.8**

4.3 Breakdown of assets and liabilities by currency

(in millions of euros)	31 Dec. 2015		31 Dec. 2014	
	Assets	Liabilities	Assets	Liabilities
Euro	16,816.5	16,835.1	15,221.5	15,214.7
Dollar	399.8	379.4	350.5	311.0
Pound sterling	18.8	20.7	24.0	71.3
Swiss franc	3.6	3.9	2.8	1.5
Yen	1.8	0.8	1.6	1.1
Other	7.8	8.5	7.9	8.5
TOTAL	**17,248.3**	**17,248.3**	**15,608.2**	**15,608.2**

4.4 Foreign currency transactions

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Spot foreign exchange transactions		
Currencies receivable not received	8.8	38.4
Currencies deliverable not delivered	8.8	38.4
TOTAL	**17.5**	**76.8**

Note 5 Information on the income statement

5.1 Interest and similar income and expense

(in millions of euros)	2015			2014		
	Income	Expense	Net	Income	Expense	Net
Transactions with credit institutions	57.1	(25.9)	31.2	72.9	(34.8)	38.2
Transactions with customers	199.9	(52.0)	147.9	220.2	(69.0)	151.2
Bonds and other fixed-income securities	61.6	(45.8)	15.8	63.5	(45.8)	17.7
Subordinated debt		(1.7)	(1.7)	0.0	(1.7)	(1.7)
Other	17.1	(0.7)	16.4	15.3	(1.8)	13.5
TOTAL	**335.7**	**(126.0)**	**209.7**	**372.0**	**(153.0)**	**219.0**

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.

The provision for the regulated home savings accounts remained stable for 2015, compared with a provision reversal of €3.9 million for 2014.

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)	2015	2014
Investments in subsidiaries and long-term equity investments	0.1	0.1
Investments in associates	9.9	9.4
TOTAL	**10.0**	**9.4**

Including €9.3 million in dividends received from its Palatine Asset Management subsidiary, compared to €8.3 million in 2014.

5.4 Fees and commission

	2015			2014		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Cash and interbank transactions	0.1	(0.1)	0.0	0.1	(0.1)	(0.1)
Transactions with customers	34.7		34.7	30.5		30.5
Securities transactions	3.5	(0.1)	3.3	3.8	(0.1)	3.7
Payment services	10.9	(5.3)	5.6	10.7	(4.6)	6.1
Insurance products	12.3		12.3	12.2		12.2
Foreign exchange transactions	0.3		0.3	0.3		0.3
Financial services	6.9	(0.3)	6.7	7.0	(0.3)	6.7
Other fee and commission income [(1)]	3.3		3.3	2.5		2.5
TOTAL	**72.0**	**(5.8)**	**66.2**	**67.0**	**(5.1)**	**61.9**

(1) This consists of financial engineering fees.

5.5 Net gains or losses on trading book transactions

(in millions of euros)	2015	2014
Foreign exchange transactions	0.2	3.8
Forwards, futures and options	12.1	4.1
TOTAL	**12.3**	**7.9**

The sustained activity of the dealing room on currency transactions and financial instruments in the first quarter of 2015 is the source of the strong growth of this item.

5.6 Net gains or losses on available-for-sale securities and similar items

	2015	2014
(in millions of euros)	**Available-for-sale securities**	**Available-for-sale securities**
Impairment		
Charges	*(2.9)*	*(0.2)*
Reversals	*0.1*	*0.1*
Net gain/(loss) on disposal	0.4	0.9
TOTAL	**(2.4)**	**0.8**

5.7 Other banking income and expense

(in millions of euros)	2015 Income	2015 Expense	2015 Total	2014 Income	2014 Expense	2014 TOTAL
Rebilling of banking income and expense	1.1		1.1	1.4	0.0	1.4
Miscellaneous other activities	3.5	(2.6)	1.0	1.6	(2.6)	(1.1)
TOTAL	**4.6**	**(2.6)**	**2.1**	**2.9**	**(2.6)**	**0.3**

5.8 Operating expenses

(in millions of euros)	2015	2014
Wages and salaries	(64.4)	(63.5)
Pension costs and similar obligations	(6.8)	(7.1)
Other social security charges	(27.0)	(25.5)
Employee incentive scheme	(4.0)	(5.5)
Employee profit-sharing scheme	(1.2)	(0.6)
Payroll taxes	(11.5)	(11.5)
TOTAL SALARY AND EMPLOYEE BENEFIT EXPENSE	**(114.9)**	**(113.8)**
Taxes other than on income	(8.5)	(7.7)
Other operating expenses	(50.5)	(49.0)
TOTAL OTHER OPERATING EXPENSES	**(59.0)**	**(56.7)**
TOTAL	**(173.8)**	**(170.4)**

The average headcount during the year, broken down by professional category, was as follows: 767 managers and 435 non-managers, representing a total of 1,202 persons.

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1.1 million in 2015. 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

	2015					2014				
(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	(77,7)	63,1	(26,1)	1,6	(39,1)	(62,3)	26,2	(5,1)	1,9	(39,3)
Securities portfolio and other receivables		0,2			0,2					0,0
Provisions										
Off-balance sheet commitments					0.0	(7.5)	2.7		0.0	(4,8)
Provisions for customer credit risks	(5.2)	7.6			2.4	(0.3)	2.6	0.0		2,3
TOTAL	**(82.8)**	**70.9**	**(26.1)**	**1.6**	**(36.4)**	**(70.1)**	**31.5**	**(5.1)**	**1.9**	**(41,9)**
o/w:										
• reversals of obsolete impairment charges		*63.3*					*26.2*			
• reversals of impairment losses used		*25.0*					*16.4*			
• reversals of obsolete provisions		*7.6*					*5.2*			
• reversals of provisions used		*0.4*					*0.4*			
• losses covered by provisions		*(25.4)*					*(16.8)*			
Net reversals		**70.9**					**31.5**			

5.10 Gains or losses on long-term investments

(in millions of euros)	2015 Investments in subsidiaries and other long-term equity investments	2014 Investments in subsidiaries and other long-term equity investments
Impairment		
Charges	*(0.6)*	*(0.9)*
Reversals	*0.0*	*0.1*
Net gain/(loss) on disposal	**0.3**	**0.0**
TOTAL	**(0.3)**	**(0.8)**

The consolidated investment in Ariès was written down by €0.6 million during the year 2015.

The net gain/(loss) on disposal records the gain made on the disposal of shares held by Bpifrance Financement (formerly OSEO SA) in the amount of €0.3 million.

5.11 Non-recurring items

No non-recurring items were recorded in 2015.

5.12 Income tax

5.12.1 Breakdown of income tax in 2015

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)	2015
Tax bases at rates of	**33.33%**
Tax on income before non-recurring items	67.1
Tax bases	**67.1**
Corresponding tax expense	22.4
+ 3.3% contributions	0.7
+ 10.7% surcharge (amended French finance act 2014)	2.4
Tax expense reported	**25.4**
Provisions for taxes	0.3
TOTAL	**25.7**

5.12.2 Breakdown of 2015 taxable income – reconciliation from book to taxable income

(in millions of euros)	2015	2014
Net income per the financial statements (A)	**50.7**	**53.5**
Corporate tax (B)	**25.7**	**21.9**
Add-backs (C)	**22.0**	**13.9**
Impairment losses on property, plant and equipment and intangible assets	0.6	0.9
Other impairment losses and provisions	17.3	12.7
Other	4.1	0.3
Deductions (D)	**31.3**	**34.2**
Reversals of impairment losses and provisions	20.3	24.1
Dividend payments	9.4	8.9
Other	1.6	1.2
Tax base at standard rate (A)+(B)+(C)-(D)	**67.1**	**55.1**

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 2015 to members of the management bodies came to €1.2 million.

Outstanding loans totalling €0.2 million were granted to a member of the Board of Directors at ordinary rate and term conditions.

6.3 Statutory auditors' fees

	TOTAL				PricewaterhouseCoopers Audit				KPMG			
	2015		2014		2015		2014		2015		2014	
(in thousands of euros)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
AUDIT												
Statutory audit, review of the parent-company and consolidated financial statements	377	92%	373	91%	189	99%	181	99%	188	85%	192	85%
Other procedures and services directly linked to the Statutory Auditors' duties	35	8%	35	9%	2	1%	2	1%	33	15%	33	15%
TOTAL	**412**	**100%**	**408**	**100%**	**191**	**100%**	**183**	**100%**	**221**	**0%**	**225**	**0%**
Change (%)				1%				4%				-2%

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 2015, Banque Palatine had no offices or activities in uncooperative tax havens.

3 IFRS consolidated financial statements of the Palatine Group at 31 December 2015

3.1 Consolidated balance sheet

Assets

(in millions of euros)	Notes	31 Dec. 2015	31 Dec. 2014
Cash, central banks	5.1	607.3	313.9
Financial assets at fair value through profit or loss	5.2.1	171.1	67.7
Hedging derivatives	5.3	8.2	11.7
Available-for-sale financial assets	5.4	1,347.6	1,444.9
Loans and advances due from credit institutions	5.6.1	6,472.3	5,675.7
Loans and advances due from customers	5.6.2	8,317.6	7,748.9
Held-to-maturity investments	5.7	51.4	92.7
Deferred tax assets	5.9	16.1	17.5
Accrued income and other assets	5.10	318.4	298.8
Investments in associates	8.1	4.4	4.4
Investment property	5.12	0.0	0.4
Property, plant and equipment	5.13	18.5	20.5
Intangible assets	5.13	23.3	20.9
Goodwill	5.14	3.1	3.8
TOTAL ASSETS		**17,359.3**	**15,721.8**

Liabilities

(in millions of euros)	Notes	31 Dec. 2015	31 Dec. 2014
Financial liabilities at fair value through profit or loss	5.2.2	157.9	61.9
Hedging derivatives	5.3	131.5	146.3
Amounts due to credit institutions	5.15.1	3,954.1	2,452.3
Amounts due to customers	5.15.2	9,934.4	8,141.9
Debt securities	5.16	1,943.8	3,903.0
Current tax liabilities		5.5	0.6
Deferred tax liabilities	5.9	0.3	1.9
Accrued expenses and other liabilities	5.17	158.3	107.1
Provisions	5.18	50.9	45.5
Subordinated debt	5.19	190.7	40.5
Equity		**831.9**	**820.8**
Equity attributable to equity holders of the parent		**831.9**	**820.8**
Share capital and share premium		595.5	595.5
Retained earnings		185.4	172.2
Gains and losses recognised directly in other lines of comprehensive income		- 4.5	0.3
Net income for the period		55.5	52.7
Non-controlling interests (minority interests)		**0.0**	**0.0**
TOTAL LIABILITIES AND EQUITY		**17,359.3**	**15,721.8**

3.2 Consolidated income statement

(in millions of euros)	Notes	2015	2014
Interest and similar income	6.1	339.3	373.8
Interest and similar expenses	6.1	(123.9)	(150.0)
Fee and commission income	6.2	108.7	97.9
Fee and commission expenses	6.2	(13.1)	(12.0)
Net gains or losses on financial instruments at fair value through profit or loss	6.3	13.3	8.9
Net gains or losses on available-for-sale financial assets	6.4	1.0	1.1
Income from other activities	6.5	3.8	1.9
Expenses from other activities	6.5	(3.7)	(3.4)
NET BANKING INCOME		**325.4**	**318.2**
Operating expenses	6.6	(182.6)	(177.5)
Net charge to depreciation and impairment losses on property, plant and equipment, and intangible assets		(10.9)	(10.8)
GROSS OPERATING INCOME		**131.9**	**129.9**
Cost of risk	6.7	(41.5)	(46.6)
OPERATING INCOME		**90.4**	**83.3**
Share in net income of associates	8.2	0.5	0.5
Change in value of goodwill	6.9	(0.7)	(0.3)
INCOME BEFORE TAX		**90.2**	**83.5**
Income tax expense	6.10	(34.7)	(30.8)
NET INCOME		**55.5**	**52.7**
Non-controlling interests (minority interests)		0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**55.5**	**52.7**

3.3. Comprehensive income

(in millions of euros)	2015	2014
NET INCOME	**55.5**	**52.7**
Remeasurement gains and losses on defined-benefit plans	(1.9)	(1.5)
Tax impact of remeasurement gains and losses on defined-benefit plans	0.6	0.5
ITEMS THAT CANNOT BE RECLASSIFIED IN INCOME	**(1.3)**	**(1.0)**
Change in the value of available-for-sale financial assets	(5.4)	1.1
Changes in the value of hedging derivatives	0.0	(0.6)
Income taxes	1.9	(0.2)
ITEMS THAT CAN BE RECLASSIFIED IN INCOME	**(3.5)**	**0.3**
GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER ITEMS OF COMPREHENSIVE INCOME (NET OF TAX)	**(4.8)**	**(0.7)**
COMPREHENSIVE INCOME	**50.7**	**52.0**
Attributable to equity holders of the parent	50.7	52.0
Non-controlling interests	0.0	0.0

3.4 Statement of changes in equity

(in millions of euros)	Share capital and share premium				Gains and losses recognised directly in equity								
						Change in fair value of financial instruments							
	Share capital	Additional paid-in capital	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	Total consolidated equity
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 other lines of comprehensive income							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**
Appropriation of 2014 net income			53.5		(0,8)					(52,7)	0,0		0,0
Reclassification											0,0		0,0
Effect of IFRIC 21					0,5						0,5		0,5
EQUITY AT 1 JAN. 2015	**538.8**	**56.7**	**194.1**	**80.0**	**(48,6)**	**(0,1)**	**1,7**	**(0,4)**	**(0,9)**	**0,0**	**821,3**	**0,0**	**821,3**
Dividend payments			(39.6)								(39,6)		(39,6)
Interest on deeply subordinated notes					(0,5)						(0,5)		(0,5)
Gains and losses recognised directly in other lines of comprehensive income							(3,6)	0,0	(1,2)		(4,8)		(4,8)
Income										55,5	55,5		55,5
Other changes											0,0		0,0
EQUITY AT 31 DEC. 2015	**538.8**	**56.7**	**154.5**	**80.0**	**(49,1)**	**(0,1)**	**(1,9)**	**(0,4)**	**(2,1)**	**55,5**	**831,9**	**0,0**	**831,9**

3.5. Cash flow statement

(in millions of euros)	**2015**	**2014**
Income before tax	**90.2**	**82.9**
Net depreciation and amortisation of property, plant and equipment, and intangible assets	11.2	10.8
Goodwill impairment	0.7	0.6
Net charge to provisions and impairment losses	13.7	19.4
Share in net income of associates	0.0	0.2
Net gains/losses on investing activities	(4.5)	(4.0)
Other movements	75.6	(131.4)
Total non-cash items included in net income before tax	**96.7**	**(104.4)**
Net increase or decrease arising from transactions with credit institutions	2,225.8	738.3
Net increase or decrease arising from transactions with customers	1,214.0	(139.8)
Net increase or decrease arising from transactions affecting financial assets and liabilities	(1,901.3)	515.4
Net increase or decrease arising from transactions affecting non-financial assets and liabilities	(16.9)	(134.2)
Tax paid	(27.4)	(28.0)
Net increase/(decrease) in assets and liabilities generated by operating activities	**1,494.2**	**951.7**
NET CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A)	**1,681.0**	**930.2**
Net increase or decrease related to financial assets and investments	42.8	85.1
Net increase or decrease relating to investment property	2.5	0.0
Net increase or decrease related to property, plant and equipment, and intangible assets	(11.3)	(8.4)
NET CASH FLOWS GENERATED BY INVESTING ACTIVITIES (B)	**34.0**	**76.6**
Net increase or decrease arising from transactions with shareholders[(1)]	(39.6)	(19.4)
Cash flow from financing activities	150.2	(0.0)
NET CASH FLOWS GENERATED BY FINANCING ACTIVITIES (C)	**110.6**	**(19.4)**
EFFECT OF EXCHANGE RATE FLUCTUATIONS ON EXCHANGE RATES (D)	**0.0**	**0.0**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**1,825.6**	**987.4**
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)
Opening cash and cash equivalents	**708.5**	**(278.9)**
Cash and net balance of accounts with central banks	**607.3**	**313.9**
Cash and net balance of accounts with central banks (assets)	*607.3*	*313.9*
Net balance of demand transactions with credit institutions	**1,926.8**	**394.6**
Current accounts with overdrafts[(2)]	*53.0*	*55.2*
Demand accounts and loans	2,272.0	680.7
Demand accounts in credit	(398.3)	(341.3)
Closing cash and cash equivalents	**2,534.1**	**708.5**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**1,825.6**	**987.4**

(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.

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 whose members own two 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 71.25%-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);
- 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 €181.3 million at 31 December 2015, 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

In December 2015 Banque Palatine issued a repayable subordinated loan (PSR) for €150 million, that was wholly subscribed by BPCE. This PSR is an instrument eligible for Basel III Tier 2 capital.

During 2015, Banque Palatine, like the other major banking institutions, received and processed many requests for home loan renegotiations from individual customers.

Since 3 July 2015, the custodian activity was transferred from Banque Palatine to CACEIS Bank.

1.4 Post-balance sheet events

No events liable to have a material effect on the 2015 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 2015 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 financial statements at 31 December 2015 were complemented by standards, amendments and interpretations, application of which is mandatory for reporting periods starting on or after 1 January 2015, and, more specifically:

Accounting change concerning the first-time adoption of the IFRIC 21 "Levies" interpretation

Since 1 January 2015, the Palatine Group has applied IFRIC 21 "Levies". 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. If the obligation to pay is triggered by reaching a minimum threshold, the liability is recognised only when that minimum threshold is reached. Finally, in the event that the obligation to pay the tax arises at 1 January, the latter must be registered as of that date.

(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.

At the date of first-time adoption, *i.e.* 1 January 2014, the effects of IFRIC 21 are retrospectively recognised as follows:

- The social security and solidarity contribution (C3S) is now recognised on the date that triggers its payability (1 January) and no longer the year the revenue is earned. Cancellation of the provision recognised at 31 December 2013 by an offsetting entry under equity, affecting the opening balance sheet at 1 January 2014;
- the C3S expense affects the net income/(loss) for 2014.

The impacts of the IFRIC 21 interpretation on the consolidated balance sheet at 31 December 2014 are not material and mainly concern the Group share of equity for a net deferred tax amount of €0.5 million in consideration of accrual accounts - liabilities and deferred tax assets.

New IFRS 9

In July 2014, the IASB published the final version of IFRS 9, "Financial Instruments", which will mandatorily replace IAS 39 starting 1 January 2018. This new standard introduces:

- for financial assets, a new model of classification based on the type of instrument (debt instrument or equity instrument);
- for debt instruments, the standard reviews the Amortised cost/Fair value separation, basing itself on the asset management model and the characteristics of contractual cash flows. Only the instruments with simple or standard characteristics, therefore, may be eligible for the amortised cost category (if they are managed in a collection model) or fair value through other lines of comprehensive income (if they are managed in a model of collection and sale);
- for financial liabilities designated at fair value through profit or loss, the obligation to record in the other lines of comprehensive income, the changes in fair value related to equity risk (except in the case in which this accounting would create or increase an accounting incompatibility at the level of net income);
- a single model for impairment, prospective, based on expected losses and calculated on all of the portfolios accounted for at amortised cost or at fair value in consideration of all lines of comprehensive income (recyclable);
- a modified accounting model for hedging, more suitable for risk management activities.

Although IFRS 9 has not yet been adopted by the European Union, in view of the significance of the changes brought by the standard, in the first half of 2015, the Group began normative analysis work and work on its application at different operational levels conducted in the framework of a project organisation involving the participation of all the business lines and support functions concerned. This work will continue in 2016 with the launch of the IT developments necessary for the proper implementation of the standard.

The other standards, amendments and interpretations adopted by the European Union did not have a material impact on the Group's financial statements. The standards, amendments and interpretations adopted by the European Union whose application is not mandatory have not been anticipated.

2.3 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 2015, 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);
- the provisions recorded under liabilities on the balance sheet and more specifically the provision for regulated home savings products (Note 4.5 – Provisions) and provisions for litigation;
- calculations of the cost of pensions and future employee benefits (Note 4.9 – Employee benefits);
- deferred tax assets and liabilities (Note 4.10 – Deferred taxes);
- goodwill impairment testing (Note 3.3.3 – Business combinations).

2.4 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 2015. The Palatine Group's consolidated financial statements for the period ended 31 December 2015 were approved by the Board of Directors on 9 February 2016. They will be presented to the annual general meeting on 24 May 2016.

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 scope of entities consolidated by Banque Palatine is shown in Note 17 – Scope of consolidation.

3.2.1 Entities controlled by the Group

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 relevant 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 activities, providing an entity with a source of capital or funding, or providing investors with investment options by transferring to them the risks and advantages associated with 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.

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 17 – 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 or exercise joint control over these policies. 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 their nature to the various lines of the consolidated balance sheet, the consolidated income statement and the statement of net income and gains and losses recognised directly in other lines of comprehensive income.

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 of the Palatine Group 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, of liabilities incurred or assumed, and of equity instruments issued by the acquirer, in exchange for control of the acquired company. Any costs directly attributable to the business combination are included in the acquisition cost.

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.

The fair value less sales costs is determined as the fair value of the sale net of exit costs 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;
- any counterparties to pay 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, the counterparties transferred 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:
  - either the fair value (method resulting in the allocation of a share of the goodwill to non-controlling interests),
  - or at 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 advances;
- available-for-sale financial assets.

Financial assets 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 that the Group has designated on initial recognition as those 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 advances

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 other lines of comprehensive income" (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, except in special cases.

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:

- its 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) 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;
- 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 hedge

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 other lines of comprehensive income”, 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 in the case of hedges of a portfolio of financial assets and as liabilities in the case of 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 at 31 December 2014.

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

Level 1 fair value and active market concept

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 available 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 markets 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 UCITS for which net asset value is an indicative value (in the event of illiquidity, in the event of liquidation, etc.) and where there are no prices to support this value;
- FCPRs (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 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 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 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 the interbank 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 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 other lines of comprehensive income” 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 impairments

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 other lines of comprehensive income 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 other lines of comprehensive income at the reclassification date 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 believes that other changes may also be considered substantial, such as: a change of issuer (even within a 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 Assets held for sale and related liabilities

In the case of a decision to sell non-current assets with a strong probability that the sale will occur within 12 months, the assets in question are isolated in the balance sheet in the line item "Non-current assets held for sale". Any liabilities that are linked to them are also presented separately in a dedicated item "Liabilities linked to non -current assets held for sale".

When they are classified in this category, the non-current assets are no longer amortised and are measured at the lower of their carrying amount or of their fair value less sales costs. Financial instruments are measured according to the principles of IAS 39.

4.5 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.

4.6 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.

The Group chose the following option concerning the accounting of negative interests:

- when the return on a financial asset debt instrument is negative, it is presented in the income statement less interest income;
- when the return on a financial liability debt instrument is positive, it is presented in the income statement less interest expense.

4.7 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.

4.8 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 other lines of comprehensive income”;
- 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 other lines of comprehensive income”.

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 other lines of comprehensive income" if the gain or loss on the non-monetary line is entered in "Gains and losses recognised directly in other lines of comprehensive income".

4.9 Employee benefits

The Palatine Group grants its employees a variety of benefits that can be classified into four categories:

4.9.1 Short-term employee benefits

Short-term employee benefits mainly include wages, salaries, paid annual leave, incentive schemes, profit-sharing, and bonuses expected to be paid within 12 months of the end of the period for which the benefits apply.

They are expensed in the period, including amounts remaining due at the reporting date.

4.9.2 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).

4.9.3 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.

4.9.4 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.

4.10 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;
- changes in the fair value of derivatives used as cash flow hedges;

for which the corresponding deferred tax assets and liabilities are recognised as "Gains and losses recognised directly in other lines of comprehensive income".

Deferred tax assets and liabilities are not discounted to their present value.

4.11 Contributions to mechanisms for banking resolution

At 31 December 2015, the procedures for feeding the deposit guarantee and resolution fund were amended by an order of 27 October 2015. The cumulative amount of contributions paid and available to the fund for deposit, guarantee and security mechanisms represent €6.7 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €1.2 million. The allocation in guarantee deposits (DDG) represents €5.5 million. Contributions paid in the form of associate or association certificates and cash guarantee deposits that are registered on the asset side of the balance sheet total €2.1 million.

Directive 2014/59/EU referred to as the BRRD (*Bank Recovery and Resolution Directive*) that establishes a framework for the correction and resolution of credit institutions and investment corporations and European Regulation 806/2014 (SRM regulation) established the implementation of a resolution fund starting in 2015. In 2016, this fund will become a single resolution fund (SRF) between the member states participating in the Single Supervisory Mechanism (SSM). The SRF is a system for funding resolution available to the resolution authority. This system could call upon this fund as part of the implementation of resolution procedures.

In 2015, in compliance with the 2015/63 delegated regulation supplementing the BRRD directive on ex-ante contributions to the systems for financing resolution and decision no. 2015-CR-01 of the ACPR resolution panel of 24 November 2015, the amount of contributions paid and available to the fund represents €1.9 million including €1.3 million recognised as an expense and €0.6 million in the form of cash deposit guarantees that are recognised as assets in the balance sheet

Note 5 Notes to the balance sheet

5.1 Cash and net balance of accounts with central banks

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Cash	5.7	6.2
Cash placed with central banks	601,6	307.7
CASH AND NET BALANCE OF ACCOUNTS WITH CENTRAL BANKS	**607.3**	**313.9**

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. 2015	31 Dec. 2014
(in millions of euros)	**Trading**	**Trading**
Trading derivatives	171.1	67.7
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**171.1**	**67.7**

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. 2015	31 Dec. 2014
Trading derivatives	157.9	61.9
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**157.9**	**61.9**

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. 2015			31 Dec. 2014		
(in millions of euros)	**Notional**	**Positive fair value**	**Negative fair value**	**Notional**	**Positive fair value**	**Negative fair value**
Interest rate instruments	3,847.8	44.8	39.2	3,613.6	42.1	36.8
Currency instruments	2,363.3	81.6	75.3	1,841.2	0.0	0.0
Futures and forwards	**6,211.1**	**126.4**	**114.5**	**5,454.8**	**42.1**	**36.8**
Interest rate instruments	2,885.2	4.7	3.4	1,818.5	1.0	0.5
Currency instruments	1,962.1	40.0	40.0	1,681.0	24.6	24.6
Options	**4,847.3**	**44.7**	**43.4**	**3,499.5**	**25.6**	**25.1**
TOTAL TRADING DERIVATIVES	**11,058.4**	**171.1**	**157.9**	**8 954,3**	**67,7**	**61,9**

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. These hedges transform assets or liabilities at fixed rates into floating rate assets or liabilities. Fair value hedges include hedges of loans, securities, deposits and fixed-rate 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. 2015			31 Dec. 2014		
(in millions of euros)	**Notional**	**Positive fair value**	**Negative fair value**	**Notional**	**Positive fair value**	**Negative fair value**
Interest rate instruments	2,459.6	7.8	130.7	2,846.2	11.2	145.1
Futures and forwards	**2,459.6**	**7.8**	**130.7**	**2,846.2**	**11.2**	**145.1**
Fair value hedge	**2,459.6**	**7.8**	**130.7**	**2,846.2**	**11.2**	**145.1**
Interest rate instruments	216.2	0.4	0.8	536.8	0.5	1.2
Futures and forwards	**216.2**	**0.4**	**0.8**	**536.8**	**0.5**	**1.2**
Cash flow hedge	**216.2**	**0.4**	**0.8**	**536.8**	**0.5**	**1.2**
TOTAL HEDGING DERIVATIVES	**2,675.8**	**8.2**	**131.5**	**3,383.0**	**11.7**	**146.3**

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. 2015**	**31 Dec. 2014**
Treasury bills and similar securities	821.5	1,090.6
Bonds and other fixed-income securities	497.1	329.7
Impaired securities	0.0	0.2
Fixed-income securities	**1,318.6**	**1,420.5**
Equities and other variable-income securities	**28.9**	**24.5**
Loans to customers	0.1	0.1
Loans	**0.1**	**0.1**
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS, GROSS	**1,347.6**	**1,445.1**
Impairment of fixed-income securities and loans	0.0	(0.2)
Prolonged impairment of equities and other variable-income securities	0.0	0.0
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET	**1,347.6**	**1,444.9**
Gains and losses recognised directly in equity on available-for-sale financial assets (before tax)	**(0.3)**	**5.0**

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.

The change in treasury bills and related securities is explained mainly by the disposal of Spanish sovereign securities acquired for €250 million.

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. 2015				31 Dec. 2014			
(in millions of euros)	**Price quoted in an active market (Level 1)**	**Valuation techniques using observable inputs (Level 2)**	**Valuation techniques using unobservable inputs (Level 3)**	**Total**	**Price 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	171.1	0.0	171.1	0.0	67.7	0.0	67.7
Interest-rate derivatives	*0.0*	*49.5*	*0.0*	*49.5*	*0.0*	*43.0*	*0.0*	*43.0*
Currency derivatives	*0.0*	*121.7*	*0.0*	*121.6*	*0.0*	*24.7*	*0.0*	*24.7*
Financial assets held for trading	**0.0**	**171.1**	**0.0**	**171.1**	**0.0**	**67.7**	**0.0**	**67.7**
Interest-rate derivatives	0.0	8.2	0.0	8.2	0.0	11.7	0.0	11.7
Hedging derivatives	**0.0**	**8.2**	**0.0**	**8.2**	**0.0**	**11.7**	**0.0**	**11.7**
Investments in unconsolidated subsidiaries	0.0	0.0	3.8	3.8	0.0	0.0	3.5	3.5
Other securities	1,320.6	0.0	0.5	1,321.2	1,441.3	0.0	0.0	1,441.3
Fixed-income securities	*1,318.6*	*0.0*	*0.0*	*1,318.6*	*1,420.3*	*0.0*	*0.0*	*1,420.3*
Variable-income securities	*2.1*	*0.0*	*0.5*	*2.6*	*21.0*	*0.0*	*0.0*	*21.0*
Other financial assets	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Available-for-sale financial assets	**1,320.7**	**0.0**	**4.3**	**1,325.0**	**1,441.4**	**0.0**	**3.5**	**1,444.9**
FINANCIAL LIABILITIES								
Derivatives	0.0	157.9	0.0	157.9	0.0	61.9	0.0	61.9
Interest-rate derivatives	*0.0*	*42.6*	*0.0*	*42.6*	*0.0*	*37.3*	*0.0*	*37.3*
Currency derivatives	*0.0*	*115.3*	*0.0*	*115.3*	*0.0*	*24.6*	*0.0*	*24.6*
Financial liabilities held for trading	**0.0**	**157.9**	**0.0**	**157.9**	**0.0**	**61.9**	**0.0**	**61.9**
Interest-rate derivatives	0.0	131.5	0.0	131.5	0.0	146.3	0.0	146.3
Hedging derivatives	**0.0**	**131.5**	**0.0**	**131.5**	**0.0**	**146.3**	**0.0**	**146.3**

5.5.2 Analysis of financial assets and liabilities classified in Level 3 of the fair value hierarchy

			Investment management events in the period		
(in millions of euros)	**31 Dec. 2014**	**Gains and losses recognised in income during the period on transactions still outstanding at the reporting date**	**Purchases/ Issues**	**Sales/ Repayments**	**31 Dec. 2015**
FINANCIAL ASSETS					
Investments in unconsolidated subsidiaries	3.5		0.6	(0.3)	3.8
Other securities	0.0		0.5		0.5
Variable-income securities	0.0		0.5		0.5
Available-for-sale financial assets	**3.5**		**1.1**	**(0.3)**	**4.3**

The financial instruments measured using a technique that relies on non-observable inputs are mainly 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 and associate certificates, 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. 2015	31 Dec. 2014
Loans and advances due from credit institutions	6,472.3	5,675.7
TOTAL LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS	**6,472.3**	**5,675.7**

The fair value of loans and advances due from credit institutions is presented in Note 15 – 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. 2015	31 Dec. 2014
Current accounts with overdrafts	53.0	55.2
Accounts and loans	6,412.6	5,605.7
Securities classified as loans and advances	4.1	12.2
Subordinated and participating loans	2.5	2.5
Impaired loans and advances	0.1	0.1
TOTAL GROSS LOANS AND ADVANCES ON CREDIT INSTITUTIONS	**6,472.3**	**5,675.7**

Livret A and LDD savings accounts centralised with Caisse des Dépôts et Consignations and recorded under “Loans and advances” amounted to €245.2 million at 31 December 2015 (€248.0 million at 31 December 2014).

5.6.2 Loans and advances due from customers

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Loans and advances due from customers	8,595.3	8,009.5
Specific impairments	(262.8)	(245.8)
Collective impairments	(14.9)	(14.8)
TOTAL LOANS AND ADVANCES DUE FROM CUSTOMERS	**8,317.6**	**7,748.9**

The fair value of loans and advances due from customers is presented in Note 15 – 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. 2015	31 Dec. 2014
Current accounts with overdrafts	**436.2**	**394.8**
Trade receivables	172.7	199.9
Short-term loans	1,387.0	1,270.8
Equipment loans	1,751.6	1,652.2
Home loans	1,789.4	1,743.6
Export loans	75.0	87.7
Other loans	1,981.5	1,848.8
Subordinated loans	4.7	4.4
Other facilities granted to customers	**7,161.9**	**6,807.4**
Securities classified as loans and advances	**411.5**	**272.7**
Securities classified as doubtful loans and advances	**4.0**	**4.0**
Impaired loans and advances	**581.7**	**530.6**
TOTAL GROSS LOANS AND ADVANCES DUE FROM CUSTOMERS	**8,595.3**	**8,009.5**

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. 2015	31 Dec. 2014
Treasury bills and similar securities	10.1	51.0
Bonds and other fixed-income securities	41.3	41.7
TOTAL HELD-TO-MATURITY INVESTMENTS	**51.4**	**92.7**

The fair value of held-to-maturity investments is presented in Note 15 – 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 2015.

Portfolio of reclassified financial assets

(in millions of euros)	Carrying amount at the reclassification date	Carrying amount at 31 December 2014	Carrying amount at 31 December 2015	Change in 2015	Fair value at 31 December 2014	Fair value at 31 December 2015	Change in 2015
Assets reclassified in 2009							
Available-for-sale financial assets reclassified as loans and receivables	22.8	4.7	4.3	(0.4)	5.5	5.7	0.2
TOTAL SECURITIES RECLASSIFIED IN 2009	**22.8**	**4.7**	**4.3**	**(0.4)**	**5.5**	**5.7**	**0.2**
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**	**4.7**	**4.3**	**(0.4)**	**5.5**	**5.7**	**0.2**

Results and changes in equity in 2015 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	(0.6)	(0.6)
TOTAL RESULTS RELATED TO RECLASSIFIED FINANCIAL ASSETS	**(0.6)**	**(0.6)**

Gains and losses recognised directly in equity on transferred financial assets amounted to a net loss of €2.8 million at 31 December 2015.

Change in fair value that would have been recognised had the financial assets not been reclassified

(in millions of euros)	2015	2014
Available-for-sale financial assets reclassified as loans and receivables	0.1	0.1
TOTAL CHANGE IN FAIR VALUE THAT WOULD HAVE BEEN RECOGNISED HAD THE FINANCIAL ASSETS NOT BEEN RECLASSIFIED	**0.1**	**0.1**

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. 2015	31 Dec. 2014
Provisions for employee benefit obligations	4.5	4.6
Provisions for regulated home savings products	1.3	1.3
Other non-deductible provisions	7.6	8.5
Fair value of financial instruments with changes recognised in other comprehensive income	1.2	(0.6)
Other temporary differences	5.4	5.5
Deferred tax assets and liabilities related to temporary differences	**20.0**	**19.3**
Deferred taxes arising from the IFRS valuation model	**(4.8)**	**(4.2)**
Deferred tax assets and liabilities on consolidation adjustments and eliminations	**0.5**	**0.5**
NET DEFERRED TAXES	**15.8**	**15.6**
Recognised		
As an asset	16.1	17.5
As a liability	(0.3)	(1.9)

At 31 December 2015, €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. 2015	31 Dec. 2014
Collection accounts	51.1	30.7
Prepaid expenses	2.5	1.7
Accrued income	20.0	26.9
Other accrual accounts	52.5	70.3
ACCRUAL ACCOUNTS - ASSETS	**126.1**	**129.6**
Security deposits paid	8.1	153.8
Miscellaneous debtors	184.1	15.4
SUNDRY ASSETS	**192.3**	**169.2**
TOTAL ACCRUAL ACCOUNTS AND SUNDRY ASSETS	**318.4**	**298.8**

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 2015, the line item "Other accrual accounts" mainly concerns syndicated loans due at the closing date which are waiting to allocate the funds from the partners.

At 31 December 2015, the line item "Security deposits paid" includes chiefly the Deposit Guarantee Fund. There is no margin call on financial instruments, compared to €153.7 million at 31 December 2014.

5.11 Non current assets held for sale and related liabilities

None.

5.12 Investment property

(in millions of euros)	31 Dec. 2015 Gross	31 Dec. 2015 Accumulated depreciation and impairment	31 Dec. 2015 Net	31 Dec. 2014 Gross	31 Dec. 2014 Accumulated depreciation and impairment	31 Dec. 2014 Net
Property recognised at historical cost	0.1	(0.1)	0.0	1.0	(0.6)	0.4
TOTAL INVESTMENT PROPERTY	**0.1**	**(0.1)**	**0.0**	**1.0**	**(0.6)**	**0.4**

5.13 Non-current assets

(in millions of euros)	31 Dec. 2015 Gross	31 Dec. 2015 Accumulated depreciation and impairment	31 Dec. 2015 Net	31 Dec. 2014 Gross	31 Dec. 2014 Accumulated depreciation and impairment	31 Dec. 2014 Net
PROPERTY, PLANT AND EQUIPMENT						
Land and buildings	20.3	(15.6)	4.7	20.2	(14.4)	5.8
Equipment, furniture and other property, plant and equipment	43.8	(30.0)	13.8	43.4	(28.7)	14.7
TOTAL PROPERTY, PLANT AND EQUIPMENT	**64.1**	**(45.6)**	**18.5**	**63.6**	**(43.1)**	**20.5**
INTANGIBLE ASSETS						
Leasehold rights	11.8	(1.1)	10.7	11.8	(1.1)	10.7
Software	31.0	(20.8)	10.2	27.6	(18.5)	9.1
Other intangible assets	2.4	0.0	2.4	1.1	0.0	1.1
TOTAL INTANGIBLE ASSETS	**45.2**	**(21.9)**	**23.3**	**40.5**	**(19.6)**	**20.9**

5.14 Goodwill

This item reflects goodwill on fully-consolidated entities.

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Goodwill at beginning of period, net	**3.8**	**4.1**
Impairment losses	(0.7)	(0.3)
Goodwill at end of period, net	**3.1**	**3.8**

(in millions of euros)	Carrying amount 31 Dec. 2015	Carrying amount 31 Dec. 2014
Ariès Assurances	3.1	3.8
TOTAL GOODWILL	**3.1**	**3.8**

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 €0.7 million impairment loss in 2015.

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%.

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. 2015	31 Dec. 2014
Demand accounts	413.1	354.0
Accrued interest	0.0	0.1
AMOUNTS DUE TO CREDIT INSTITUTIONS - REPAYABLE ON DEMAND	**413.1**	**354.1**
Term deposits and loans	3,535.5	2,055.7
Repurchase agreements	0.0	37.6
Accrued interest	5.5	4.9
AMOUNTS DUE TO CREDIT INSTITUTIONS - REPAYABLE AT AGREED MATURITY DATES	**3,541.0**	**2,098.2**
TOTAL AMOUNTS DUE TO CREDIT INSTITUTIONS	**3,954.1**	**2,452.3**

The fair value of amounts due to credit institutions is presented in Note 15 – Fair value of financial assets and liabilities carried at amortised cost.

5.15.2 Amounts due to customers

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Current accounts in credit	**7,762.7**	**5,786.8**
Livret A savings accounts	177.3	162.7
Regulated home savings products	276.7	282.6
Other regulated savings accounts	561.5	544.8
Regulated savings accounts	**1,015.5**	**990.1**
Demand accounts and loans	15.4	33.6
Term accounts and loans	1,138.8	1,327.8
Accrued interest	2.0	3.6
Other customer accounts	**1,156.2**	**1,365.0**
TOTAL AMOUNTS DUE TO CUSTOMERS	**9,934.4**	**8,141.9**

The fair value of amounts due to customers is presented in Note 15 – 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. 2015	31 Dec. 2014
Bonds	0.0	0.0
Interbank market instruments and negotiable debt securities	1,942.2	3,897.8
Accrued interest	1.6	5.2
TOTAL DEBT SECURITIES	**1,943.8**	**3,903.0**

The fair value of debt securities is presented in Note 15 – Fair value of financial assets and liabilities carried at amortised cost.

5.17 Accrued expenses and other liabilities

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Collection accounts	67.2	33.5
Prepaid income	2.6	3.6
Accrued expenses	34.0	41.6
Other accrual accounts	28.7	8.1
ACCRUAL ACCOUNTS - LIABILITIES	**132.5**	**86.8**
Settlement accounts in credit on securities transactions	0.4	0.6
Guarantee deposits received	0.3	0.1
Sundry creditors	25.1	19.6
OTHER LIABILITIES	**25.8**	**20.3**
TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES	**158.3**	**107.1**

Collection accounts mainly reflect transfers made (*via* the clearing house).

At 31 December 2015, sundry creditors chiefly include:

- €9.6 million in tax and social security liabilities (€9.7 million at 31 December 2014);
- €6 million in employee incentives and profit-sharing (€6.5 million at 31 December 2014);
- €7.5 million in margin calls on financial instruments (none at 31 December 2014).

5.18 Provisions

(in millions of euros)	31 Dec. 2014	Increase	Reversal	Other movements	31 Dec. 2015
Provisions for employee benefit obligations	**16.7**	**0.5**	**(0.3)**	**6.3**	**23.2**
Provisions for regulated home savings products	3.8	0.0	0.0	0.0	3.8
Provisions for off-balance sheet commitments	18.2	5.1	(7.6)	(0.7)	15.0
Provisions for litigation	3.2	0.8	(1.1)	0.0	2.9
Other	3.6	2.0	(0.4)	0.8	6.0
Other provisions	**28.8**	**7.9**	**(9.1)**	**0.1**	**27.7**
TOTAL PROVISIONS	**45.5**	**8.4**	**(9.4)**	**6.4**	**50.9**

The €6.3 million amount recorded in the "Other movements" column corresponds to the reclassification to provisions of the commitment relating to the time savings plan (CET) previously recorded in accrued expenses for €4.4 million and to retirement payments recognised in OCI for €1.9 million.

5.18.1 Deposits collected *via* regulated home savings products

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Deposits collected *via* PEL regulated home savings plans		
plans in place for less than 4 years	97.9	85.5
plans in place for more than 4, but less than 10 years	38.6	43.4
plans in place for more than 10 years	126.7	135.1
Deposits collected *via* regulated PEL home savings plans	**263.2**	**264.0**
Deposits collected *via* CEL regulated home savings accounts	**18.7**	**18.6**
TOTAL DEPOSITS COLLECTED *VIA* HOME SAVINGS PRODUCTS	**281.9**	**282.6**

5.18.2 Loans granted *via* home savings products

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Loans granted for PEL regulated home savings plans	0.1	0.1
Loans granted under CEL regulated home savings accounts	0.5	0.5
TOTAL LOANS GRANTED IN RESPECT OF REGULATED HOME SAVINGS	**0.6**	**0.6**

5.18.3 Provisions set aside for regulated home savings products

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Provisions for PEL regulated home savings plans		
plans in place for less than 4 years	1.0	0.7
plans in place for more than 4, but less than 10 years	0.2	0.3
plans in place for more than 10 years	2.4	2.5
Provisions for PEL regulated home savings plans	**3.6**	**3.5**
Provisions for CEL regulated home savings accounts	**0.2**	**0.3**
TOTAL PROVISIONS ON REGULATED HOME SAVINGS PRODUCTS	**3.8**	**3.8**

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. 2015	31 Dec. 2014
Term subordinated debt	190.0	40.0
Accrued interest	0.7	0.5
TOTAL SUBORDINATED DEBT	**190.7**	**40.5**

The fair value of subordinated debt is presented in Note 15 – 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. 2015
BPCE	EUR	29 June 2005	18 Feb. 2017	3.9%	15.5
BPCE	EUR	15 Dec. 2005	20 Feb. 2016	3-month Euribor + 0.4%	25.0
BPCE	EUR	07 Dec. 2015	08 Dec. 2025	3-month Euribor + 2.29%	150.2
TOTAL PERPETUAL DEEPLY SUBORDINATED DEBT					**190.7**

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. 2015			31 Dec. 2014		
(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. 2015	Amount at 31 Dec. 2014
BPCE	EUR	28/12/2004	3-month Euribor + 1.0%	15.0	15.0
BPCE	EUR	20 Dec. 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.

5.2.2 Change in gains and losses recognised directly in other lines of comprehensive income

(in millions of euros)	2015	2014
Remeasurement gains and losses on defined-benefit plans	(1.9)	(1.5)
Tax impact of remeasurement gains and losses on defined-benefit plans	0.6	0.5
Change in the value of available-for-sale financial assets	(5.4)	1.1
Change in value over the period affecting equity	*(4.3)*	*2.4*
Change in value over the period affecting income	*(1.1)*	*(1.3)*
Changes in the value of hedging derivatives	0.0	(0.6)
Income taxes	1.9	(0.2)
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER LINES OF COMPREHENSIVE INCOME (NET OF TAX)	**(4.8)**	**(0.7)**

	2015			2014		
(in millions of euros)	Gross	Tax expense	Net	Gross	Tax expense	Net
Remeasurement gains and losses on defined-benefit plans	(1.9)	0.6	(1.3)	(1.5)	0.5	(1.0)
Change in the value of available-for-sale financial assets	(5.4)	1.9	(3.5)	1.1	(0.4)	0.7
Changes in the value of hedging derivatives	0.0	0.0	0.0	(0.6)	0.2	(0.4)
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER LINES OF COMPREHENSIVE INCOME	**(7.3)**	**2.5**	**(4.8)**	**(1.0)**	**0.3**	**(0.7)**
Attributable to equity holders of the parent	(7.3)	2.5	(4.8)	(1.0)	0.3	(0.7)
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.

	2015			2014		
(in millions of euros)	Income	Expense	Net	Income	Expense	Net
Loans and advances due from/to customers	226.1	(41.9)	184.2	240.6	(50.2)	190.4
Transactions with customers (excl. regulated savings accounts)	*226.0*	*(28.6)*	*197.4*	*236.8*	*(35.1)*	*201.7*
Term deposits and loans in regulated savings accounts	*0.1*	*(13.3)*	*(13.2)*	*3.8*	*(15.1)*	*(11.3)*
Loans and advances due from/to credit institutions	55.1	(14.6)	40.5	69.3	(19.4)	49.9
Debt securities and subordinated debt		(13.6)	(13.6)		(21.8)	(21.8)
Hedging derivatives	12.9	(53.8)	(40.9)	13.3	(58.6)	(45.3)
Available-for-sale financial assets	39.0		39.0	42.9		42.9
Held-to-maturity investments	1.3		1.3	3.6		3.6
Impaired financial assets	4.9		4.9	4.1		4.1
TOTAL INTEREST INCOME AND EXPENSE	**339.3**	**(123.9)**	**215.4**	**373.8**	**(150.0)**	**223.8**

Interest income on loans and advances to credit institutions consisted of €3.5 million in income in 2015 (€4.0 million in 2014) collected on the Livret A, LDD and LEP passbook savings accounts, which are deposited centrally with Caisse des Dépôts et Consignations.

The provision for the regulated home savings accounts remained stable for 2015, compared with a provision reversal of €3.9 million for 2014.

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".

	2015			2014		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Cash and interbank transactions	0.1	(0.1)	0.0	0.1	(0.2)	(0.1)
Transactions with customers	*34.7*	*0.0*	*34.7*	*30.5*	*0.0*	*30.5*
Financial services	*3.8*	*(7.3)*	*(3.5)*	*4.1*	*(6.9)*	*(2.8)*
Sales of life insurance products	12.3		12.3	12.1		12.1
Payment services	10.9	(5.3)	5.6	10.7	(4.6)	6.1
Securities transactions	2.5	(0.1)	2.4	1.3	(0.1)	1.2
Fiduciary and trust activities	40.1	0.0	40.1	35.5	0.0	35.5
Foreign exchange and arbitrage transactions	0.3	0.0	0.3	0.3	0.0	0.3
Other fee and commission income	4.0	(0.3)	3.7	3.3	(0.2)	3.1
TOTAL FEES AND COMMISSION	**108.7**	**(13.1)**	**95.6**	**97.9**	**(12.0)**	**85.9**

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)	**2015**	**2014**
Gains and losses on financial instruments held for trading	12.7	4.7
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	*16.0*	*(96.8)*
Change in fair value of hedged items attributable to hedged risks	*(16.0)*	*96.8*
Gains and losses on foreign exchange transactions	0.6	4.2
TOTAL NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**13.3**	**8.9**

In 2015, the line item "Gains and losses on financial instruments held for trading" included the change in fair value of derivatives, of which a negative €0.3 million was attributable to the trend in counterparty risk adjustments (Credit Valuation Adjustment – CVA) compared to a negative €1.4 million at 31 December 2014.

The sustained activity of the dealing room on currency transactions and financial instruments in the first quarter of 2015 is the source of the strong growth of this item.

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)	2015	2014
Net gain/(loss) on disposal	0.9	1.0
Dividends received	0.1	0.1
TOTAL NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**1.0**	**1.1**

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 (in particular 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).

	2015			2014		
(in millions of euros)	Income	Expense	Net	Income	Expense	Net
Income/(loss) on disposal of investment property	2.4	0.0	2.4	0.0	0.0	0.0
Additions and reversals of depreciation and impairment on investment property	0.0	(0.2)	(0.2)	0.0	0.0	0.0
Income and expense on investment property	**2.4**	**(0.2)**	**2.2**	**0.0**	**0.0**	**0.0**
Transfers of expenses and income	0.6	(1.2)	(0.6)	0.7	(0.9)	(0.2)
Other miscellaneous operating income and expense	0.9	(1.1)	(0.2)	0.5	(2.1)	(1.6)
Additions to and reversals from provisions to other operating income and expense	0.0	(1.2)	(1.2)	0.7	(0.4)	0.3
Other banking income and expense	**1.5**	**(3.5)**	**(2.0)**	**1.9**	**(3.4)**	**(1.5)**
TOTAL INCOME AND EXPENSE FROM OTHER ACTIVITIES	**3.9**	**(3.7)**	**0.2**	**1.9**	**(3.4)**	**(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)	2015	2014
PAYROLL COSTS	**(120.3)**	**(118.4)**
Taxes other than on income	(9.6)	(8.1)
External services	(52.7)	(51.0)
OTHER ADMINISTRATIVE EXPENSES	**(62.3)**	**(59.1)**
TOTAL OPERATING EXPENSES	**(182.6)**	**(177.5)**

The breakdown of payroll costs is provided in Note 9.1 – 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)	2015	2014
Net impairment losses and provisions	(42.4)	(43.3)
Recoveries of bad debts written off	1.6	1.8
Unrecoverable loans and receivables not covered by impairment losses	(0.7)	(5.1)
TOTAL COST OF RISK	**(41.5)**	**(46.6)**

Cost of risk by type of asset

(in millions of euros)	2015	2014
Interbank transactions	0.0	0.1
Transactions with customers	(41.9)	(45.9)
Other financial assets	0.4	(0.8)
TOTAL COST OF RISK	**(41.5)**	**(46.6)**

6.8 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 2015.

6.9 Changes in the value of goodwill

(in millions of euros)	2015	2014
Ariès Assurances	(0.7)	(0.3)
TOTAL CHANGE IN THE VALUE OF GOODWILL	**(0.7)**	**(0.3)**

6.10 Income tax

6.10.1 Analysis of income tax

(in millions of euros)	2015	2014
Current income tax	(32.3)	(26.8)
Deferred income tax	(2.4)	(4.0)
INCOME TAX EXPENSE	**(34.7)**	**(30.8)**

6.10.2 Reconciliation between the tax charge in the financial statements and the theoretical tax charge

	2015		**2014**	
	(in millions of euros)	**tax rate**	(in millions of euros)	**tax rate**
Net income attributable to equity holders of the parent	55.5		52.7	
Change in value of goodwill	0.7		0.3	
Share in net income of associates	(0.5)		(0.5)	
Income taxes	34.7		30.8	
Income before tax and changes in the value of goodwill (A)	**90.4**		**83.3**	
Standard income tax rate in France (B)		**34.43 %**		**34.43 %**
Theoretical income tax expense/(benefit) at the tax rate applicable in France (AxB)	**(31.1)**		**(28.7)**	
Impact of permanent differences	(1.0)	1.11 %	0.3	(0.36 %)
Reduced rate of tax and tax-exempt activities	0.0	0.00 %	0.1	(0.12 %)
Temporary step-up in corporate tax	(2.3)	2.54 %	(1.9)	2.28 %
Tax on prior periods, tax credits and other taxes	(0.4)	0.44 %	(0.3)	0.36 %
Other items	0.1	(0.11 %)	(0.3)	0.36 %
Income tax expense/(benefit) recognised	**(34.7)**		**(30.8)**	
EFFECTIVE TAX RATE (INCOME TAX EXPENSE DIVIDED BY TAXABLE INCOME)		**38.38 %**		**36.97 %**

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 framework for selecting transactions;
- tracking and measuring credit and counterparty risks;
- the breakdown of gross exposure by category (credit risks including counterparty risk);
- the 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. 2015**	**Net outstandings at 31 Dec. 2014**
Financial assets at fair value through profit or loss *(excluding variable-income securities)*	171.1	67.7
Hedging derivatives	8.2	11.7
Available-for-sale financial *assets (excluding variable-income securities)*	1,318.6	1,420.4
Loans and advances due from credit institutions	6,472.3	5,675.7
Loans and advances due from customers	8,317.6	7,748.9
Held-to-maturity investments	51.4	92.7
EXPOSURE TO BALANCE SHEET COMMITMENTS	**16,339.2**	**15,017.1**
Financial guarantees given	1,087.5	1,111.1
Off-balance sheet commitments	1,692.4	2,552.2
EXPOSURE TO OFF-BALANCE SHEET COMMITMENTS	**2,779.9**	**3,663.3**
GLOBAL EXPOSURE TO CREDIT RISK AND COUNTERPARTY RISK	**19,119.1**	**18,680.4**

7.1.3 Impairments and provisions for credit risk

(in millions of euros)	**31 Dec. 2014**	**Charges**	**Reversals**	**Other changes**	**31 Dec. 2015**
Available-for-sale financial assets	0.2	0.0	(0.2)	0.0	0.0
Transactions with customers	260.6	82.8	(67.6)	1.9	277.7
Other financial assets	0.8	0.0	(0.4)	0.0	0.4
IMPAIRMENT LOSSES RECOGNISED IN ASSETS	**261.6**	**82.8**	**(68.2)**	**1.9**	**278.1**
PROVISIONS FOR OFF-BALANCE SHEET COMMITMENTS	**18.2**	**5.1**	**(7.6)**	**(0.7)**	**15.0**
TOTAL IMPAIRMENT LOSSES AND PROVISIONS FOR CREDIT RISK	**279.8**	**87.9**	**(75.8)**	**1.2**	**293.1**

The item "Other movements" includes a reclassification of interest provisions to capital provisions resulting from the capitalisation of interest due for €1.9 million.

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	64.0	323.0	387.0
TOTAL AT 31 DEC. 2015	**64.0**	**323.0**	**387.0**
TOTAL AT 31 DEC. 2014	**60.4**	**288.8**	**349.2**

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. 2015		
(in millions of euros)	Adjustments	Impairment and provisions	Guarantees received
Balance sheet	217.4	(66.6)	64.9
Off-balance sheet	13.6	0.0	0.0

7.1.6 Credit risk mitigation mechanism: 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:

- the market risk monitoring framework;
- arrangements for monitoring market risks;
- banking law regarding the separation and regulation of banking activities and the Volcker rule;
- market risk measurement and surveillance;
- simulation of market risk crisis;
- the work done in 2015.

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.

Disclosures relating to the management of interest rate risk and exchange rate risk required by IFRS 7 and provided in the risk management report include: Pillar III, risk management of the balance sheet.

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: Pillar III, risk management of the balance sheet.

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	3 and up to 12 months	1 to 5 years	Over 5 years	Indeterminate	Total
Cash, central banks		607.3	0.0					607.3
Financial assets at fair value through profit or loss - trading	171.1							171.1
Hedging derivatives	8.2							8.2
Available-for-sale financial assets	2.6	45.0	15.1	40.6	1,205.4	12.5	26.4	1,347.6
Loans and advances due from credit institutions	0.1	2,628.9	111.4	1,329.0	2,110.6	292.3	0.0	6,472.3
Loans and advances due from customers	333.3	1,132.6	493.3	974.5	2,959.1	2,424.9	0.0	8,317.6
Held-to-maturity investments	0.0	0.9	0.0	0.0	50.5	0.0	0.0	51.4
TOTAL FINANCIAL ASSETS BY MATURITY	**515.2**	**4,414.7**	**619.9**	**2,344.0**	**6,325.5**	**2,729.7**	**26.4**	**16,975.4**
Financial liabilities at fair value through profit or loss – trading	157.9							157.9
Hedging derivatives	131.5							131.5
Amounts due to credit institutions	14.9	405.9	262.5	1,781.6	1,439.3	50.0	0.0	3,954.1
Amounts due to customers	0.0	8,727.1	453.4	324.4	429.1	0.4	0.0	9,934.4
Subordinated debt	0.0	0.7	25.0	0.0	15.0	150.0	0.0	190.7
Debt securities	0.0	142.6	881.0	841.7	17.4	61.1	0.0	1,943.8
TOTAL FINANCIAL LIABILITIES BY MATURITY	**304.3**	**9,276.4**	**1,622.0**	**2,947.6**	**1,900.8**	**261.5**	**0.0**	**16,312.5**
Financing commitments given to credit institutions		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing commitments given to customers		258.1	100.5	41.1	1,282.6	23.1	0.0	1,705.3
TOTAL FINANCING COMMITMENTS GIVEN BY MATURITY		**258.1**	**100.5**	**41.1**	**1,282.6**	**23.1**	**0.0**	**1,705.3**
Guarantee commitments given to credit institutions		28.2	23.1	21.5	1.3	1.0	0.0	75.1
Guarantee commitments given to customers		11.8	33.1	135.3	136.5	695.7	0.0	1,012.4
TOTAL GUARANTEE COMMITMENTS GIVEN BY MATURITY		**39.9**	**56.2**	**156.8**	**137.8**	**696.7**	**0.0**	**1,087.5**

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 Joint arrangements and associates

8.1 Investments in associates

8.1.1 Joint arrangements

The Group’s main investments in joint ventures and associates were as follows:

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Conservateur Finance	4.4	4.4
Financial companies	**4.4**	**4.4**
TOTAL INVESTMENTS IN ASSOCIATES	**4.4**	**4.4**

8.1.2 Financial data for the main joint arrangements and associates

The summary financial data for joint ventures and/or companies under significant influence was follows:

	Associates Conservateur Finance	
(in millions of euros)	**31 Dec. 2015**	**31 Dec. 2014**
Valuation method	Equity method	Equity method
Dividends received	0.5	0.7
MAIN AGGREGATES		
Total assets	27.4	28.0
Total debt	5.2	5.7
Income statement		
• Net banking income	22.1	19.5
• Income tax expense	(1.7)	(1.5)
• Net income	2.5	2.4
RECONCILIATION WITH THE BALANCE SHEET VALUE OF ASSOCIATES		
Equity of associates	22.1	22.1
Percentage interest	20.0 %	20.0 %
Share in equity of associates	4.4	4.4
Value of the investment in associates	4.4	4.4

8.1.3 Nature and scope of major restrictions

The Group did not face any major restrictions on interests held in associates and joint ventures.

8.2 Share in net income of associates

(in millions of euros)	2015	2014
Conservateur Finance	0.5	0.5
Financial companies	**0.5**	**0.5**
TOTAL SHARE IN NET INCOME OF ASSOCIATES	**0.5**	**0.5**

Note 9 Employee benefits

9.1 Payroll costs

(in millions of euros)	2015	2014
Wages and salaries	(68.9)	(67.1)
Costs of defined-contribution and benefit plans	(6.7)	(6.6)
Other tax and social security charges	(39.1)	(38.2)
Profit-sharing and incentive plans	(5.6)	(6.5)
TOTAL PAYROLL COSTS	**(120.3)**	**(118.4)**

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1.1 million in 2015.

The use made of this tax credit is presented in the “Social, environmental and societal information” section of the registration document.

9.2 Employee benefits

The Palatine Group grants its staff a variety of employee benefits:

- retirements and similar schemes: pensions and other post-employment benefits;
- other: benefits such as long-service awards and other long-term employee benefits.

9.2.1 Analysis of employee-related 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**	**2015**	**2014**
Actuarial liabilities	0.6	15.1	2.8	18.5	16.7
Net amount reported on the balance sheet	**0.6**	**15.1**	**2.8**	**18.5**	**16.7**
Employee benefits, liabilities	0.6	15.1	2.8	18.5	16.7
Employee benefits, assets	0.0	0.0	0.0	0.0	0.0

9.2.2 Change in amounts recognised 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**	**2015**	**2014**
Actuarial liabilities at start of year	**0.6**	**13.5**	**2.6**	**16.7**	**15.4**
Service cost	0.1	0.8	0.2	1.1	1.0
Interest cost	0.0	0.2	0.0	0.2	0.4
Benefits paid	(0.1)	(1.3)	(0.2)	(1.6)	(1.2)
Other	0.0	0.0	0.2	0.2	(0.4)
Changes recognised in income	**0.0**	**(0.3)**	**0.2**	**(0.1)**	**(0.2)**
Remeasurement gains and losses - demographic assumptions	0.0	0.0		0.0	0.2
Remeasurement gains and losses - financial assumptions	0.0	0.1		0.1	0.8
Remeasurement gains and losses - experience adjustments	0.0	1.8		1.8	0.5
Changes recognised directly in equity that cannot be reclassified	**0.0**	**1.9**		**1.9**	**1.5**
ACTUARIAL LIABILITIES AT END OF PERIOD	**0.6**	**15.1**	**2.8**	**18.5**	**16.7**

Remeasurement gains and losses on post-employment benefits

(in millions of euros)	Post-employment benefits under defined-benefit plans: Supplementary pension benefits and other	Post-employment benefits under defined-benefit plans: Termination benefits	2015	2014
Cumulative remeasurement gains and losses at start of period	**(0.5)**	**1.9**	**1.4**	**(0.1)**
Remeasurement gains and losses in reporting period	0.0	1.9	1.9	1.5
CUMULATIVE REMEASUREMENT GAINS AND LOSSES AT END OF PERIOD	**(0.5)**	**3.8**	**3.3**	**1.4**

9.2.3 Actuarial expense under defined-benefit plans

The various components of the charge recognised for defined-benefit plans are included under “Payroll costs”.

	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	2015	2014
Service cost	(0.1)	(0.8)	(0.2)	(1.1)	(1.0)
Interest cost	0.0	(0.2)	0.0	(0.2)	(0.4)
Benefits paid	0.1	1.3	0.2	1.6	1.2
Other	0.0	0.0	(0.2)	(0.2)	0.4
TOTAL EXPENSE/(INCOME) FOR THE PERIOD	**0.0**	**0.3**	**(0.2)**	**0.1**	**0.2**

9.2.4 Main actuarial assumptions

	31 Dec. 2015			31 Dec. 2014		
	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	1.4%	1.4%	1.4%	1.5%	1.5%	1.5%
Inflation/wage growth rate	1.5%	1.5%	1.5%	1.2%	1.2%	1.2%
Life tables used	INSEE (TH00-02 and TF 00-02)			INSEE (TH00-02 and TF 00-02)		

The discount rate of 1.41% 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 10 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)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Net banking income	297.3	295.3	27.7	22.4	0.4	0.5	325.4	318.2
Operating expenses	(184.8)	(180.0)	(8.6)	(8.1)	(0.1)	(0.2)	(193.5)	(188.3)
Gross operating income	**112.5**	**115.3**	**19.1**	**14.3**	**0.3**	**0.3**	**131.9**	**129.9**
Cost/income ratio	*62.2 %*	*61.0 %*	*31.0 %*	*36.2 %*	*25.0 %*	*40.0 %*	*59.5 %*	*59.2 %*
Cost of risk	(41.5)	(46.6)					(41.5)	(46.6)
Share in net income of associates					0.5	0.5	0.5	0.5
Change in value of goodwill					(0.7)	(0.3)	(0.7)	(0.3)
Income before tax	**71.0**	**68.7**	**19.1**	**14.3**	**0.1**	**0.5**	**90.2**	**83.5**
Income tax expense	(28.1)	(25.8)	(6.5)	(4.9)	(0.1)	(0.1)	(34.7)	(30.8)
Non-controlling interests (minority interests)							0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**42.9**	**42.9**	**12.6**	**9.4**	**0.0**	**0.4**	**55.5**	**52.7**
TOTAL ASSETS	**17,333.2**	**15,699.6**	**23.4**	**18.8**	**2.7**	**3.4**	**17,359.3**	**15,721.8**

Note 11 Commitments

The amounts disclosed represent the nominal value of commitments given.

11.1 Financing commitments

(in thousands of euros)	31 Dec. 2015	31 Dec. 2014
Financing commitments given to:		
• credit institutions	0.0	1,100.0
• from customers	1,705.3	1,470.4
Confirmed credit lines	1,650.8	1,430.2
Other commitments	54.5	40.2
TOTAL FINANCING COMMITMENTS GIVEN	**1,705.3**	**2,570.4**
Financing commitments received:		
• from credit institutions	351.1	613.2
TOTAL FINANCING COMMITMENTS RECEIVED	**351.1**	**613.2**

11.2 Guarantee commitments

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Guarantee commitments given to:		
• credit institutions	75.1	85.6
• customers	1,012.4	1,025.4
• other commitments given	0.0	613.2
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,087.4**	**1,724.3**
Guarantee commitments received:		
• from credit institutions	301.4	386.5
• from customers	630.1	621.5
• other commitments received	0.0	4,034.6
TOTAL GUARANTEE COMMITMENTS RECEIVED	**931.4**	**5,042.6**

Guarantee commitments given are primarily off-balance sheet commitments.

Starting 31 December 2015, "other securities pledged as collateral" and "other securities received as collateral" are partly shown in Note 13 - Financial assets transferred but not fully derecognised and other financial securities pledged as collateral. They have been reclassified in part within the guarantee commitments.

If this handling had not been applied at 31 December 2015, other commitments given would have been €351.1 million and other collateral received would have been €4,114.7 million.

Note 12 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.

12.1 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 17 – Scope of consolidation).

Consequently, the following shows 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 using the equity method (associates).

	31 Dec. 2015		31 Dec. 2014	
(in millions of euros)	**BPCE**	**Associates**	**BPCE**	**Associates**
Loans	6,122.0	0.0	5,280.2	0.0
Other assets	0.0	0.0	0.0	0.0
TOTAL ASSETS WITH RELATED ENTITIES	**6,122.0**	**0.0**	**5,280.2**	**0.0**
Liabilities	3,567.8	5.6	1,864.6	8.1
Other liabilities	0.0	0.0	(0.0)	0.0
TOTAL LIABILITIES WITH RELATED ENTITIES	**3,567.8**	**5.6**	**1,864.6**	**8.1**
Interest and similar income and expense	35.8	0.0	50.0	0.0
Fee and commission income and expense	(0.0)	0.0	(0.0)	0.0
TOTAL NET BANKING INCOME WITH RELATED ENTITIES	**35.8**	**0.0**	**50.0**	**0.0**
Commitments given	0.0	0.0	1,100.0	0.0
Commitments received	45.2	0.0	50.3	0.0
TOTAL COMMITMENTS WITH RELATED ENTITIES	**45.2**	**0.0**	**1,150.3**	**0.0**

12.2 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 €1.7 million in 2015 (€2.2 million in 2014).

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 13 Transferred financial assets, other financial assets pledged as collateral and assets received as collateral that may be sold or repledged

13.1 Financial assets transferred but not fully derecognised

	Repos	Assets transferred or pledged as collateral	31 Dec. 2015	Repos	Assets transferred or pledged as collateral	31 Dec. 2014
(in millions of euros)	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Carrying amount
FINANCIAL ASSETS PLEDGED AS COLLATERAL						
Fixed-income securities	0.0	0.0	0.0	10.2	0.0	10.2
Available-for-sale financial assets	**0.0**	**0.0**	**0.0**	**10.2**	**0.0**	**10.2**
Loans and advances due from credit institutions	0.0	351.1	351.1	0.0	613.2	613.2
Loans and advances due from customers	0.0	0.0	0.0	0.0	0.0	0.0
Securities classified as loans and advances on credit institutions	0.0	0.0	0.0	28.1	0.0	28.1
Loans and advances	**0.0**	**351.1**	**351.1**	**28.1**	**613.2**	**641.3**
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**0.0**	**351.1**	**351.1**	**38.3**	**613.2**	**651.5**
o/w financial assets transferred but not fully derecognised	***0.0***	***351.1***	***351.1***	***38.3***	***613.2***	***651.5***
ASSOCIATED LIABILITIES						
Fixed-income securities	0.0	0.0	0.0	9.8	0.0	9.8
Available-for-sale financial assets	**0.0**	**0.0**	**0.0**	**9.8**	**0.0**	**9.8**
Loans and advances due from customers	0.0	0.0	0.0	0.0	0.0	0.0
Securities classified as loans and advances due from credit institutions	0.0	0.0	0.0	27.8	0.0	27.8
Loans and advances	**0.0**	**0.0**	**0.0**	**27.8**	**0.0**	**27.8**
TOTAL LIABILITIES ASSOCIATED WITH FINANCIAL ASSETS NOT FULLY DERECOGNISED	**0.0**	**0.0**	**0.0**	**37.6**	**0.0**	**37.6**

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 2015, amounts pledged as collateral under funding arrangements only concerned securities, no receivable was provided to Banque de France under the TRICP system compared to €613.2 million at 31 December 2014.

13.2 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 14 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.

14.1 Financial assets

Financial assets under netting arrangements not offset on the balance sheet

	31 Dec. 2015				31 Dec. 2014			
(in millions of euros)	**Net amount of financial assets presented on the balance sheet**	**Associated financial liabilities and financial instruments received as collateral**	**Margin calls paid (*cash* collateral)**	**Net exposure**	**Net amount of financial assets presented on the balance sheet**	**Associated financial liabilities and financial instruments received as collateral**	**Margin calls paid (*cash collateral*)**	**Net exposure**
Derivatives	58.7	47.8	7.1	3.8	27.2	24.7	0.0	2.5
TOTAL FINANCIAL ASSETS UNDER NETTING ARRANGEMENTS NOT OFFSET ON THE BALANCE SHEET	**58.7**	**47.8**	**7.1**	**3.8**	**27.2**	**24.7**	**0.0**	**2.5**

14.2 Financial liabilities

Financial liabilities under netting agreements not offset on the balance sheet

	31 Dec. 2015				31 Dec. 2014			
(in millions of euros)	**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**	**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	244.3	47.8	160.7	35.8	204.1	24.7	132.2	47.3
Repurchase agreements	0.0	0.0	0.0	0.0	37.6	37.5	0.0	0.0
TOTAL FINANCIAL LIABILITIES UNDER NETTING AGREEMENTS NOT OFFSET ON THE BALANCE SHEET	**244.3**	**47.8**	**160.7**	**35.8**	**241.7**	**62.2**	**132.2**	**47.3**

Note 15 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.

	31 Dec. 2015				31 Dec. 2014			
(in millions of euros)	Fair value	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using observable inputs (Level 3)	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	6,472.3	0.0	2,325.0	4,147.3	5,675.7	0.0	736.0	4,939.7
Loans and advances due from customers	8,317.6	0.0	436.2	7,881.5	7,748.9	0.0	394.8	7,354.0
Held-to-maturity investments	53.2	53.2	0.0	0.0	94.2	94.2	0.0	0.0
FINANCIAL LIABILITIES AT AMORTISED COST								
Amounts due to credit institutions	3,954.1	0.0	415.3	3,538.9	2,452.3	0.0	395.8	2,056.5
Amounts due to customers	9,935.1	0.0	7,763.4	2,171.7	8,141.9	0.0	5,786.8	2,355.1
Debt securities	1,943.8	0.0	0.0	1,943.8	3,903.0	0.0	0.0	3,903.0
Subordinated debt	190.7	0.0	0.0	190.7	40.5	0.0	0.0	40.5

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;
- or 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 transactions.

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.) of real estate assets and of 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. 2015**
Available-for-sale financial assets	24.5	24.5
TOTAL ASSETS	**24.5**	**24.5**
Maximum exposure to the risk of loss	**(24.5)**	**(24.5)**
Size of the structured entity	**7,403.4**	**7,403.4**

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. 2015
Income from entities	**29.0**	**29.0**
Net fee and commission income	29.0	29.0

Note 17 Scope of consolidation

	31 Dec. 2015				
	Country of incorporation or domicile	Consolidation method	Changes in scope compared with 31 December 2014	Percentage control	Percentage interest
Banque Palatine	**France**	**Full consolidation**			**Consolidating entity**
PALATINE ASSET MANAGEMENT	France	Full consolidation	-	100.0%	100.0%
ARIES ASSURANCES	France	Full consolidation	-	100.0%	100.0%
CONSERVATEUR FINANCE	France	Equity method	-	20.0%	20.0%

Note 18 Fees paid to Statutory Auditors

	PriceWaterHouseCoopers				KPMG			
	2015		2014		2015		2014	
(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%**

1 Statutory Auditors' report on the annual financial statements

To the shareholders

In accordance with the assignment entrusted to us by your general meeting, we hereby report to you, for the year ended 31 December 2015, on:

- the audit of the accompanying parent-company financial statements of BANQUE PALATINE S.A.;
- 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 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 parent-company financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company, and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying the opinion above, we draw your attention to note 2.2 to the parent company financial statements which explains the changes in accounting method following application of new standards and interpretations as from 1 January 2015.

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:

Accounting estimates

Provisioning for credit risk

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.

Provisioning for regulated home savings products

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.

Valuation of investments in subsidiaries and associates, and in other long-term equity investments

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.

Valuation of other securities and financial instruments

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.

Provisioning for employee benefits

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.

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, 15 April 2016

The Statutory Auditors

PricewaterhouseCoopers Audit		**KPMG Audit FSI**
Lionel Lepetit	Anik Chaumartin	Fabrice Odent
Partner	*Partner*	*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.

Neuilly-sur-Seine and Paris La Défense, 15 April 2016

PricewaterhouseCoopers Audit		**KPMG Audit FSI**
Lionel Lepetit	Anik Chaumartin	Fabrice Odent
Partner	*Partner*	*Partner*

3 Statutory Auditors’ special report on related-party agreements and commitments

General meeting held to approve the financial statements for the financial year ended 31 December 2015

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 the information provided to us, of the characteristics, the essential terms and the justifications of the agreements and commitments about which we have been informed 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 general 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.

I/ 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 the subsidiaries of Banque Palatine S.A.

1.1 Agreements formed with Palatine Asset Management S.A., wholly-owned subsidiary of Banque Palatine S.A.

- Persons concerned:
  - Pierre-Yves Dréan (Chairman of the Supervisory Board of Palatine Asset Management S.A. and Chief Executive Officer of Banque Palatine S.A.),
  - Bertrand Dubus (Member of the Supervisory Board of Palatine Asset Management S.A. starting 26 March 2015 and Executive Vice-President of Banque Palatine S.A. from 13 February 2015),
  - Thierry Zaragoza (Member of the Supervisory Board of Palatine Asset Management S.A. and Executive Vice-President of Banque Palatine S.A.).

1.1.1 Investor presentation agreement

- Nature and purpose:

  An investor presentation agreement, signed on 15 December 2015, was authorised by the Board of Directors on 15 December 2015.

  Banque Palatine S.A. supports bond issues *via* its financial transactions department.

  Palatine Asset Management S.A. 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 S.A., 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 S.A. will recommend the issue to professional investors selected by it, for which it will specify the suitable investment.

  Palatine Asset Management S.A. does not guarantee any subscription or purchase amount to Banque Palatine S.A.

  On receiving confidentiality undertakings from Palatine Asset Management S.A., Banque Palatine S.A. will send to Palatine Asset Management S.A. the information provided to investors so that they can make their investment decision (issuer name, term sheet etc.).

  Palatine Asset Management S.A.’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 S.A. will email a confidentiality undertaking to be signed by potential investors.

On receiving confidentiality undertakings from investors, Palatine Asset Management S.A. will send the information to investors, and will then receive and pass on their subscription orders to Banque Palatine S.A.

- Terms:

The agreement stipulates that the remuneration of Palatine Asset Management S.A. must be set by mutual consent at the end of the placement period by Banque Palatine S.A. depending on Palatine Asset Management S.A.'s involvement and the difficulty of the placement. No remuneration will be paid if Palatine Asset Management S.A.'s involvement is deemed not to be productive.

The agreement also states that any amount subscribed by Palatine Asset Management S.A.'s managers will automatically be excluded from the calculation of Palatine Asset Management S.A.'s remuneration. Banque Palatine S.A. 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 S.A.'s remuneration.

The remuneration is not subject to VAT pursuant to Article 261B of the French General Tax Code.

This agreement had no impact on Banque Palatine S.A.'s financial statements in 2015.

1.1.2 Credit analysis agreement

- Nature and purpose:

A credit analysis advisory agreement, signed on 15 December 2015, was authorised by the Board of Directors on 15 December 2015.

The agreement states that Banque Palatine S.A.'s risk management division will carry out credit analysis on companies on which Palatine Asset Management S.A. 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 S.A. will use its risk analysis methodology, but will be able to outsource some or all of that methodology if it so desires.

Banque Palatine S.A.'s opinions will be sent to Palatine Asset Management S.A. 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 S.A., a representative of Banque Palatine S.A.'s risk management division will be able to attend meetings of Palatine Asset Management S.A.'s Credit Risk Committee with the agreement of Banque Palatine S.A.'s compliance unit.

- Terms:

The agreement states that the remuneration received by Banque Palatine S.A. 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 pursuant to Article 261B of the French General Tax Code.

The financial impact in 2015 amounted to ex-VAT income of €21 thousand.

1.1.3 Distribution agreement amendment

- Nature and purpose:

A distribution agreement was signed by Banque Palatine S.A. and Palatine Asset Management S.A. on 13 September 2005, and was amended on the following dates: 1 December 2008, 1 October 2009, 1 October 2010, 19 June 2012 and 30 August 2013. 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 S.A. and Palatine Asset Management S.A. relating to the prevention of money laundering and terrorist financing.

The purpose of the amendment signed on 4 January 2016, authorised by the Board of Directors on 15 December 2015, was to amend the list of funds and the remuneration received by Banque Palatine S.A.

- 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 2015 amounted to ex-VAT income of €3,087 thousand.

2. Agreements with executives

- Person concerned:
  - Bertrand Dubus (Executive Vice-President of Banque Palatine S.A. starting 13 February 2015).

2.1 Supplementary pension plans of the new Executive Vice-President

- Nature and purpose:

  Banque Palatine S.A.'s new Executive Vice-President is eligible, subject to the same conditions as Banque Palatine S.A.'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.A.'s expense and 2.5% at the expense of the Executive Vice-President's) on remuneration falling within tranches A and B, *i.e.* 150,160 euros in 2015.

- Terms:

  For 2015, the amount of Réunica contributions (employee and employer) paid by Banque Palatine S.A. to the new Executive Vice-President was as follows:

  - Bertrand Dubus
    from 13 February to 31 December 2015: €13,018.

2.2 Retirement benefit of the new Executive Vice-President

- Nature and purpose:

  The new Executive Vice-President, holding both an employment contract and a corporate office, qualifies 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 an employee of Banque Palatine S.A. 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 S.A.'s financial statements in 2015.

Agreements approved since the end of the reporting period

We were informed of the following agreements and commitments, approved since the end of the past financial year, that were approved in advance by the Board of Directors.

1. Agreements formed with shareholders and their subsidiaries

1.1 Agreement formed with Natixis S.A.

1.1.1 Compensation agreement as part of the transfer of the custodian activity to Natixis Titres and to Caceis

- Persons concerned:

  - BPCE S.A. (Director and Shareholder of Banque Palatine S.A. and Natixis S.A.),
  - Michel Grass (Director of Banque Palatine S.A. and Natixis S.A.).

- Nature and purpose:

  Banque Palatine relies on a third-party service provider outside Groupe BPCE, and also its competitor, to keep the the financial instruments that belong to its customers (in the form of an extended mandate). In 2015, in order to strengthen synergies within Groupe BPCE, Banque Palatine S.A. decided to modify the organisation of this activity as follows:

  - For institutional customers, Banque Palatine S.A., by mutual consent with its subsidiary Palatine Asset Management S.A.S., chose to grant the custodial tasks related to financial instruments held by the UCITS and customers whose portfolios are managed by Palatine Asset Management S.A.S. to a new service provider: Caceis, the main service provider of the entities of Groupe BPCE for these activities, and in which Natixis S.A. holds an ownership interest.
  - Caceis took charge of custodial functions for institutional customers in July 2015.
  - For Retail customers, Banque Palatine S.A. chose to grant custodial functions for financial instruments held by its customers to the Groupe BPCE service provider specialised in these activities, Natixis S.A. (EuroTitres department).

    Migration of custodial services for Retail customers to Natixis EuroTitres should become effective in June 2017.

- Terms:

  The withdrawal of services by its previous service providers resulted in increased costs for Banque Palatine S.A. Natixis S.A. has agreed to compensate Banque Palatine S.A. for the withdrawal of its services as follows (amounts including tax paid by Natixis to Banque Palatine S.A.):

  - 161,500 euros for 2015, to be paid March 2016,
  - 272,000 euros for 2016, to be paid in January 2017,

- 110,000 euros for the first half of 2017, to be paid in July 2017,
- and, at the end of the migration to Natixis EuroTitres, on condition of respecting the scheduled date of 1 July 2017 and depending on project contingencies, 345,000 euros to pay per year from June 2018 (inclusive) to June 2022 (inclusive).

It is specified that the invoicing for services provided by Natixis EuroTitres will be established according to the single rate grid applied to the Groupe BPCE institutions.

The agreement had no financial impact in 2015.

2. Agreement formed with the subsidiaries of Banque Palatine S.A.

2.1 Agreement formed with Palatine Asset Management S.A., wholly-owned subsidiary of Banque Palatine S.A.

2.1.1 Distribution agreement amendment

- Persons concerned:
  - Pierre-Yves Dréan (Chairman of the Supervisory Board of Palatine Asset Management S.A. and Chief Executive Officer of Banque Palatine S.A.),
  - Bertrand Dubus (Member of the Supervisory Board of Palatine Asset Management S.A. starting 26 March 2015 and Executive Vice-President of Banque Palatine S.A. from 13 February 2015),
  - Thierry Zaragoza (Member of the Supervisory Board of Palatine Asset Management S.A. and Executive Vice-President of Banque Palatine S.A.).
- Nature and purpose:

  A distribution agreement was signed by Banque Palatine S.A. and Palatine Asset Management S.A. on 13 September 2005, and was amended on the following dates: 1 December 2008, 1 October 2009, 1 October 2010, 19 June 2012, 30 August 2013 and 15 December 2015. 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 S.A. and Palatine Asset Management S.A. relating to the prevention of money laundering and terrorist financing.
- Terms:

  The purpose of the amendment signed on 15 February 2016, authorised by the Board of Directors on 9 February 2016, is to amend the list of funds and the remuneration of Banque Palatine S.A. starting on 1 April 2016.

  The agreement had no financial impact in 2015.

II/ 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 Article 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. Agreements with shareholders and their subsidiaries

1.1 Agreements formed with BPCE S.A., majority shareholder of Banque Palatine S.A.

1.1.1 Invoicing agreement

- Nature and purpose:

  An invoicing agreement was signed on 11 December 2007 with CNCE S.A. (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 S.A. on 21 December 2010. The purpose of that agreement is to set the payment to remunerate work done by BPCE S.A. with respect to Banque Palatine S.A.'s affiliation. That work involves:
  - guaranteeing Banque Palatine S.A.'s liquidity and solvency;
  - exerting administrative, technical and financial control over its organisation and management;
  - ensuring compliance with legislative and regulatory provisions.

  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 S.A. on the basis of the actual cost of the public policy assignments carried out on behalf of Banque Palatine S.A.

  The financial impact in 2015 was an ex-VAT expense of €1,850 thousand.

2. Agreements formed with the subsidiaries of Banque Palatine S.A.

2.1 Agreements formed with Palatine Asset Management S.A., wholly-owned subsidiary of Banque Palatine S.A.

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 S.A. on 19 June 2012, was subject to a supplementary agreement signed on 28 February 2014.

  The supplementary agreement was authorised by Banque Palatine S.A.'s Board of Directors on 14 February 2014. The agreement was approved by shareholders in the GM 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 provisioning 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 S.A. 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 S.A. 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 provisioning of IT systems, office software and secure hosting resources, the services provided are invoiced quarterly under the following conditions: the re-invoicing of the cost price of the wages paid to staff seconded to Palatine Asset Management S.A., of related operating expenses and of 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 S.A.

  The financial impact in 2015 amounted to ex-VAT income of €443 thousand.

2.1.2 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 S.A.'s remuneration is based on the ratio of the costs of staff performing services for the management company to Banque Palatine S.A.'s total staff costs, which is applied to Banque Palatine S.A.'s total operating expenses.

  The financial impact of this agreement in 2015 amounted to ex-VAT income of €311 thousand.

2.1.3. Credit analysis agreement

- 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 S.A.'s risk management division will carry out credit analysis on companies on which Palatine Asset Management S.A. 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 S.A. will use its risk analysis methodology, but will be able to outsource some or all of that methodology if it so desires.

  Banque Palatine S.A.'s opinions will be sent to Palatine Asset Management S.A. 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 S.A., a representative of Banque Palatine S.A.'s risk management division will be able to attend meetings of Palatine Asset Management S.A.'s Credit Risk Committee with the agreement of Banque Palatine S.A.'s compliance unit.

- Terms:

  The agreement states that the remuneration received by Banque Palatine S.A. 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 2015.

2.1.4 Distribution agreement

This agreement was modified by an amendment authorised on 15 December 2015 that was signed on 4 January 2016.

The agreement and its amendment are presented in the part of the report entitled "**Agreements and commitments approved during the past year"** in section 1.1.1.

3. Agreements with executives

3.1 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 S.A. executives.

3.1.1 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 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, 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. 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 capped at 24 times the monthly benchmark pay, which corresponds to a period of 12 years of seniority within 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.A.'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 S.A.'s financial statements in 2015.

3.1.2 Retirement benefit

3.1.2.1 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 S.A. 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 S.A. 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.

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.

This commitment had no impact on Banque Palatine S.A.'s financial statements in 2015.

3.1.2.2 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 S.A.'s financial statements in 2015.

3.1.3 No employment contract or suspended employment contract – Unemployment insurance

- 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 2015, the amount of the annual expense is €11,982.60.

3.1.4 Arrangements under which remuneration is maintained for 12 months in the event of temporary inability to work

- 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 S.A.'s financial statements in 2015.

3.1.5 Supplementary pension plans

- Nature and purpose:

Banque Palatine S.A.'s Chief Executive Officer and Executive Vice-Presidents are eligible, subject to the same conditions as Banque Palatine S.A.'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.A.'s expense and 2.5% at the expense of the Executive Vice-President) on remuneration falling within tranches A and B, *i.e.* €150,160 in 2015.

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 2015, the amount of Réunica contributions (employee and employer) paid by Banque Palatine S.A. to the Chief Executive Officer and the Executive Vice-Presidents was as follows:

  - Pierre-Yves Dréan
    from 1 January to 31 December 2015: €15,216,
  - Thierry Zaragoza
    from 1 January to 31 December 2015: €15,216.

Neuilly-sur-Seine and Paris La Défense, 15 April 2016

PricewaterhouseCoopers Audit		**KPMG Audit FSI**
Lionel Lepetit	Anik Chaumartin	Fabrice Odent
Partner	*Partner*	*Partner*

4 Statutory Auditors' report on the consolidated financial statements (Year ended 31 December 2015)

To the Shareholders

In accordance with the assignment entrusted to us by your general meeting, we hereby report to you, for the year ended 31 December 2015, on:

- the audit of the accompanying consolidated financial statements of BANQUE PALATINE S.A.;
- 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 2.2 to the financial statements that presents the effects of the first application of the IFRIC 21 "Levies" interpretation.

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:

Accounting estimates

Provisioning for credit risk

As described in notes 4.1.6, 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.

Provisioning for regulated home savings products

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 4.5 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.

Valuation of financial instruments

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.

Provisioning for employee benefits

Your Group also uses accounting estimates to determine provisions for employee benefit obligations (notes 4.9, 5.18, and 9.2).

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 a specific verification, as required by law, of information relating provided in the Group's 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, 15 April 2016

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 2015

To the Shareholders,

As Statutory Auditors of Banque Palatine S.A. and pursuant to the provisions of Article L. 225-235 of the French Commercial Code, 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 2015.

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 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, 15 April 2016

PricewaterhouseCoopers Audit		KPMG Audit FSI
Lionel Lepetit	Anik Chaumartin	Fabrice Odent
Partner	*Partner*	*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 2015

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 2015 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 standards used by the Company (hereinafter "the Standards"), 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").

We carried out our work with six members of staff between October 2015 and April 2016 over a total period of around five 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 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).

I Declaration of the inclusion of CSR Information

Nature and scope of our work

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, within the limits specified in the note on methodology "Methodology of Banque Palatine CSR reporting" in the management report.

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(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

Conclusion

Based on our audit and in light of the above-mentioned limits, we confirm that the management report includes the required CSR information.

II Reasoned opinion on the accuracy of the CSR Information

Nature and scope of our work

We had some ten 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 Standards 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(2) which we selected 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 to identify any omissions, 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 99% of staff, between 98% and 100% of quantitative environmental information and 100% of the quantitative social information presented.

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 Standards.

Paris-La Défense, 15 April 2016

KPMG S.A.

Anne Garans	Fabrice Odent
Associée	*Partner*
Climate Change & Sustainable Development Department	

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(1) <u>Workforce-related indicators</u>: 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.
<u>Environmental indicators</u>: Energy consumption, fuel consumption, greenhouse gas emissions related to energy consumption (buildings and transport), paper consumption.
<u>Social indicators</u>: Percentage of employees having received training in anti-money laundering policies and procedures, total SRI (Socially Responsible Investing) funds.
<u>Qualitative information</u>: training policy, gender equality measures, environmentally friendly social structures and, where applicable, environmental certification procedures, prevention of corruption measures, measures to promote consumer health and safety.

(2) Banque Palatine and Palatine Asset Management (PAM).

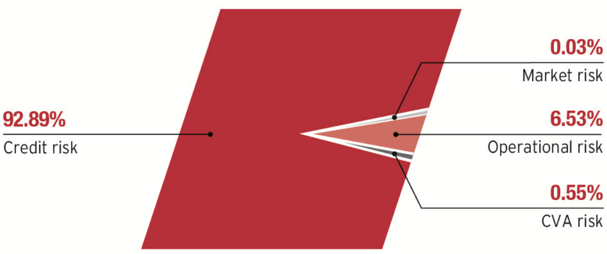
4 RISK MANAGEMENT

Introduction

The Bank's main risks

Banque Palatine's global risk profile corresponds to that of a network bank. The risks are essentially concentrated on credit activities, in order to support and finance the economy.

The distribution of the risk-weighted assets of Banque Palatine at 31 December 2015 is the following:



In a difficult economic environment, Banque Palatine continued to enhance the financing of the economy and thus its commitments to Commercial Banking (+€785 millions), while confirming the trend towards decreasing its cost of risk.

The cost of credit risk was €41.5 million under IFRS as opposed to €46.6 million in 2014, €62.9 million in 2013, and €45 million in 2012.

LBO finance exposure totalled €521 million at end-2015 and the related cost of risk was very low at €6 million.

Loans to real-estate professionals continued to increase to €2.4 billion, representing 21% 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's Market Risk Committee. The LCR was 152.3% at end-December 2015 and the loan-to-deposit ratio was close to 77.05%.

The interest rate risk limits used by Banque Palatine are those stated in the group's 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.

2015 highlights

Highlights included the following:

- completion of the new organisation of the risk management division and of the commitments division together with the new credit decision process;
- pursuit or completion of the following cross-functional projects: the implementation of systems and controls related to the law on the separation and regulation of banking activities and to the Volcker Rule system, the continuation of post-AQR (Asset Quality Review) projects including securing the input of data in the information system, the data feedback to BPCE on complementary risk, notably Forbearance, the work linked to bringing Banque Palatine in line with the Group's rating tools; the a priori and a posteriori implementation of additional controls on the new credit decision process;
- completion of operational risk mapping by process in order to highlight the institution's recurring risks and major risks (in terms of frequency and losses).

Risk culture

To carry out their various works, the Groupe BPCE institutions rely on the Group's Risk Charter. This charter specifies in particular that the supervisory body and the managers of each institution promote the risk culture at all levels of their organisation, and that the risk management division coordinates the circulation of the risk culture to all employees, in coordination with all the other functions and/or divisions of Banque Palatine.

More generally, the risk management division of Banque Palatine:

- participates in risk management training days - privileged moments for the discussion of risk issues, for the presentation of work led by the various functions, for training and for sharing of best practices among institutions, which are also broken down by field: loans, financial, operations, linking all the Group's institutions. Dedicated working groups have just completed this system;
- enhances it regulatory expertise, notably *via* receipt and circulation of pedagogical regulatory documents and through its participation in regular interventions in the various functions of the institution (commercial functions, support functions, etc.);
- is represented by its head of risk management at audio-conferences bringing together the heads of risk management of the network and the Groupe BPCE subsidiaries to focus on current topics;
- benefits, on behalf of its employees, from an annual training programme circulated by Groupe BPCE's head of human resources and completes in-house training;
- disseminates the risk culture and shares best practices with the other Groupe BPCE institutions.

More specifically, to coordinate cross-departmental projects, the risk management division relies on the Group's risk management division (DRG) which contributes to the coordination and guidance of risk management and guides global surveillance of risks within the Group.

In addition, the risk management division participates in "training days" for new employees of Banque Palatine.

Risk appetite system

Banque Palatine's risk appetite corresponds to the level of risk that it is ready to accept with the goal of increasing its profitability. Risk appetite should be consistent with the operational environment of the institution, its strategy and its business model, while taking into account client interests.

This system is part of the general background for Groupe BPCE's risk appetite, approved by BPCE's Supervisory Board and presented to the European supervisor in July 2015.

This general framework is based on an umbrella document that presents, in a qualitative and quantitative manner, the risks that the Institution accepts to take. It describes the governance and operating principles in force and is intended to be updated annually, in particular by taking into account regulatory changes.

The risk appetite operational system is itself based on indicators broken down by nature of risk, including new risks, which are inherent to the Order of 3 November 2014 regarding internal control, and focuses on successive thresholds related to the distinct levels of respective delegation, i.e.:

- the operational limit or tolerance threshold for which the effective managers may decide, directly or *via* the committees over which they preside, to either return under the limit or implement an exception;
- the resiliency threshold, the breach of which may create a risk to the continuity or the stability of the activity. Any breach requires notification and an action plan from the supervisory body.

As a result of its business model, Banque Palatine is exposed to the following principal risks:

- credit and counter party risk *(Articles 106 to 121 of the order of 3 November 2014)*;
- operational risk including the risk of non-compliance and legal risk *(Articles 214 and 215 of the Order of 3 November 2014)*;

- liquidity risk *(Articles 148 to 186 of the order of 3 November 2014)*;
- interest rate risk *(Articles 134 to 139 of the order of 3 November 2014)*;
- market risk *(Articles 122 to 136 of the order of 3 November 2014)*.

Banque Palatine is part of a system implemented at the level of the Group that is dedicated to the Recovery and Reorganisation Plan that covers BPCE institutions.

Banque Palatine is a universal banking institution. It handles traditional banking transactions and offers banking products and services and insurance dedicated essentially to retail clients and local SMEs. As such, the Bank is not allowed to engage in any transaction on its own behalf and deploys all the systems linked to the protection of clients or to laws, regulations, orders and best practices that apply to French banks.

The Bank's goal is to provide the best service to its clients, in the long term, while delivering sustainable income.

Banque Palatine is responsible for the management of its liquidity risk, in its scope of management in the framework of group allocations and from a market resource that is centralised and client resources collected at the local level. It is also responsible for managing its liquidity reserves.

The Groupe BPCE system

The risk management division ensures, among other duties, the permanent control of risks.

The risk management division oversees the efficiency of the risk administration and control system. It assesses and prevents risks, and prepares the risk policy that forms part of the operational business management and permanent risk monitoring policies.

Within BPCE's central body, the Group's risk management division provides consistency, homogeneity, efficiency, and completeness in the measurement, monitoring and control of risks. It is in charge of the consolidated steering of the Group's risks.

The work of the risk management division is carried out independently from operational divisions. Its methods of operation, in particular for the functions, are specified in the Group's Risk Charter approved by the BPCE Management Board on 7 December 2009 and most recently updated in 2015 in conjunction with the order of 3 November 2014 on internal control. The risk management division of our institution reports to it through a strong functional link.

Risk management division

The risk management division of the Institution is hierarchically attached to the Chief Executive Officer and functionally attached to the Group's risk management division.

The risk management division covers all risks: credit risks, financial risks, operational risks, as well as cross-functional steering and risk control. In accordance with Article 75 of the order of 3 November 2014 regarding internal control, the risk management division provides measurement, supervision and control of risks.

To ensure its independence, the risk division, separate from other internal control functions, is independent from all divisions performing commercial, financial or accounting transactions.

Within the context of risk management, the principles defined in the Group's Risk Charter, updated in 2015, are all applied within the institution. The risk management division independently controls the proper application of standards and risk measurement methods, in particular limits systems and delegation of authority schemes. It ensures that the risk policy principles are respected within the framework of its second level permanent controls.

The effective managers ensure that the risk management systems implemented are adequate for the risk profile and business strategy of the institution, in accordance with Article 431.1 e) of EU Regulation no. 575/2013 regarding prudential requirements applicable to credit institutions and investment companies Capital Requirements Regulation (CRR).

Scope covered by risk management division

The risk management division operates on the consolidated scope of Banque Palatine, including Palatine Asset Management.

Principal duties of the risk management division

The risk management division:

- proposes the institution's risk policy, in line with the Group's risk policy (limits, ceilings, etc.);
- identifies risks and maps them;
- contributes to the development of systems to control the risks of the management policies regarding operational activities (quantitative limits, framework for delegations of authority, analysis of new products or new activities);
- confirms and ensures second level control of risks (standards for valuing transactions, provisions, risk control systems);
- contributes to the definition of standards for the first level of permanent risk control excluding compliance and oversees their correct application (for its part, the definition of group standards and methods is the responsibility of the central body);

- is in charge of supervising risks, notably with respect to the reliability of the system for detecting breaches of limits and monitors and controls their resolution;
- evaluates and controls the level of risk (stress scenarios, etc.);
- prepares risk reports for senior executives (the effective managers and supervisory body), contributes to legal or regulatory reports and alerts the effective managers and the supervisory body in the event of a significant event (Article 99 of the order of 3 November 2014 regarding internal control).

Organisation and dedicated resources

The risk management division has 15 employees spread out over four epartments: credit risks, financial risks, operational risks, reporting and steering.

The structuring proposals concerning risk matters are presented to the Audit and Internal Control Committee. This committee is responsible for defining the institution's main risk trends (limits, risk policies, delegation of power charters, etc.) It regularly examines the principal credit, operational and financial risks of our institution.

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 2015.

Main issues identified for 2016

Credit risk

Continuation of work to integrate the new Basel II corporate rating systems, continuation of post-AQR work as well as the implementation of the Basel Committee project on rule 239 banking control *(BCBS 239)* are the main subjects to be handled in 2016.

Financial risks

Continuation of work undertaken on the automated reconciliation between management and accounting results relating to financial transactions as well as the finalisation of the pre-requisites to implementing EMIR *(European Market and Infrastructure Regulations)* are the principal projects to be addressed in 2016.

Operational risk

The priorities are still part of the desire to improve, by making all of the operational risk systems more efficient through its three approaches: demonstrated risks, potential risks and zones of vulnerability.

The priority is to finalise the calculation of the indicators of operational risks identified.

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%.

Regulatory capital and Basel III capital adequacy ratios

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Consolidated equity	831.9	820.8
Perpetual deeply subordinated notes classified as equity	80.0	80.0
Consolidated equity excluding perpetual deeply subordinated notes classified as equity	751.9	740.8
Non-controlling interests		
Common Equity Tier 1 (CET1) capital before deductions	728.6	701.3
Deductions from common equity		
- Goodwill		
- Other intangible assets	(23.3)	(20.9)
Other prudential adjustments	(10.4)	(5.9)
Common Equity Tier 1 (CET1) capital	694.9	674.4
Deeply subordinated notes		52.0
Other Additional Tier 1 (AT1) capital		

(in millions of euros)	31 Dec. 2015	31 Dec. 2014
Tier 1 capital (A)	**694.9**	**726.4**
Tier 2 capital	154.1	26.9
Tier Two capital (B)	154.1	26.9
TOTAL REGULATORY CAPITAL (A+B)	**849.0**	**753.3**
Credit risk-weighted assets	8,152.5	7,967.4
Market risk-weighted assets	3.2	1.5
Operational risk-weighted assets	572.5	549.5
CVA risk-weighted assets	48.0	48.5
TOTAL BASEL III RISK-WEIGHTED ASSETS	**8,776.2**	**8,566.8**
Capital adequacy ratios		
Core Tier One ratio	7.92%	7.87%
Tier One ratio	7.92%	8.48%
Total capital adequacy ratio	9.67%	8.79%

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 (CET1), Additional Tier 1 (AT1) 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, reserves, and undistributed profits: €724 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%.

Banque Palatine does not have Additional Tier 1 (AT1) capital as at 31 December 2015.

Tier 2 capital

Tier 2 capital represents, in particular, subordinated instruments issued, respecting the restrictive eligibility criteria pursuant to Article 63 of the CRR regulation.

Banque Palatine's Tier 2 capital consists of:

- an eligible fixed term subordinated note in the amount of €150 million;
- fixed term subordinated debt not eligible but benefiting from a grandfather clause:
  - a €25 million loan subject to prudential amortisation of €24 million, giving a net amount of €1 million;
  - a €15 million loan subject to prudential amortisation of €12 million, giving a net amount of €3 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.

Credit, market, operational and CVA risk-weighted assets

At 31 December 2015, risk-weighted assets calculated in accordance with Basel III amounted to €8,776 million.

(in millions of euros)	**Weighted exposures 31 Dec. 2015**	**Weighted exposures 31 Dec. 2014**
Central governments and central banks	39	44
Public sector entities	0	0
Institutions	68	65
Corporates	6,223	6,395
Retail customers	288	363
Exposures secured by mortgage on immovable property	919	463
Exposures in default	471	468
Collective investment undertakings	23	18
Exposures in form of equities	17	20
Other items	105	131
Credit risk exposures	8,153	7,967
Market risk exposures	3	2
Operational risk exposures	573	550
CVA risk exposures	48	48
TOTAL AMOUNT OF RISK EXPOSURES	**8,776**	**8,567**
CET1 capital	695	674
CET1 RATIO	**7.92%**	**7.87%**
T1 capital	695	726
AT1 RATIO	**7.92%**	**8.48%**
Total capital	849	753
TOTAL RATIO	**9.67%**	**8.79%**

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 2015:

- the Common Equity Tier 1 ratio was 7.92%;
- the Tier 1 equity ratio was 7.92%;
- the total equity ratio was 9.67%.

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

Definition

The credit risk is the risk incurred in the event of the default of a debtor or a counterparty, or of a number of debtors or counterparties considered as one group of clients pursuant to point 39 of paragraph 1 of Article 4 of EU Regulation no. 575/2013; this risk can also result in the loss of value of the securities issued by the defaulting counterparty.

The counterparty risk is defined as the risk that the counterparty to a transaction defaults before the final payment of all the cash flows linked to the transaction.

The framework for selecting transactions

The executive management and the Audit and Internal Control Committee, with reference to the definition of risk appetite, approves the institution's policy regarding credit risk, rules on the internal ceilings and credit limits, approves the institution's framework for the delegation of authority, examines the significant exposures and results of risk measurement.

At the level of the central body, the Group risk management division conducts, for the Group's Risk Management Committee, the control of the respect of regulatory ceilings. The internal ceiling system of the institutions, which is lower than the regulatory ceilings, is applied in all the Group entities. A system of group limits is also implemented for the principal asset classes and for the principal groups of counterparties in each asset class.

The internal ceiling and group limit systems are regularly reported to the management.

Finally, a breakdown of risk monitoring by sector, through systems which are reflected in recommendations for the Group's institutions, takes place for certain sensitive sectors. Several risk policies are in place (retail real estate, consumer loans, LBO, real estate professionals, etc.).

Tracking and measuring credit and counterparty risks

The risk management division ensures that any transaction complies with the standards and procedures in force concerning authorised counterparties. It proposes to the relevant committees registering on the WatchList cases that are alarming or deteriorated. This mission falls within the purview of the risk management function within its own scope and the purview of the Group's risk management division at the consolidated level.

Beyond the aforementioned systems, the control of credit risks is based on:

- an evaluation of risks by rating;
- and on the commitment procedures or the monitoring and supervision of transactions (in accordance with the Order of 3 November 2014 regarding internal control) and the counterparties.

Rating policy

The measurement of credit and counterparty risk is based on rating systems adapted to each type of client or transaction; the risk management division monitors the performance of these systems.

Rating is a fundamental element of risk assessment.

The Bank uses the V5 rating tools of the former Caisse d'Epargne Group, and calculates its capital requirements using the standardised approach.

A project is under way to use the rating tools of Groupe BPCE.

Commitment procedures and monitoring of transactions

Groupe BPCE's 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 system 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.

The institution's credit risk function in the framework of its risk appetite system:

- gives an option to the effective managers on the commitment delegation systems for proposed transactions, taking into account the level of risk as well as the skills and experience of the teams;
- participates in setting the institution's pricing standards while taking into account the level of risk, respecting the Group's standard;
- conducts dialectic analyses of credit files, excluding delegation by Committee decision;
- analyses concentration risks, segment risks and geographic risks;
- periodically monitors ratings and ensures limits are respected;

- alerts effective managers and notifies operational managers when there is a breach of a limit;
- registers loans that are alarming or deteriorated on the WatchList;
- controls the implementation of risk reduction plans and participate in defining the level of necessary provisions if applicable.

The system for the supervision of credit and counterparty risks

The risk management division is independent from operational functions. In particular, it does not have the authority to grant loans and may not conduct a business analysis of lending requests.

The credit risk management function applies the credit risk standards that are updated and regularly distributed by the Group's risk management division.

This credit risk framework covers the standards and best practices to follow in each of the Groupe BPCE institutions and the management and reporting standards established by the BPCE Supervisory Board or Management Board upon the recommendation of the Group's Risk Management Committee (CRG). It is a work tool for risk management division participants within the Group and represents an element of the permanent control system of the Group's institutions.

Banque Palatine has strong functional ties with the Group risk management division, which is in charge of:

- defining client risk standards;
- evaluating risks (definition of concepts);
- preparing methodologies, models and risk rating systems (scoring or expert systems);
- developing and deploying monitoring systems, standards and data quality;
- conducting performance tests of the rating systems (back-testing);
- conducting credit risk stress scenarios (which are completed with complementary scenarios that are defined locally);
- approval of evaluation, permanent control and reporting standards.

In addition, BPCE centralises monitoring of the risk management divisions' control.

The supervision of risks relates to data quality and the quality of exposure. It is steered through indicators for each class of assets.

Breakdown of gross exposures by category (credit risks including counterparty risk)

(in millions of euros)	Gross exposures 31 Dec. 2015	Gross exposures 31 Dec. 2014	Weighted exposures 31 Dec. 2015	Weighted exposures 31 Dec. 2014	Weighting rates (as a %) 31 Dec. 2015	Weighting rates- (as a %) 31 Dec. 2014
Central governments	1,348	1,334	39	44	3%	3%
Public sector entities	382	430	0	0	0%	0%
Institutions	6,470	6,745	68	65	1%	1%
Corporates	8,548	8,424	6,223	6,395	73%	76%
Balance sheet	*6,078*	*6,148*	*5,150*	*5,402*	*85%*	*88%*
Off-balance sheet	*2,471*	*2,276*	*1,073*	*993*	*43%*	*44%*
Retail customers	522	638	288	363	55%	57%
Balance sheet	*387*	*535*	*241*	*328*	*62%*	*61%*
Off-balance sheet	*135*	*103*	*47*	*35*	*35%*	*34%*
Gross exposures guaranteed by a mortgage on real estate asset	2,202	1,291	919	463	42%	36%
Exposures in default	404	384	471	468	117%	122%
Collective investment undertakings	23	18	23	18	100%	100%
Equities	11	13	17	20	155%	151%
Other items	292	295	105	131	36%	44%
TOTAL	**20,201**	**19,572**	**8,153**	**7,967**	**40%**	**41%**

The change in commitments guaranteed by a mortgage on a real estate asset results in a change in appropriations of part of the corporate and retail commitments guaranteed by a mortgage (€412 million of RWA).

The change in commitments derives principally from an increase in corporates, which is a good reflection of the Bank's strategy: this segment, the Bank's most important, corresponds to its core target.

The Individualsl assets consist mainly of home loans granted to mid-market and high net-worth customers, secured by mortgages or by mutual guarantee organisations (SACCEF).

Monitoring geographic risk

The geographic exposure of outstanding loans primarily concerns the eurozone, and in particular France (92% as at 31 December 2015).

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	17.5%	USA	3.4%
Netherlands	15.4%	Switzerland	2.3%
Austria	12.9%	Algeria	2.0%
Finland	9.2%	United Arab Emirates	1.6%
Luxembourg	9.1%	Spain	1.3%
Italy	7.2%	Singapore	1.2%
United Kingdom	5.6%	Morocco	1.1%
Germany	3.5%	Other (72 countries)	6.9%

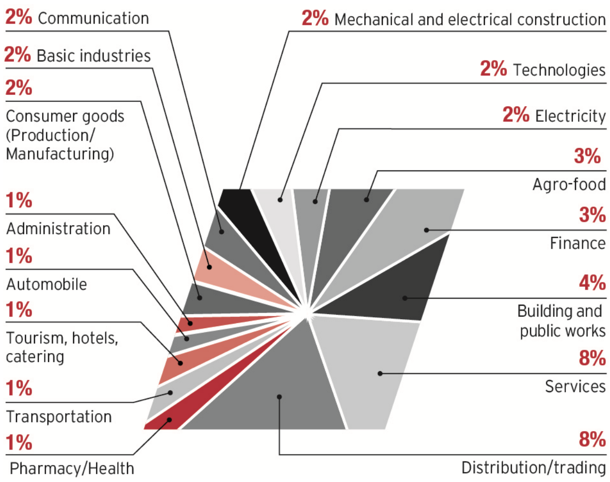
Excluding FRANCE and FRENCH OVERSEAS TERRITORIES.
The segments concerned are: banks, sovereigns, corporates (with consolidated revenue of over €1 billion and insurance companies), regional public-sector entities, SMEs (with consolidated revenue of less than €1 billion), professionals, individuals and real estate professionals.

Total country risk exposure was €1,647 million, down from €1,944 million at 31 December 2014.

Most short-term view exposures relate to documentary credit and foreign-registered companies.

The Bank is exposed to sovereign risks in the following countries: Belgium, Austria, Finland and the Netherlands.

Segment diversification, excluding Real Estate and Holdings, as at 31/12/2015



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).*

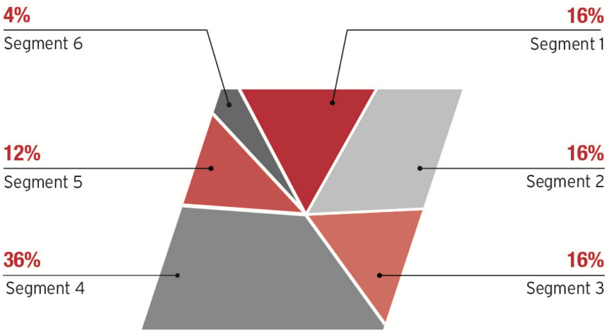
The breakdown of exposures by business sector is in line with the BPCE standard (CNMG 19/10/2010).

Real-estate exposures exceed €3.3 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 2015.

Breakdown by credit segment

The breakdown of credit risk exposures by credit segment is as follows (corporates only):



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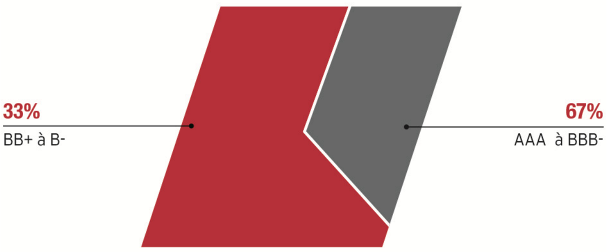
Only the Banque de France's external ratings are used to calculate the breakdown of exposures by credit segment, as defined in the capital adequacy ratio calculation and reporting arrangements of 21 September 2007. Segment 1 is the least risky, with ratings of 3++ to 3+. Thus, the quality of healthy risks is 84% composed of good quality risks.

Credit risk concentration

Distribution of group exposure > €10 million by internal classification



Risk concentration was stable in 2014, and risk quality remained good.

Concentration of exposures by segment

Breakdown of commercial banking risks

	31 Dec. 2015		31 Dec. 2014	
	Top 10	**Top 50**	**Top 10**	**Top 50**
Individual customers	3%	10%	3%	8%
Corporates	7%	20%	7%	19%
Real estate professionals	14%	35%	14%	35%
Large counterparties	65 %	100%	64%	100%

"Disclosure in accordance with IFRS 7."

Impaired assets, delinquent loans and credit risk coverage

Exposure to credit risk includes €64 million of delinquent loans and €322.9 million of impaired assets.

Those exposures are presented after the deduction of €278.2 million of specific impairment losses and €14.9 million of collective impairment losses.

Changes in specific and collective impairment losses during the period were as follows:

(in millions of euros)	Specific impairments	Collective impairment	Total
Balance at 31/12/2014	**(265.0)**	**(14.8)**	**(279.8)**
Charges	(87.8)	(0.1)	(87.9)
Reversed used	25.4	0.0	25.4
Reversed unused	50.4	0.0	50.4
Other changes	(1.2)		(1.2)
BALANCE AT 31/12/2015	**(278.2)**	**(14.9)**	**(277.8)**

"Disclosure in accordance with IFRS 7."

Risk profile at 31 December 2015

Doubtful receivables and commitments amounted to €660.6 million and represented 6.2% of the receivables from clients. This rate is slightly higher than in December 2014 (6.0%).

These receivables and commitments are covered by individual and collective provisions at 44.4% of their total. This coverage is slightly less than at 31 December 2014 (46.4%) but higher for more risky corporate loans (47.4% compared to 46.4%).

The IFRS cost of risk was €41.5 million, down compared to 31 December 2014 (€46.6 million) and equalled 0.39% of loans at 31 December 2015 as compared to 0.46% at 31 December 2014.

IFRS provisioning ratio

	2015			2014		
(in millions of euros)	Accounting exposures	Accounting provisions	Accounting provisioning ratio	Accounting exposures	Accounting provisions	Accounting provisioning ratio
Impaired loans and advances without ETC	0.1			0.1		
Specific impairments		262.8			245.8	
Impaired loans and advances	581.7			530.6		
Securities classified as doubtful loans and advances	4.0			4		
On-balance sheet doubtful customer exposures	585.8	262.8	44.86%	534.7	245.8	45.97%
Provisions for off-balance sheet commitments		15			18.2	
Doubtful commitments granted	21.8			14.0		
Doubtful guarantee commitments granted	53.0			54.6		
On- and off-balance sheet doubtful exposures	660.6	277.8	42.05%	603.3	264.0	43.76%
Impaired securities AFS	0.0	0.0		0.2	0.2	
Impairment on the basis of the portfolio		14.9			14.8	
Other assets		0.4			0.8	
TOTAL DOUBTFUL EXPOSURES (INCLUDING SECURITIES) + COLLECTIVE PROVISIONS	**660.6**	**293.1**	**44.37%**	**603.5**	**279.8**	**46.36%**

Banque Palatine's reported consolidated provisioning rate is 44.37%.

Collective provisions at 31 December 2015

The methodology used by the 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

Taking guarantees (or risk mitigation techniques) into account represents one of the important factors in reducing capital requirements.

Banque Palatine is responsible for the system to oversee the undertaking of guarantees, their validity, their registration and their valuation. The Institution is in charge of registering, safe-keeping and archiving of guarantees, in accordance with the procedure in force.

The units in charge of the guarantees (bank agencies, banking production and back office commitments) are responsible for first level controls.

The cross-cutting departments (risk, compliance) perform the second level controls on the validity and registration of the guarantees.

External credit assessment

At 31 December 2015, 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 uses BPCE's 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 2015, real security interests used in Basel II regulatory calculations are mortgages and lender's priority right. 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, 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'Epargne, 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

In 2015, taking into account the collateral received for the guarantees and sureties obtained by the institution in the course of its credit business, and taking into account the purchase of sureties, made it possible to reduce the institution's exposure to credit risk and in turn its capital requirements.

	31 Dec. 2015						Reminder 31 Dec. 2014	
	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
Cashed placed with central administrations or central banks							3.90	
Institutions	7.78		7.78	0.05	0.05			0.05
Corporates	107.94		107.941	40.41	40,414		157.39	23.87
Retail customers	8.89		8.894	3.64	3.644		8.34	3.21
Exposures secured by mortgage on immovable property	0.20		0.20	0.89	0.89		51.74	1.45
Exposures in default	15.71		15.71	1.05	1.05		10.63	0.93
TOTAL	**140.52**		**140.52**	**46.04**	**46.04**		**232.00**	**29.51**

"Disclosure in accordance with IFRS 7."

Simulation of a crisis relating to credit risk

Groupe BPCE's risk management division performs simulations of crisis relating to the credit risk of the Group and, therefore, of all institutions including Banque Palatine. The goal of the resistance tests is to measure the sensitivity of the various portfolios, to a deteriorated situation, in terms of cost of risk, weighted assets and expected losses.

The resistance tests are preformed on the basis of the Group's consolidated exposures. They take into account, at the level of the adjustments of the risk parameters, the specifics of each large pool of the Group (Natixis, Crédit Foncier de France, Banque Populaire network, Caisse d'Epargne network). They cover all the portfolios subjected to credit and counterparty risks, whatever the approach used for calculating the weighted exposure (standard approach or IRB *(Internal Ratings Based)*. They are carried out on the basis of detailed information framed by the information that feeds into COREP group prudential reporting and the risk analyses of the portfolios. They integrate the following hypotheses on the change in the credit quality of the portfolio:

- migration of counterparty notes on the basis of migration matrices with impact on weighted loans (Risk-Weighted Assets – RWA) using the standard approach or IRB and expected losses (Expected Loss – EL) for the IRB approach;
- change in the cost of risk by portfolio, with a part of the exposures being transferred to default with the corresponding provision charges, as well as, where necessary, complementary provisions charges for exposures in default as of the reporting date of the test.

In 2015, 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 2015

Banque Palatine pursued its integration in the Group's counterparty risk control systems, and used in production the mortgage guarantees for commercial assets in the Group system for calculating weighted assets.

Market risks

Definition

Market risks are defined as the risk of loss related to changes in market parameters.

Market risks include three main elements:

- interest rate risk: risk incurred by the holder of a receivable or a debt security as a result of a change in interest rates. This risk can be specific to a given issuer or to a given category of issuers whose rating is downgraded (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 market price: price risk on the position held on a given financial asset, in particular a share.

Market risk monitoring system

Organisation of the trading room

The organisation of the 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 under the executive vice-president for finance and banking production.

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 the directive on financial instrument markets (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

Part of the banking production division under the the executive vice-president for finance and banking production, it 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.

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 under 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, which is part of the finance and banking production division under the the executive vice-president for finance and banking production, is the final element in the organisational system. 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.

Market risk monitoring organisation

The scope covered by market risk monitoring includes all market activities, i.e. transactions on behalf of clients, cash transactions, financial business of the trading portfolio, as well as medium-long term investment transaction on products generating market risk, whatever their accounting classification.

Activities falling within this scope are not included in the ALM function.

Within this scope, the institution's market risk division has the following duties, as defined in the Group's Risk Charter:

- identifying the various risk factors and mapping and updating financial products and instruments, covering market risks;
- implementing a system to measure market risks;
- examining global and operational limit requests, and the list of authorised market products submitted to the relevant Risk Committee;
- checking the consistency of positions and their allocation in the correct management compartment (group business line segmentation standards);
- carrying out a cross-discipline analysis of market risks and their development given the business strategy decided by the governing bodies and policies for managing operating activities;
- checking the implementation of risk-mitigation action plans, if applicable.

These duties are carried out in conjunction with the Group risk management division. The latter notably handles:

- the definition of the market risk measurement system (VaR, stress tests…);
- the evaluation of this system's performance (back-testing) notably in the context of reviews of annual limits;
- the reporting standard for monitoring market risks consolidated at the different levels of the Group; and
- the examination of matters brought to the Group's Risk Committee.

Law on the separation and regulation of banking activities (SRAB) and the Volcker rule

In the framework of work undertaken in 2015, the mapping of Groupe BPCE market risk was updated. At 30 September 2015, this mapping revealed 42 internal units that were the object of an exemption as defined by Law no. 2013-672 of 26 July 2013 on the separation and regulation of banking activities.

Since May 2015, and on the basis of this mapping, Groupe BPCE calculates, on a quarterly basis, the required indicators in accordance with Article 6 of the Order of 9 September 2015.

In parallel to the work related to the law on banking regulation and separation, a strengthened programme for compliance with the Volker rule (subsection of the U.S. *Dodd-Frank Act)* was adopted in 2015 on the scope of BPCE and its subsidiaries (defined as a small group)(1).

Banque Palatine, as part of the scope of the small group, established systems related to these regulations.

Law on the separation and regulation of banking activities

The mapping of the institution's market activities revealed five internal units that were the object of an exemption as defined by Law no. 2013-672 of 26 July 2013 on the separation and regulation of banking activities. These units are covered by a mandate that defines healthy and prudent management characteristics.

Volcker rule

As it does not conduct business in the United States, Banque Palatine is not obliged to calculate or report the specific indicators provided for in the Volker Rule and chose to use certain indicators from the law on the separation and regulation of banking activities.

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(1) Small BPCE group: BPCE SA and its subsidiaries, Natixis and its subsidiaries and 25%-held companies.

Market risk measurement and surveillance

The overall limits of market risk are set and reviewed, as often as necessary and at least once per year, by the effective manages and, as applicable, by the supervisory body, taking into account the business's equity and, as applicable, the consolidated equity and its distribution within the Group adapted to the risks incurred. They were set in February 2015 for the financial year.

The limits monitoring system is composed of three types of limits:

- regulatory limits defined by the credit institutions and which are applicable to Banque Palatine;
- limits at the level of the consolidated Groupe BPCE or on an individual basis for Banque Palatine, as communicated by the central body;
- Banque Palatine internal limits adopted by the Executive Management Committee upon the proposal of the finance division and advise of the market risk division.

All the limits are monitored on a daily or monthly basis, according to regulatory requirements or the requirements of the internal or central body.

In line with the risk mandates determined by internal units (desk), the traders or desks who have caused a breach of limit are notified and must apply the remedial and escalation system as defined by the front office procedures.

The market risk monitoring system is based on qualitative and quantitative risk indicators. The frequency of monitoring of these indicators varies according the financial product monitored.

The qualitative indicators are notably composed of the list of authorised products and the WatchList. The term WatchList is used to refer to the list of counterparties, funds, securities, etc. that are under surveillance.

To complete this qualitative monitoring, market risk monitoring is conducted through the calculation of complementary quantitative indicators.

Within the framework of market risk monitoring, the Group risk management division:

- calculates, on a daily basis, parametric VaR (99% 1-day) on Banque Palatine's trading book (networks' trading books closed at 31 December 2015);
- calculate, on a daily basis, the sensitivities for each risk type within the scope of Banque Palatine trading.

Daily calculation *of Scenarisk* VaR

In euros Segment	Sub-segment	VaR at 31/12/2013	VaR at 31/12/2014	Change in VaR between 31/12/2013 and 31/12/2014	VaR at 31/12/2015	Change in VaR between 31/12/2014 and 31/12/2015
Capital markets	Change, rate	22,330	32,978	48%	44,627	35%

The VaR is an overall indicator of market risk which measures maximum potential loss over a given time frame for a defined confidence interval, in accordance with the regulatory requirements related to internal control. Banque Palatine only slightly consumes its VaR limits.

Simulation of market risk crisis

The stress test consists of simulating on the portfolio large variations in the market parameters in order to detect the loss, in the event of such situations.

Since 2009, the Group's risk management division is charged with defining and implementing the stress scenarios in collaboration with the Group's entities.

Following successive financial market crises, Groupe BPCE implemented two types of stress tests in order to improve the monitoring of all the risks in the Group's portfolio:

- Six "hypothetical « global scenarios" were defined. These are probable macro-economic scenarios defined in collaboration with the Group's economists. They are calculated on a weekly basis. These stress scenarios may relate to equity, interest-rate, credit, currency or commodity factors.
- Eleven "historical stress scenarios" have been set and are calculated on a weekly basis. The historical stress scenarios were scenarios that happened in the past.

These two types of stress tests were defined and applied jointly to the entire group so that the Group risk management division could establish consolidated monitoring.

Moreover, specific stress scenarios complete this system. Either at the group level or at entity level in order to best reflect the specific risk profile of each portfolio.

Work done in 2015

The market risk department performed specific controls, responding in particular to the best practices of the Lagarde report, implemented specified data feedbacks to BPCE and contributed to the implementation of the SRAB and Volcker systems.

Balance sheet management risks

Definition

Structural balance sheet risks are translated into a risk of immediate or future loss linked to changes in commercial or financial parameters and to the structure of the balance sheet for the activities of the banking portfolios, excluding proprietary trading.

Structural balance sheet risks have three main components:

- liquidity risk, which is the risk that the institution is unable to meet its commitments or is unable to unwind or cover a position due to market conditions or idiosyncratic factors, within a fixed time frame and at a reasonable cost. (Order of 3 November 2014 regarding internal control);

  liquidity risk is also associated with the inability to convert illiquid assets into liquid assets;
- global interest rate risk, which is the risk incurred in the event of changes in interest rates resulting from on and off-balance sheet transactions as a whole, with the exception, if applicable, of transactions subject to market risks (order of 3 November 2014 regarding internal control);
- exchange-rate risk, which is the risk that impacts receivables and securities denominated in foreign currencies. It stems from changes in the price of these currencies as expressed in local currency.

Organisation of balance sheet management risk monitoring

The financial risk division performs a second level control of the structural risks of the balance sheet.

To that end, it is in particular responsible for the following tasks:

- examining requests for internal ALM limits, respecting the limits defined at the level of the Group;
- defining stress scenarios that complement the Group stress scenarios, where necessary;
- checking the indicators calculated according to the standards of the group's ALM framework;
- checking that limits are respected, on the basis of prescribed data feedback;
- checking the implementation of action plans for returning within the limits, where necessary.

The controls are formalised in a report on second level risk controls. It includes qualitative data on the market risk framework system, the respect of limits and the monitoring of the return within the limits if necessary, as well as analysis of the change in the balance sheet and the risk indicators.

These tasks are carried out together with the Group risk management division which is, with the Group finance division, in charge of the critical review or validation:

- of the ALM agreements submitted to the Balance Sheet Management Committee (releasing rules, separation of trading/banking books, definition of instruments accepted as hedges against balance sheet risks);
- of the control indicators, and of the rules and frequency of reporting to the Balance Sheet Management Committee;
- of agreements and processes for information feedback;
- of control standards on the reliability of evaluation systems, on the procedures for setting limits and managing breaches, on the monitoring of action plans to return within the limits;
- of the choice of model retained to evaluate the Group's economic capital requirements regarding structural balance sheet risks, where necessary.

Monitoring and measuring liquidity and interest rate risks

Banque Palatine manages its balance sheet autonomously, pursuant to the standards of the group's ALM framework, defined by the group's ALM Committee and approved by the Group's Risk Management Committee and the group's ALM Committee.

Groupe BPCE institutions share the same management indicators, the same risk modelling integrating the specificity of their activities, and the same limits rules, which makes it possible to consolidate their risks.

Thus, the limits observed by Banque Palatine are in line with those included in the group's asset-liability management framework.

The elaboration of scenarios is necessary to properly evaluate the interest rate and liquidity risks incurred by the institution, assessed indivdiually, and by the Group as a whole.

In order to make it possible to consolidate information on a homogeneous basis, it was agreed that "group" scenarios would be developed and applied by all the institutions.

At the Banque Palatine level

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 (credits):

- 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;
- where necessary, centralised market refinancing at the group level optimising the resources brought to Banque Palatine.

To complement its own funding sources, Banque Palatine has mainly borrowed from BPCE.

Monitoring liquidity risk

The static liquidity risk is measured by two types of indicators:

The liquidity gap or impasse:

The liquidity gap for a period (t) is equal to the difference between the assets and liabilities for a period (t). It is calculated using average assets for the period (t).

Banque Palatine ensures that it sufficiently balances its assets and liabilities in the long term, to avoid finding itself in a position of disequilibrium in terms of liquidity.

The "observation" ratios are calculated on a 10 year basis.

These static ratios are subject to limits. During the 2015 financial year, these limits were respected.

Dynamic liquidity risk is measured by a stressed gap indicator calculated on the basis of 1, 2, and 3 month periods, and is subject to limits. Over the last financial year, Banque Palatine respected its limits.

Monitoring interest rate risk

Banque Palatine calculates:

- A regulatory indicator that is subject to a limit: the Basel II indicator

  It is used for financial communication (industry benchmark). This indicator was not retained as a management indicator even if the regulatory limit of 20% regarding it should be respected. It is accompanied 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), Banque Palatine measures the sensitivity of its results to possible movements in interest rates, business forecasts (new business and customer behaviour) and sales margins.

During the 2015 financial year, the static ALM limits for the rates set for years 1 through 8 were occasionally breached. The breach in year 1 was the subject of an action plan aimed at neutralising the effect of a large increase in deposits between June and September.

Work done in 2015

During the 2015 financial year, Banque Palatine worked on setting up a control of the Liquidity Coverage Ratio (LCR) calculated at the end of the month and then on setting up controls of the LCR estimated daily.

Operational risk

Definition

The definition of operational risk is given in point 52 of Article 4 of EU Regulation no. 575/2013. It concerns the the risk of loss resulting from an inadequacy or failure attributable to internal procedures, staff and systems or to external events, including legal risk. Operational risks include in particular risks linked to events that are unlikely to occur but have a large impact, the risks of internal and external fraud defined in Article 324 of the aforementioned regulation, and risks linked to the model.

Operational risk monitoring organisation

The system of risk management and control covers:

- all the structures consolidated or controlled by our institution (banking, finance, insurance, etc.);
- all the activities having operational risks, including outsourced activities as defined by the order of 3 November 2014 regarding internal control (external or in-house group service providers).

The operational risk department uses a decentralised system of "business line" correspondents and/or managers within the institution. They are functionally part of it. The operational risk department leads and trains its operational risk correspondents.

The operational risk department provides permanent second level control of the operational risk management division.

The role of the correspondents is to:

- regularly identify and rate, as "business line" experts, operational risks liable to impact their scope/field of activity;
- provide and/or produce information to inform the operational risks management tool (incidents, indicators, action plans, mapping);
- mobilise implicated/authorised persons when an event occurs in order to undertake, as soon as possible, mitigation measures and then define or implement necessary actions to limit the impacts;
- limit the re-occurrence of incidents/risks through the definition and implementation of preventative action plans;
- handle and manage incidents/risks in conjunction with the heads of activity.

The operational risk management division, by its action and organisation, contributes to financial performance and the reduction of losses, ensuring that the system for controlling operational risk is reliable and effective.

Within Banque Palatine the guidelines and governance rules are defined in the following manner:

- the system is decentralised *via* a team of operational risk correspondents, contacts and experts as defined in the body of procedures;
- the information system for the effective managers in the event of incidents is provided *via* the communication of information by the Operational Risk and Security Committee to the other committees (Audit and Internal Control Committee, Audit Committee, etc.);
- the Operational Risks and Security Committee is deployed. It meets quarterly and is presided over by a member of the Executive Management Committee. It includes the entire operational risks system (body of procedures - demonstrated risks - potential risks - vulnerabilities zones - control of the operational risks division - risks to steering/action plans).

The role and duties of the head of operational risks are to:

- deploy among users the group methodologies and tools, with necessary adjustments arising from the specific characteristics of certain institutions and business lines, applied in conjunction with the Group risk management division;
- ensure the quality of data produced;
- oversee the completeness of the data collected;
- perform a periodic review, on the basis of the operational risk management system, of the resolution of incidents and of the progress of action plans, and ensure their inclusion in the group system;
- 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, in particular through the implementation of action plans, the formalisation of procedures and the corresponding controls;
- ensure regular updating of the risk indicators and follow their evolution in order, where necessary, to launch the necessary actions in the event of degradation;
- steer the rating campaigns of the risk mapping and of the identification of risks to steer;
- produce reports;
- lead the Committee in charge of operational risks;
- participate, where necessary, in committees associating other cross-cutting functions or business lines (quality, etc.).

The Bank currently uses the Group's operational risk analysis system (PARO) to apply the methodology adopted by the Group risk management division and to collect the information needed for the proper management of operational risk.

This system makes it possible to:

- identify and evaluate operational risk on an ongoing basis, making it possible to define Banque Palantine's risk profile;
- conduct the daily collection and management of incidents generating or liable to generate a loss;
- update the rating of risks in the risk map and monitor the action plans.

On the basis of the data collected in PARO, Banque Palatine prepares, on a quarterly basis, a dashboard on operational risks.

Lastly, as part of the capital requirement calculation process, Groupe BPCE uses the Basel II standardised approach. Corep regulatory reporting documents are produced in this respect.

At 31 December 2015, capital requirements for covering operational risk were €45,802,000.

The duties of the operational risk department are carried out with the Group risk management division, which oversees the effectiveness of the systems deployed within the Group and analyses the principal demonstrated and potential risks identified in the institutions, notably during the Group's Operational Risk Committee.

Operational risk measurement system

In accordance with the Group's Risk Charter, Banque Palatine's operational risks management division is responsible for:

- the development of systems allowing the identification, evaluation, oversight and control of operational risk;
- the definition of policies and procedures for the management and control of operational risk;
- the design and implementation of an operational risk evaluation system;
- the design and implementation of the operational risk reporting system.

The duties of the operational risk division of our institution are:

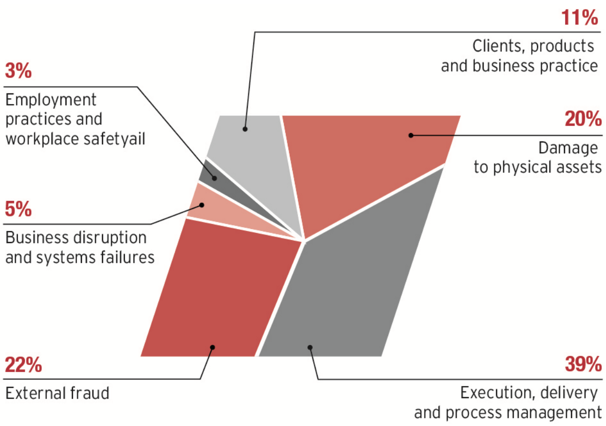
- to identify operational risks;
- to map these risks by process, and update the map, working with the business lines concerned, including compliance;
- to collect and consolidate operational incidents and evaluate their impact, working with the business lines - the sole map used by the permanent control function;
- to implement warning procedures, and notably inform the operational managers according to the action plans implemented;
- to monitor the corrective action plans defined and implemented by the operational units concerned in the event of a notable or significant incident.

Work done in 2015

During 2015, in order to ensure an increasingly relevant risk approach, mapping work in accordance with the operational risks function was undertaken and finalised. The approach was completely revised to improve the risk outlook of the institution. It was conducted by process and no longer solely by risk. Thus, all the participants concerned by the process were contributors to the rating. The cross-cutting activities of compliance and permanent control, and information systems security, responsible for the emergency and continuity plan, were involved.

Within this framework, 2,204 incidents were collected during 2015 (incidents created in 2015). Certain incidents (created prior to 2015 and re-evaluated in 2015) are still being processed.

Breakdown of the number of "un-finalised" incidents by Basel category



Exposure to operational risks

In 2015, Banque Palatine's total annual gross losses and Corep provisions amounted to €3,987,039 and for the Corep group (Banque Palatine and Palatine Asset Management) amounted to €4,021,841.

Market and settlement risks

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, Banque Palatine 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.

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.

2 Legal risks

Exceptional events and litigation

None.

New doubtful loans in 2015

- 161 loans totalling €36.6 million, breaking down as follows:
  - 71 business loans totalling €26.4 million;
  - 90 individual loans totalling €10.2 million.

Total loans managed by the litigation team at end-2015

- 653 loans subject to recovery in the gross amount of €106.2 million.

Flow of loans relating to special affairs and collective proceedings in 2015

- 841 loans totalling €541.5 million including 127 new loans in 2015 amounting to total outstandings of €94.2 million.

Loans managed by the legal division at end-2015

- 86 loans breaking down between:
  - 61 transfers, 24 complaints and 1 criminal procedure;
  - for a total amount of €29.6 million, provisioned in the amount of €2.4 million.

3 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, Banque Palatine did not have any exposure at 31 December 2015 or at any time in 2015 to risks relating to CDOs, monoline exposure, CMBSs, RMBSs or special purpose entities.

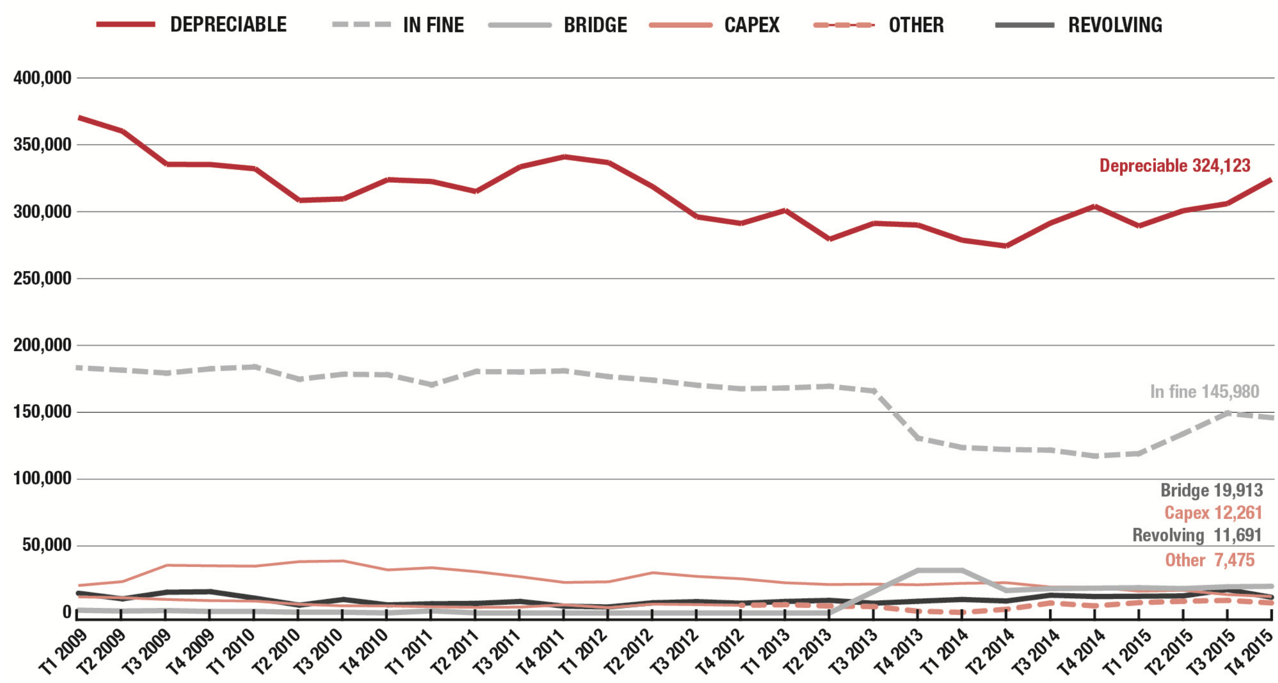
Leveraged buyouts

At 31 December 2015, Banque Palatine had 144 loans in this category with an outstanding amount of €521 million, as opposed to 146 loans and €477 million in outstandings at end-2014.

LBO outstandings equalled 5% of Banque Palatine's corporate loans outstanding at 31 December 2015, as at end-2014.

LBOs monitored by a dedicated department made up 91% of total LBO outstandings.

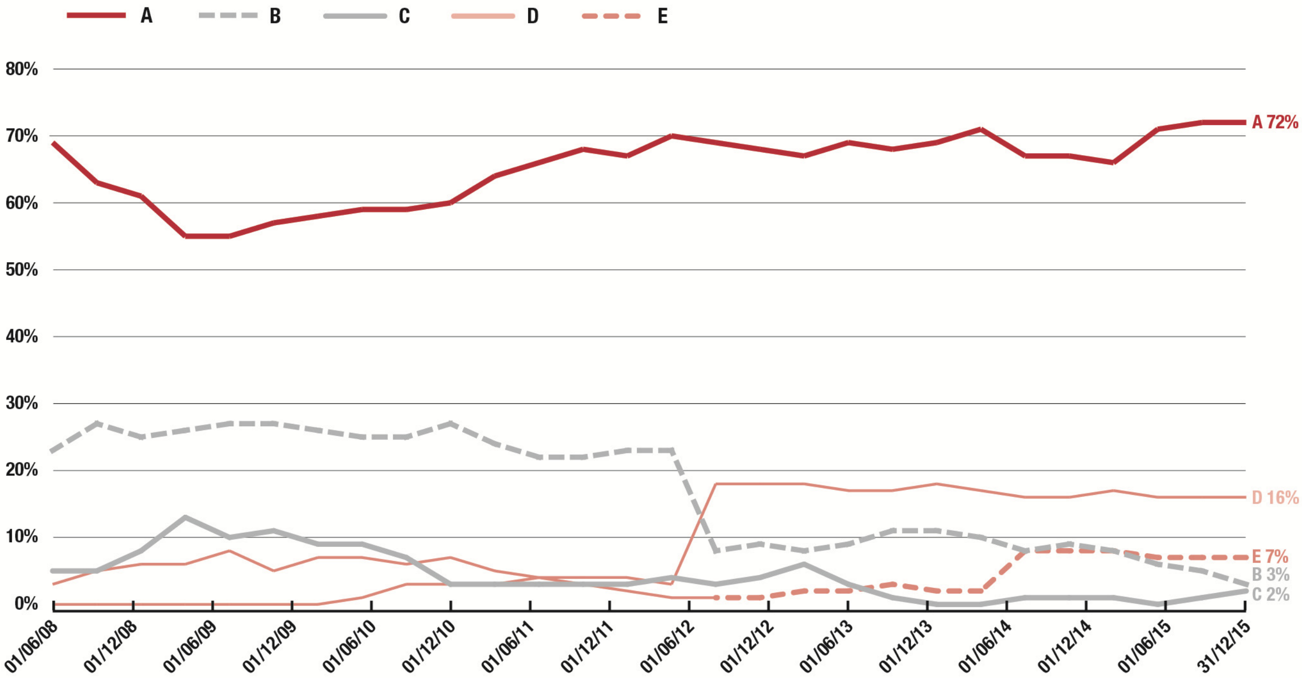
The table below sets out changes in the breakdown of LBO outstandings by type of loan. These statistics refer only to LBO outstandings. They exclude short-term loans, past due items and other non-LBO exposures to the target companies.



The rate of doubtful loans decreased to 22.83% for a coverage rate of doubtful loans by provisions of 51%, compared to 24.18% and 50% respectively at end-2014.

The cost of risk on LBO exposures remained low in 2015 at €6 million.

The table below shows changes in the internal classification of LBO outstandings.



A = performing/B = performing but requiring supervision/C = sensitive/D = doubtful/E = non-performing.

4 Insurance of insurable risks

At 1 January 2015, BPCE subscribed on its own behalf as well as for its subsidiaries, including Banque Palatine, to the following primary insurance programmes to cover insurable operational risk, in order to protect its balance sheet 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

The “Growing Differently” strategic plan has set the Group’s ambitions for 2014-2017, drawing in part on sustainable development, with the support of the Group’s specialist banks including Banque Palatine.

In 2015, two projects contributed to this ambition: the definition of a group Corporate social responsibility approach, combined with a multi-year action plan and drawing up an inventory of the green growth markets.

Furthermore, the organisation of the Sustainable Development function aims to give an impetus to the Group’s CSR policy, to draw up a unit that looks ahead to future developments using expertise and innovation for ensuring sustainable growth relays and coordinating the implementation of specific regulations, as well as proposing changes relating to governance.

To do this, it is supported by a Sustainable Development business line function split between the central body, regional banks and the Group’s subsidiaries. Each company within the Group has appointed a sustainable development representative who is responsible for applying the Group’s commitments, while adapting them to the specific nature of their region, business and objectives.

Banque Palatine’s sustainable development strategy

Banque Palatine’s sustainable development strategy consists of the expression of a commitment renewed since 2008. It is part of Groupe BPCE’s sustainable development policy.

Banque Palatine’s four-year strategic plan therefore 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.

CSR actions are monitored by a specific member of staff from within the communications and CSR division. Implementation of the actions is supported, more broadly, by all the divisions of Banque Palatine.

Banque Palatine’s motto “The Art of being a Banker” has the value of a commitment. It conveys a demanding and ambitious concept of the banking business line. It is a conviction that calls for a special, sustainable and tailor-made relationship with its customers. On a daily basis, this means being a bank that is not only a financier, but a true partner of the corporate and private customer market, rooted in its values which give it its true status of a Responsible Bank.

1.1 Workforce-related information

Within the framework of the strategic plan, the Group has also developed a committed and responsible human resources approach that participates in BPCE’s sustainable development. For example, it has chosen to implement three priority actions in favour of professional gender equality, the employment of people with disabilities and equal opportunities. Initiatives for improving employee relations and health and safety at work, along with combating absenteeism complement this approach.

Banque Palatine’s "Impulsions" 2014-2017 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 the 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";
- by management training, lasting over three years and started in February 2015, to assist managers in their coaching role so as to transform their individual efficiency into a collective efficiency, in an environment subject to many changes.

Securing support

- of the staff through a managerial charter in which the Bank asserts its wish to develop the practices and that each manager must follow in order to deliver the Bank's strategy in the service of its customers and staff;
- on the Banque Palatine brand image, by setting up a "Pop'in" co-option campaign, inviting employees to submit their applications for vacant positions in their networks to the human resources team (bank manager, business manager or wealth management advisor).

Modernising

- the organisation 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;
- the integration of new entrants by distributing a digital version of the welcome booklet;
- the exchange of good practices by setting up an on-line suggestion box called "Imag'In", covering various subjects (collective efficiency, change management, customer relations, quality of life at work, commitment, etc.) feedback following the Diapason survey, asking employees about the actions to be implemented to improve daily life at Banque Palatine.

Workforce

Banque Palatine's workforce grew in 2015: 1,245 employees, 92.9% of whom have permanent contracts, which is an increase of 3.1% of the registered workforce compared to 31 December 2014 (Editor's Note: 1,207 employees).

Women made up most of the workforce, accounting for more than 52.6% of employees, as in 2014. The proportion of managers was stable at 63.1%.

The policy relating to work experience contracts is continuing, with 37 young employees in training, which is an additional eight contracts compared to 31 December 2014.

Breakdown of workforce by contract type, status and gender

Due to Banque Palatine being present only in France, the breakdown by geographical area is not indicated.

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Total permanent and fixed-term staff including those on work-study programmes	1,245	29	1	1,207	31	1
Total permanent and fixed-term staff (excluding work experience and holiday trainees)	1,208	28	1	1,178	29	1
Number of permanent employees	1,156	27	1	1,146	29	1
Permanent employees as a % of the total workforce	92.85	93.10	100	94.95	93.55	100
Fixed-term employees, including those on work-study programmes	89	2	0	61	2	0
Fixed-term employees as a % of the total workforce	7.15	6.90	0	5.05	6.45	0
Total managers	786	27	0	772	27	0
Managers as a % of the total workforce	63.13	93.10	0	63.96	87.10	0
Total non-managerial employees	459	2	1	435	4	1
Non-managerial employees as a % of the total workforce	36.87	6.90	100	36.04	12.90	100
TOTAL FEMALE EMPLOYEES/BREAKDOWN BY AGE CATEGORY	**655**	**9**	**1**	**640**	**9**	**1**
18 - < 26 years	51	0	0	44	0	0
26 - < 31 years	87	0	0	82	1	0
31 - < 36 years	83	1	1	84	0	1
36 - < 41 years	86	3	0	82	4	0
41 - < 46 years	66	1	0	60	0	0
46 - < 51 years	70	2	0	81	2	0
51 - < 56 years	112	2	0	103	2	0
56 - < 61 years	83	0	0	95	0	0
61 years and over	17	0	0	9	0	0
Women as a % of the total workforce	52.61	31.03	100	53.02	29.03	100
TOTAL MALE EMPLOYEES/BREAKDOWN BY AGE CATEGORY	**590**	**20**	**NR**	**567**	**22**	**NR**

Indicators	31 Dec. 2015			31 Dec. 2014		
	BP	PAM	Ariès	BP	PAM	Ariès
18 - < 26 years	33	2	nr	23	3	nr
26 - < 31 years	70	1	nr	65	0	nr
31 - < 36 years	86	1	nr	69	1	nr
36 - < 41 years	76	0	nr	73	0	nr
41 - < 46 years	83	4	nr	80	4	nr
46 - < 51 years	53	2	nr	64	2	nr
51 - < 56 years	91	5	nr	92	5	nr
56 - < 61 years	76	2	nr	76	4	nr
61 years and over	22	3	nr	25	3	nr
Men as a % of the total workforce	47.39	68.97	nr	46.98	70.97	nr

nr = not relevant / na = non available / nm = not material.

Breakdown of hires by contract, status and gender

As Banque Palatine belongs to Groupe BPCE, this offers the opportunity to work in a people-centred company while taking advantage of the career and mobility opportunities of a large corporate group.

For the 2015 financial year, the total number of people recruited on permanent contracts was 118, while the number of people recruited on fixed-term contracts was 103.

The breakdown by age and gender remained similar in 2015 to that of 2014: more than half of the permanent recruitments relate to employees aged less than 30 years. Recruitment of employees over 40 years rose slightly, as opposed to the recruitment of 30-40 year olds, which is tending to drop.

Following the strong growth of the recruitment of permanent employees in 2015, recruitment at management level remains higher than 55% of new recruits. Recruitment of employees on fixed-term contracts saw a number of changes at management level: 7% in 2014 versus 12% in 2015.

In 2015, a plan to create 12 new jobs was validated as part of the strategic plan to support business development, and 15 new permanent employees were taken on from Groupe BPCE, as opposed to seven in 2014.

As a result, Banque Palatine remains a dynamic economic force in its business sector, and in its core business. It is continuing its recruitment policy by extending its range through a multi-channel approach:

- Participation in trade fairs across France, alone or in partnership with the Group: eight trade fairs, two of which were in Paris and Ile-de-France (ESSEC and Dauphine work experience) and six in the regions (Néoma Rouen, Audencia Nantes, IUP Caen, Université Lumière Lyon 2 and EM Grenoble).
- Job advertisements: group portal, but also on so-called "generalist" websites (APEC, Cadremploi, etc.) or specialised websites (Efinancial, Jobanque, Likfinance and I-Questa). Viadeo and Linkedin are also monitored for positions that require business or finance expertise.

Indicators	31 Dec. 2015			31 Dec. 2014		
	BP	PAM	Ariès	BP	PAM	Ariès
Total number of managers hired on permanent contracts	65	0	0	39	1	0
Total number of managers hired on fixed-term contracts	12	2	0	5	0	0
Total number of non-managerial employees hired on permanent contracts	53	0	0	30	0	0
Total number of non-managerial employees hired on fixed-term contracts	91	0	0	64	0	0
Total number of women hired on permanent contracts	47	0	0	38	0	0
Total number of women hired on fixed-term contracts	65	0	0	48	0	0
Total number of men hired on permanent contracts	71	0	0	31	1	0
Total number of men hired on fixed-term contracts	38	2	0	21	0	0

Breakdown of departures by contract, reason and gender

Correlatively to the number of new recruits, the number of departures from Banque Palatine changed significantly in 2015: 108 departures from permanent contracts compared to 74 in 2014, i.e. +46%.

The number of people retiring accounted for 27% of the total departures in 2015, the same as in 2014.

Resignations and dismissals are in slight decline.

It is the job movements within the Group that have increased strongly (change from 8.1% to 17.6% of total departures), indicating what it means to be part of a large group.

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of employees on permanent contracts leaving Banque Palatine	108	2	0	74	0	0
of which number of people retiring	29	2	0	20	0	0
People retiring as a proportion of total permanent staff	2.51	7.41	0	1.75	0	0
of which redundancies	7	0	0	9	0	0
Redundancies as a proportion of total permanent staff	0.61	0	0	0.79	0	0
Average length of service of permanent employees leaving Banque Palatine	14.34	14.35	0	14.17	0	0
DEPARTURES OF PERMANENT FEMALE STAFF AND BREAKDOWN BY REASON	**51**	**0**	**0**	**38**	**0**	**0**
Resignation	16	0	0	15	0	0
Termination	4	0	0	2	0	0
Transfer within the Group	9	0	0	5	0	0
Retirement	16	0	0	11	0	0
Voluntary redundancy	4	0	0	4	0	0
End of probation period	2	0	0	1	0	0
Other reason	0	0	0	0	0	0
DEPARTURES OF PERMANENT MALE STAFF AND BREAKDOWN BY REASON	**57**	**2**	**NR**	**36**	**0**	**NR**
Resignation	20	0	nr	12	0	nr
Termination	3	0	nr	7	0	nr
Transfer within the Group	10	0	nr	1	0	nr
Retirement	13	2	nr	9	0	nr
Voluntary redundancy	8	0	nr	5	0	nr
End of probation period	3	0	nr	2	0	nr
Other reason	0	0	nr	0	0	nr

Remuneration

The average basic salary has increased slightly compared to 2014 for non-manager men and women. This increase in basic salary, while staff turnover was very significant, is a sign that recruitment is taking place at an adequate level, and that the salaries of the current employees is progressing.

In 2015, for the second time, employees who had worked for Banque Palatine throughout 2014 received an individual employee statement. The statement highlights all the components making up remuneration, whether direct or indirect, received by each employee.

In addition to the information already presented in the first version, this individual employee statement presented in 2015 included information on the change from the individual right to training to a personal training account and on the setting up of a new social insurance contract, as well as a comparison of salaries between 2013 and 2014.

The 2015 employee statement, which will be released in 2016, will provide even more information.

The project for revamping the variable remuneration system, started in 2014, has become a reality and was deployed on 1 January 2015. The first payment of this new system will be made in April 2016.

In 2015, certain specialised professions that had not been covered in 2014 were the subject of a follow-up project, and the new system for the variable part will be applied to them from 1 January 2016.

Indicators	31 Dec. 2015			31 Dec. 2014		
	BP	PAM	Ariès	BP	PAM	Ariès
Mean basic salary for men on permanent contracts, managers (€ '000)	58	77	nr	58	77	nr
Mean basic salary for men on permanent contracts, non-managerial (€ '000)	33	nr	nr	32	nr	nr
Mean basic salary for women on permanent contracts, managers (€ '000)	51	68	nr	50	72	nr
Mean basic salary for women on permanent contracts, non-managerial (€ '000)	32	32	41	31	31	38
Median basic salary for men on permanent contracts, managers (€ '000)	53	68	nr	54	68	nr
Median basic salary for men on permanent contracts, non-managerial (€ '000)	32	0	nr	32	0	nr
Median basic salary for women on permanent contracts, managers (€ '000)	47	60	nr	46	60	nr
Median basic salary for women on permanent contracts, non-managerial (€ '000)	31	32	41	31	31	38
Year-on-year change in median basic salary for male "managers" on permanent contracts, as a %	0.99	1.00	nr	0.97	1.80	nr
Year-on-year change in median basic salary for male "managers" on permanent contracts, as a %	1.02	nr	nr	0.21	nr	nr
Year-on-year change in median basic salary for female "managers" on permanent contracts, as a %	1.01	1.00	na	0.38	0	na
Year-on-year change in mean basic salary for female "managers" on permanent contracts, as a %	1.01	1.01	1.08	1.44	1.29	1.31

Work organisation

Organisation of working hours

The weekly working hours, for employees working on the basis of a collective working hours system, are 39 hours. The allocation of working time reduction days brings the average length of work down to 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 2015, 70 employees on permanent contracts (versus 72 in 2014) had adjusted working hours – 91.4% of whom were women – making up 6.1% of all employees on permanent contracts.

The decrease in the number of part-time workers is linked to the reduction in part-time "parental leave".

Structure of permanent employees working part-time by gender and status

Indicators	31 Dec. 2015			31 Dec. 2014		
	BP	PAM	Ariès	BP	PAM	Ariès
Breakdown of female permanent employees on the payroll at 31/12 by working hours (% of full time)	64	4	nr	63	4	nr
20%	0	0	nr	0	0	nr
30%	1	0	nr	1	0	nr
50%	8	0	nr	7	0	nr
60%	4	0	nr	5	0	nr
70%	0	1	nr	0	1	nr
80%	39	1	nr	44	1	nr
85%	1	0	nr	0	0	nr
90%	11	2	nr	6	2	nr
Breakdown of male permanent employees on the payroll at 31/12 by working hours (% of full time)	6	1	nr	9	2	nr
20%	0	0	nr	0	0	nr
30%	0	0	nr	0	0	nr
50%	3	0	nr	4	0	nr
60%	1	0	nr	1	0	nr
70%	1	0	nr	1	0	nr
80%	1	0	nr	3	1	nr
90%	0	1	nr	0	1	nr
Number of women on permanent contracts working part-time, non-managerial	36	0	nr	30	0	nr
Number of women on permanent contracts working part-time, managers	28	4	nr	33	4	nr
Number of men on permanent contracts working part-time, non-managerial	4	0	nr	4	0	nr

Indicators	31 Dec. 2015 BP	PAM	Ariès	31 Dec. 2014 BP	PAM	Ariès
Number of men on permanent contracts working part-time, managers	2	1	nr	5	2	nr

Overtime

Indicators	31 Dec. 2015 BP	PAM	Ariès	31 Dec. 2014 BP	PAM	Ariès
Overtime (hours)	13,245	3	nr	11,239	0	nr
Number of persons concerned	200	1	nr	175	0	nr

Absenteeism

The overall absenteeism rate at Banque Palatine was 4.93% in 2015, lower than in 2014 (5.52%) and 2013 (6.38%).

Since 2014, this indicator has been the subject of specific monthly monitoring(1), with discussion 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.

Indicators	31 Dec. 2015 BP	PAM	Ariès	31 Dec. 2014 BP	PAM	Ariès
absenteeism rate: days of absence/(days worked* by employees on the payroll at 31/12)	4.93	3.15	nr	5.52	5.65	nr

Training

The training policy fully supports the Group's ambitions for the integration, training, and skills development of its employees.

Training policy

In a developing and demanding banking sector, with a payroll close to 6% and with more than 29,000 hours devoted to training in 2015, Banque Palatine wanted to increase its investment in developing the skills of its staff.

The Bank's training efforts in 2015 were in line with the targets set for the 2014-2017 period, and factor in the provisions of Groupe BPCE's GPEC (forward-looking jobs and skills management) agreement of 20 January 2015, which are:

- support the definition of the strategic plan;
- facilitate access to vocational training throughout their career so as to contribute to the security of career paths and maintain the employability of employees, in compliance with the principle of professional equality between men and women;
- pursue the targets set within the framework of the human resources management policy: support Banque Palatine's development by monitoring changes and developments in the business skills required to implement its strategy;
- ensure that we meet our obligations relating to regulatory training.

To achieve these objectives, Banque Palatine's Economic and Workforce-relations Unit (UES), which includes its subsidiary Palatine Asset Management (PAM), 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 one-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

- hold two information meetings on the systems for the Personal Training Account, Individual Training Leave, Validation of Experience Acquired and the Skills Statement - monitor interviews conducted by the Training service to enable all employees to have the same amount of information on these systems.

(1) This monitoring focuses on absences relating to collective agreements (sickness, maternity, accidents)

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.

As regards training plans, Banque Palatine has adopted transformative initiatives on the following themes:

- management:
  - managerial training over three years relating to solidarity and efficiency management, which consists of two collective days of face-to-face training, followed by two days of individual coaching. A specific training module for facilitators has also been implemented in 2015,
  - “The art of being manager” course: programme launched in October 2015, based on an invitation to apply, has helped 12 employees to enrol on this course which focuses on the detection, validation, and development of future managers,
  - "the first 100days of a manager taking up their post”: support provided for new managers when taking up their post in the format of three four-hour coaching sessions, allowing a better understanding and preparation for the role of manager;
- development and maintenance of skills:
  - the Company’s market:
    - professional development of managers and co-ordinators in this business line, in the fields of commercial supervision and management,
  - private banking market:
    - technical training on assets (life insurance, marriage regimes, tax issues, etc.) conducted face-to-face or in virtual classrooms, following the skills diagnosis completed in 2014,
    - "Service excellence at the service of the business manager" training for private bankers, so as to incorporate a dimension of excellence in customer relations with the aim of standing out from the competition,
    - “360° horizon” training: deepening the knowledge of the sales pitch for all the Private function, with the aim of developing the sales techniques and making them consistent;
- supporting the development of Banque Palatine and employability:
  - training course launched in cooperation with the Training Centre of the Banking Profession (CFPB) for developing customer service managers, private customer advisers or business assistants;
- regulatory:
  - external training system set up for AMF (the French Financial Markets Regulator) certification, which is exportable to all banking institutions,
  - a “mentoring” training system set up for maintaining employees’ skills.

In addition, in order to minimise costs, Banque Palatine is continuing to look at the ways it delivers training, focusing on:

- in-house experts working on the design and implementation: these experts 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.

Progress appraisals

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
% of employees benefiting from progress appraisals compared to the entity’s total workforce	32	0	nr	42	0	nr

Hours of training

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Average number of hours of training per employee for “managerial” employees	25.67	13.73	nr	22.73	1.77	0
Average number of hours of training for “non-managerial” employees	23.39	4.00	nr	23.27	0.95	3
Average number of hours of training per employee	24.88	12.01	nr	22.92	1.66	3
Average number of hours of training by gender						
Men	26.44	14.29	nr	25.11	2.11	0
Women	24.63	6.47	nr	20.99	0.58	3

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 €1,072,277 in respect of remuneration paid in 2014, and for Palatine Asset Management it amounted to €7,325.

The tax credit in respect of remuneration paid in 2014 was allocated to the following projects in 2015:

- IT investment
  - Acquisition of a tool for assessing the customer's knowledge of the financial markets and of allocating assets.
  - Follow-up to the upgrade of the SAB AT version to improve business efficiency by strengthening customer knowledge, the installation of electronic data management and a workflow engine that can plug into the information system.
  - Development of the ePalatine business website in order to improve the ergonomics and the management of delegations for business customers and trustees.
- Training

Continuation of the investment started in 2014, using a virtual classroom system (tool, hardware, etc.), enabling the following objectives to be achieved: 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.
  - Development of a co-option campaign to involve employees in the recruitment policy by enabling them to promote the Bank's image and to encourage people in their network to join us.
- Career management
  - Redesign of the conditions for geographical mobility in order to make it an attractive lever in terms of career management.
  - Creation and implementation of courses co-certified by the CFPB for development and loyalty purposes.
  - Creation of development courses for expert employees with managerial potential in order to develop and retain our future managers.
  - Continuation of the enhancement of the HR career management tools by including HR interviews in our monitoring tool.

Employee relations

Organisation of employee-management dialogue

The Bank has signed no agreement on health and safety at work but it plans to negotiate with the unions on this subject in 2016, as well as on the following topics: professional equality in line with the agreement signed in 2015, the forward-looking management of jobs and skills. This highly structuring topic was already the subject of several meetings at the end of 2015 in order to define the major challenges of the approach, which are:

- visibility of future changes - structural and organisational changes - on the jobs and skills required;
- continual identification of the sensitivity of business lines;
- the integration of talent and age management;
- the development of mobility and career paths;
- the optimised use of training devices for professional development and employability.

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

During the 2015 financial year, Banque Palatine signed a collective agreement on professional equality. This agreement, signed on 22 April 2015, follows on from the commitments made by the Bank over several years. Talks with the trade unions on occupational equality issues are enhancing and gaining maturity, which has allowed all the trade unions (CGT, SNB and CFDT) to unanimously sign the current agreement.

It sets out commitments and progress targets in the following areas:

- recruitment;
- vocational training;
- professional development and career paths;

- employee remuneration and the removal of wage gaps;
- the relationship between work and personal life and parenting in particular;
- awareness raising and communication initiatives.

It came into force on 1 May 2015 and will expire on 30 April 2016.

The parties agreed to meet during the first quarter of 2016 to renew the agreement and notably to conduct a review of the functioning and the effects of the review body on individual situations.

This review body was set up to look at the options for male/female employees who may consider that they are not in the right job or on the correct salary level and who were looking for changes in their situation. Files are presented by trade union organisations. This is a new approach that the human resources department wished to initiate.

The review body met for the first time on 3 July 2015, which made it possible to review seven requests, four of which were revised. The second meeting of the review body took place on 11 December 2015.

Occupational health and safety

Improving quality of life in the workplace

A three-year psychosocial risks (PSR) 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.

Within this framework, a concerted procedure for managing PSR or violence at work situations was finalised in 2015. This procedure is the result of cooperation work between the members of the health and safety committee (CHSCT), the company doctor and the HR department.

This guide applies to any employee who feels that they are in a potentially violent workplace or psychosocial risk (PSR) situation. It makes it possible to identify the situations and the actors liable to be contacted, as well as the steps required to implement corrective action. It was published on the intranet in July 2015.

The procedure was used for two situations in 2015.

In keeping with its deployment among employees, Banque Palatine set up a joint training course for the HR department and members of the health and safety committee on conducting interviews relating to PSR situations and listening attitudes. The objective of this training is to have a body of reference material available, shared between HR and the committee members, on the correct attitudes to be associated with this type of interview.

The training is hosted by RH Médiation, which is an organisation specialised in health and safety prevention in the workplace. Over three non-consecutive days, it deals with the following topics:

- detection and management of psychosocial risks;
- conducting interviews and taking charge of PSRs;
- monitoring objectives and analysis.

This three-day format is essentially based on practical cases, in order to provide members of the health and safety committee and the human resources department with common tools and attitudes to be adopted in the event of a PSR situation.

Workplace accidents, occupational illnesses

The number of accidents at work fell slightly over the year.

No occupational illness was reported or recognised in 2015.

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of accidents at work recorded during the year with and without lost time	12	0	0	15	1	0
Number of fatal accidents recorded during the year	0	0	0	0	0	0
Number of work days lost	27	0	0	22	0	0
Severity rate	0.012	0	0	0.010	0	0
Frequency rate	5.48	0	0	6.35	18.78	0

The number of work days lost is stated as the number of calendar days. It relates solely to workplace accidents, and excludes travel accidents.

Equal treatment

Anti-discrimination policy

Banque Palatine opened negotiations with the trade unions on professional equality between men and women in January 2015, and signed an agreement in April 2015, the first report of which will be drawn up in the first quarter of 2016.

In order to improve employee-management dialogue on the subject, Banque Palatine has decided to set up an awareness-raising project for all the stakeholders working on professional equality, relating in particular to gender stereotypes. So in 2014, with a rate of more than 53% of women in its workforce and 54% of its managers being women, Banque Palatine is very well positioned in Groupe BPCE and has gone further than the target set by the group's GPEC agreement. However, beyond the figures, and even more so given this percentage, it is important to raise awareness on the effects and mechanisms of gender stereotypes, promote positive behaviours and act on the representations.

As regards gender equality, the appointment of a gender equality representative in the Company and their participation in working parties organised by Groupe BPCE, has without a doubt enabled these subjects to be tackled within the Company. Mention should be made here of the organisation of a Speed Meet'in on 17 March 2015, which enabled around 40 female employees to discuss their career paths with the directors.

Banque Palatine is aiming for a better balance of men and women in its various business lines and management levels, but also wants to continue monitoring changes in the gender mix by classification and the so-called "glass ceiling".

In 2015, Banque Palatine changed the diagnosis elements for identifying individual pay difference situations. They are now based on the following principles:

- a study threshold by AFB (French Banking Association) job/business lowered to five employees, which allows the scope of the study to be expanded whilst avoiding the use of single jobs;
- objective sampling criteria based on: the level of classifications in the job, the age group, the level of initial training - bearing in mind that this level will have to be correlated with the level of seniority in the job;
- a detailed analysis of the differentials is implemented when it is greater than or equal to 3.7%. This study was intended to objectify the differences and where no corrective actions were implemented in terms of salary increases.

Furthermore, under the mandatory annual negotiations for 2015, €20,000 have been earmarked for salary adjustments if no objective explanation is found that can justify the observed wage gap. It has already been planned that this allocation will be renewed in 2016 and 2017. Furthermore, the use of this allocation is reviewed annually.

Banque Palatine of course applies the provisions relating to a salary increase at the end of maternity or adoption leave, but given that parental leave is used mainly by women, it has decided to extend this mechanism to parental leave exercised at full-time within the maximum limit of 12 months (agreement of 22 April 2015).

Furthermore, where needed, and to facilitate a better articulation with personal life, teleworking can be considered, in consultation with the managers. In 2015, 20 employees benefited from teleworking (15 women and 5 men).

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. As well as bringing them together, the network enables women to form a laboratory of ideas for the promotion of professional equality. It serves as a link with the HR policies by initiating reflections around the career of women, and the compatibility of professional/personal life for example.

During 2015, the network organised thematic breakfasts (March 2015 with Marie Rouen, director of human resources, and in June 2015 with Diane Ducret, author and historian).

The mentoring system implemented within the "Palatine au féminin" network has enabled 31 employees to benefit from being heard, from receiving advice and from sharing of experiences, through five to six meetings with a mentor chosen from a proposed list. The mentor is an experienced manager with over 15 years of professional experience and who is committed to providing a caring ear whilst maintaining the strictest confidentiality during the meetings.

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Permanent contract male/female ratio, non-managerial (average male salary/average female salary)	1.04	nr	nr	1.03	nr	nr
Permanent contract male/female ratio, managerial (average male salary/average female salary)	1.15	1.13	nr	1.17	1.07	nr
Number of female employees who benefited from parental leave during the last financial year	9	0	0	14	0	0
Number of male employees who benefited from parental leave during the last financial year	1	0	nr	0	0	nr
Number of female employees who returned to work after benefiting from parental leave	6	0	0	10	0	0
Number of male employees who returned to work after benefiting from parental leave	0	0	nr	0	0	nr

Major efforts in support of disabled people

It is now two years since Banque Palatine became tangibly involved in the employment of people with disabilities.

To do so, it provides close support in complete confidentiality to meet the needs of employees, with a view to recognising the status of disabled workers (RQTH). During 2015, this support provided by the disability representative has allowed improvements to the working hours and workstation to be proposed.

Furthermore, during each 'disability week', the Bank raises its employees' awareness of the subject. In 2015, Banque Palatine reaffirmed its commitment to employment for people with disabilities by deploying:

- an "Everything you should know about disability" guide distributed to all employees of Bank Palatine's economic and workforce-relations unit (UES), as a reminder of what disability is and on the initiatives to be implemented in an RQTH approach;
- events organised in the form of cocktail parties at both head offices, as well as "gourmet hampers" at the network's 51 branches, which were made by ESATs (French organisations helping disabled people into employment), in order to promote and encourage the use of services provided by such organisations.

Since the 2014 disability week, Banque Palatine has been broadcasting monthly videos, called "I can't believe my eyes", showing everyday work situations for a disabled person. The objective is to strengthen staff awareness of disability in the Company.

After a qualitative diagnosis conducted between January and March 2015, the Bank will sign an agreement with the Agefiph (a French organisation for promoting employment for people with disabilities) in the first quarter of 2016, which will support Banque Palatine's formal and costed commitments to recruitment, vocational integration and job retention of disabled persons.

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of employees with disabilities excluding ESAT	52	2	0	50	1	0
% of employees reported as disabled excluding ESAT/total workforce (permanent)	4.50	7.41	0	4.14	3.22	0

Equal opportunities

Banque Palatine is committed to equal opportunities and since November 2015 it has set up a partnership with Our Neighbourhoods Have Talent in order to recruit employees as part of a social utility approach that supports the corporate social responsibility policy.

Our Neighbourhoods Have Talent is an association created in 2006 which aims to facilitate the vocational integration of young graduate job-seekers, under 30 years of age and from the priority neighbourhoods or disadvantaged backgrounds.

On a voluntary basis, we invite employees to become a sponsor of these young graduates, to help them in their vocational integration, through meetings of about two hours per month (simulated job interview, redesign of their CV and application letter, building a career plan, etc.)

These sponsorships make it possible to transfer experiences, raise the awareness of these young people of our professions, and introduce them to the working life.

17 Banque Palatine employees enrolled for this sponsorship.

International Labour Organization

Groupe BPCE's growth is pursued in accordance with fundamental human and social rights wherever it does business.

In April 2012 it renewed its membership in the Global Compact (United Nations Global Compact) and extended it to all of its entities in France and abroad. This is a Pact whereby companies are committed to aligning their operations and strategies to ten universally accepted principles regarding human rights, labour standards, the environment and the fight against corruption. The objective of the UN Global Compact, the main global corporate citizenship initiative (comprising 13,000 organisations in 160 countries), is first and foremost to promote the social legitimacy of companies and markets[1]. The aims of the Global Compact are compatible with those of ISO 26000 and the Global Reporting Initiative (GRI). In 2013, Groupe BPCE obtained the active level.

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.

(1) https:// www.unglobalcompact.org/Languages/french/index.html

Environmental information

Groupe BPCE's environmental approach

Groupe BPCE was one of the first banking networks in France to have integrated, more than 30 years ago, an ecological and environmental outlook in its internal practices and in its relationship with customers and stakeholders in civil society.

Internally, the Group has implemented an approach for reducing its environmental impact, adapted to the companies that are part of it. This approach is based on four tools: reliable CSR indicators, an IT tool for collecting and providing the CSR indicators for all the companies in the Group, initiatives for reducing the carbon footprint and improving environmental performance, and a dedicated business line function.

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.

The principle of a compulsory energy audit stipulated by European Directive EU-27-2012 relating to energy efficiency, was enshrined in Law no. 2013-619 of 16 July 2013, relating to various provisions for adaptation of European Union law in the field of sustainable development. Article 40 of the Law inserts a new chapter devoted to the energy performance of companies in title III of book II of the French Energy Code, with four Articles, L. 233-1 to L. 233-4, which constitute the legislative basis of the compulsory energy audit and which set out the sanctions mechanism.

A decree from the Council of State of 4 December 2013 (codified in Articles R. 233-1 and R. 233-2 of the French Energy Code) sets thresholds beyond which a legal entity must carry out an energy audit, and decree no. 2014-1393 of 24 November 2014 (codified in Articles D. 233-3 to D. 233-9 of the French Energy Code) and its order of 24 November 2014 stipulate the terms for exemption in the case of an energy management system, the scope and methodology of the audit, the procedures for sending documents justifying the application of the regulations, the terms and qualification criteria for external service providers, and the criteria for the recognition of the internal auditor's competence.

In accordance with regulatory requirements, Banque Palatine conducted its energy audit before 5 December 2015, which is currently being analysed so as to draw up an energy efficiency strategy for all buildings occupied by Banque Palatine.

Informing employees about environmental protection

As regards business travel, Banque Palatine encourages its employees to use the cleanest forms of transport, particularly trains. This policy has started to bear fruit, and during the 2015 financial year a reduction in the use of train and air travel was observed.

Also, an eco-driving booklet, produced in-house, was given to all users of company or fleet vehicles.

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Petrol consumed by company cars	1,525	2,488	nr	1,209	2,254	nr
Petrol consumed by fleet cars	nr	nr	nr	30	nr	nr
Diesel consumed by company cars	43,762	nr	nr	50,455	3,873	nr
Diesel consumed by fleet cars	71,378	nr	nr	74,790	nr	nr
Business travel in private cars (km)	211,133	nr	17,882	205,257	nr	10,859
Business travel by train (km)	2,914,308	24,993	0	2,977,592	32,012	3,422
Business travel by air, short-haul (km)	617,293	5,314	nr	845,185	14,812	nr
Average grams of CO_2 per km for company and fleet cars	97	nr	198	102	nr	nr
Business travel by air, medium- and long-haul (km)	32,255	nr	nr	39,233	nr	nr

Most meeting rooms and a large proportion of workstations are equipped with videoconferencing or telecommunications equipment, in order to limit and optimise travel between both head offices. All Banque Palatine branches were equipped with videoconferencing equipment in the second half of 2015.

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.

All journeys made inside Paris itself are exclusively by bicycle or electric vehicle, which allows the Bank's carbon footprint to be reduced. In addition, fleet vehicles are selected on the basis of their low emission of CO_2.

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.

Several actions have been initiated over the financial year and will continue for the next few years until the whole electrical system is covered:

- 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

Banque Palatine Group indicators	31 Dec. 2015	31 Dec. 2014
Total water consumption (m^3)	201,964	259,346
Rainwater recovery (m^3)	na	na
Total water consumption per m^2	6.89	9
Total spending on water (€ '000)	4.1*	4.5 *

* *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	31 Dec. 2015	31 Dec. 2014
Total paper consumption (tonnes)	66.33	68.4
Total paper consumption per employee (kg)	40.74	56.3
Of which total consumption of recycled paper or FSC or PEFC-certified paper (tonnes)	66.33	68.4
Proportion of purchased recycled paper of the total in tonnes of purchased paper as a %	0	0

The implementation of better print management, and a greater computerisation of printing, allowed a saving in paper consumption of 2 tonnes, or slightly more than 3% of total consumption in 2014.

Energy consumption

Banque Palatine Group indicators	31 Dec. 2015	31 Dec. 2014
Total final energy consumption (Kwh)	3,689,564	4,337,162
Total energy consumption per heated/occupied m^2 (Kwh)	125.8	147.9
Total fuel oil consumption	nr	nr
Total natural gas consumption (kWh)	207,466	144,523
Total electricity consumption (kWh)	3,482,097	4,192,639
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)	983,909	892,844

The total final energy consumption fell by 15%, including an increase of 44% in the total consumption of natural gas, but also by 10% for the share of renewable energy.

On 1 January 2016, 99% of the network branches and both head offices will be in green energy, following the change of provider decided on during the last quarter 2015. Only four branches are retaining regional providers (Metz, Grenoble, Strasbourg and Saint-Etienne) in order to maintain contracts with local businesses and to preserve the economic fabric of these cities.

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 indicators	31 Dec. 2015	31 Dec. 2014
Total spending on cleaning services (in K€)	774	773

Climate change

Greenhouse gas emissions

From 2013, the Group's sustainable development division has strengthened the robustness of its tool dedicated to establishing the Group's sectoral carbon footprint. This tool allows the greenhouse gas emissions statement to be drawn up, using a method compatible with that of the ADEME (the French Agency for the Environment and Energy Resources), the ISO 14064 standard, and the GHG Protocol (Greenhouse Gas Protocol).

The tool allows the greenhouse gas emissions from the operation of the Bank's branches and head office to be estimated annually. However, emissions caused by bank products are excluded from the analysis.

After four years of carbon data collection on a stable repository common to all of the companies in the Group, the methodology allows the following to be provided:

- an estimate of the greenhouse gas emissions per company;
- a mapping of these emissions:
  - by item: energy, purchases of goods and services, movement of people, capital and others.
  - by scope[1].

This tool allows the sustainable development representatives to know the level and evolution of their emissions annually, and to have a reliable reference for the establishment of a local plan for reducing GHG emissions.

Each year, the Group's sustainable development division gives particular attention to training the Sustainable Development function by organising sessions in:

- awareness of CSR, energy and climate issues;
- training in the Group's calculation tool for the Group's greenhouse gases. In 2015, taking the computerisation of all the Group's CSR reporting into account, these training courses were focused on handling the new IT tools. Thus, five training sessions were held in October and November for all of the sustainable development representatives in the Group's companies, as well as a panel of representatives from general resources. These courses have been complemented by a starter kit.

This investment turned out to be positive in terms of results both in the number of representatives trained in the group carbon assessment tool and also in the number of entities producing a carbon footprint statement.

In 2015, Groupe BPCE developed a tool to accurately identify the scope of publication.

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 as well as a quality manager in the general resources division have undertaken BPCE's 2015 carbon footprint 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	31 Dec. 2015	31 Dec. 2014
Scope 1: Direct combustion of fossil fuels plus leaks of refrigerant gases	336	344
Scope 2: Electricity consumed and the heating network	210	252

(1) The GHG Protocol divides the operational scope of the GHG emissions of an entity (or organisation) as follows:
- *scope 1: direct emissions caused by the combustion of fossil fuels (oil, gas, coal, etc.) and the emissions of refrigerant leakage from resources owned or controlled by the company;*
- *scope 2: indirect emissions caused by the purchase or production of electricity, steam, heat, or cold.*

It should be noted that the mandatory obligations of Article 75 of the environment round table ("Grenelle") covers scope 1 and scope 2.

Pollution and waste management

Resources used to prevent environmental risks and pollution

For 2015, 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 raw materials and seeks to maximise the efficiency of its waste management system in order to produce less waste.

Since 2014, 44% of the waste generated by the staff restaurants at the Anjou and Val de Fontenay branches is recycled through the installation of Canibal machines. When disposing of their waste, employees are given the chance to win either an organic fruit basket or the possibility of making a donation to replant a tree. This initiative complements the selective sorting set up in the offices in 2007.

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 the expenditure on this service.

Banque Palatine Group indicators	31 Dec. 2015	31 Dec. 2014
Total spending on waste management services by provider (€ '000 ex-VAT)	118	68
Total ordinary industrial waste (OIW) (tonnes)	672	508
Total special industrial waste (SIW) (tonnes)	nm	nm
Total waste produced by the bank (tonnes)	672	508
Total recycled waste (tonnes)	na	na

Recycling

Banque Palatine Group indicators	31 Dec. 2015	31 Dec. 2014
Number of recycled ink and toner cartridges	371	210
Number of neon fluorescent tubes collected	na	1,374
Batteries collected (kg)	20	20
Electrical and electronic equipment (EEE) collected (tonnes)	na	na

The amount of recycled ink and toner cartridges increased by 76% and the aim for 2016 is to recover and recycle all the ink and toner cartridges generated by the Company.

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.

Banque Palatine focuses on financing companies in France, which, bar exception, are mostly small and medium-sized businesses that have little exposure to environmentally controversial projects.

In France, companies are legally required to take biodiversity into account.

Responses to social issues

Groupe BPCE's commitment to sustainable economic development revolves around four priorities: local financing, support for local development, respect for fair practices, and financing ecological and energy transition.

Local impact

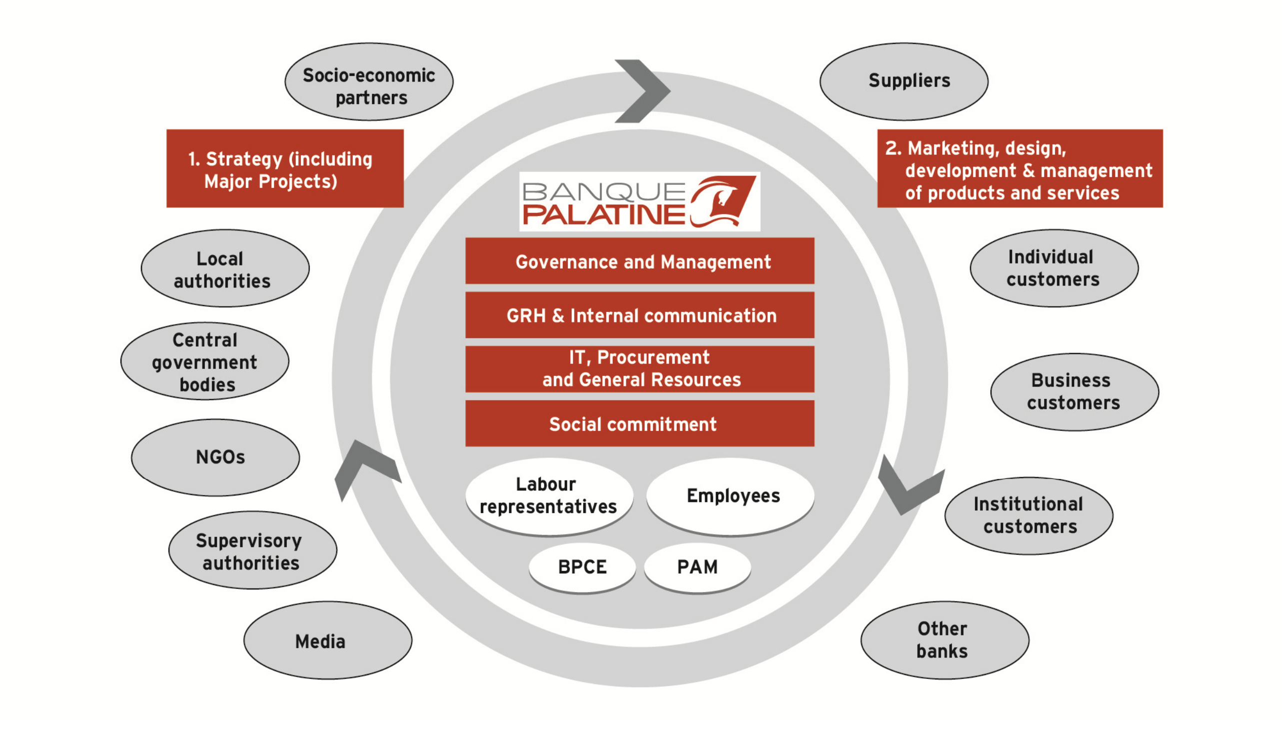
The territorial impact of Banque Palatine is reflected in its national presence through its 51 branches and two head offices, for which local recruitment is favoured when positions are not covered by internal recruitment.

Moreover, its banking solutions are deployed through the entrepreneurial fabric created by its corporate customers.

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 leads the Palatine medium-sized business circle ("Cercle Palatine des ETI"), which is a discussion and interaction forum for such businesses.

Socially responsible investing

Green growth is a dynamic transformation of the economy towards more environmentally-friendly methods of production and consumption. It is mainly expressed as a "greening" of existing activities, i.e. the integration of regulations, standards or practices that contribute to changing entire functions to make them compatible with the local, national or international commitments on greenhouse gas emissions. In the construction industry, for example, the arrival of successive thermal regulations, up to the ambitious Thermal regulations (RT) 2012, has brought great change to one of the major sectors of the French economy. And this trend will continue, the stakeholders are already preparing for the integration of the RT 2020 which will see the implementation of positive energy buildings, which produce more energy than they consume.

Green growth is also reflected in innovations that overturn some functions, or even create new ones. These innovations can be technical, organisational, social or corporate, and often made possible by the advent of digital technologies. These great changes can be symbolised by the revolution of renewable energy which, coupled with energy storage and management technologies will allow entire regions to produce and manage their energies for the better, according to local needs and resources, and whilst minimising their carbon emissions.

To enable these evolutions and revolutions, the question of financing is more crucial than ever. Banking institutions must position themselves as a link to existing public initiatives and even anticipate needs and regulations to enable eco-functions to emerge and take shape. The challenge is both to allow households and companies to finance their protection against increases in prices of energy and raw materials, but also against the negative impacts of climate change (tourism, agriculture, etc.) The challenge is also to support the development of eco-functions, the drivers of growth in the future.

Banque Palatine is adapting to the consequences of climate change through its SRI funds and its offerings. At 31 December 2015, its subsidiary Palatine Asset Management had €59.2 million in assets under SRI management in 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 2015: Palatine Or Bleu, which focuses on water (the largest fund, with €16.5 million of assets under management), Gérer Multifactoriel Euro and Palatine Actions Défensives Euro.

Innovation and product development

A universal Bank, Groupe BPCE is able to contribute to all types of projects on the four pillars of green growth financing: energy efficiency, investments to reduce greenhouse gases in businesses, businesses involved in the management and recycling of natural resources and new ecological goods and services. The diversity of its expertise and its branches allows it to support projects on a local, national and international scale.

The group offers innovative solutions with a comprehensive and exclusive range of services. It occupies a leading position on the major markets of green growth, notably the one for renewable energies (photovoltaic, wind, biomass, etc.), public transport and sustainable real estate.

The high price of energy and commodities is prompting faster growth in green investments.

Since 2010, Banque Palatine is involved in investing in green growth with an investment of €20.8 million in 2015 mainly as part of a consortium for a share of installed capacity of 8.38 MWp for wind power, 6.71 MWp for photovoltaic power and 0.66 MWp for hydro-electricity (100% directly owned).

Partnerships and cultural sponsorship

During 2015 many partnership and sponsorship initiatives were started up by Banque Palatine, as part of a desire to develop responsible banking values, vis-à-vis its economic and social environment, so as to support societal commitment initiatives both in France and abroad.

The “Made in France” photographic exhibition of industrial start-ups

Organised by METI with Banque Palatine, JCDecaux and the L’Usine Nouvelle, the “Factories and Men” initiative highlighted, through a series of photos taken by the photographer Thierry Bouët, 35 intermediate-sized start-up companies in our economy. The opening took place on 14 September at the Petit Palais in Paris in the presence of personalities from the political and economic world. The works were then presented to the general public for three weeks on the banks of the Seine, in Paris. They were also exhibited at the Ministry of Economy and Finance at Bercy during the heritage days on 19 and 20 September.

Banque Palatine supports the AKUO Foundation

In connection with the COP21, Banque Palatine was a partner in the AKUO Foundation at a Gala dinner for the premiere of the film “Tomorrow” directed by Mélanie Laurent and Cyril Dion, both present at this event.

Banque Palatine is convinced that diversity is a source of wealth; equal opportunities and social cohesion are major issues; the mixing of cultures, academic courses and professional aspirations produce a vital intellectual stimulation, in France and around the world.

Priority education agreements at Sciences Po

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.

Partnership with the Our Neighbourhoods Have Talent association

Echoing the previous initiative, the Bank has also carried out information meetings to encourage employees to become involved in a social utility process, by mentoring young graduates from disadvantaged backgrounds or priority neighbourhoods for about two hours per month.

Support for The School of Hope/Syria association for financing secular schools in the Syrian refugee camps in the Lebanon.

Banque Palatine took part in the auction of works of art, the profits from which have been wholly used to finance the project.

Banque Palatine mobilises for Nepal

Following the earthquakes that hit Nepal, causing considerable human and material damage, Banque Palatine wanted to share in the spirit of international solidarity by calling for donations from employees. The Bank increased the amount donated by the employees by an equivalent amount, as in the case of the support given to Haiti in 2010, and in 2013 following the typhoon disaster in the Philippines. They were able to support their choice of one of the following three non-governmental organisations (NGOs): The Red Cross, Doctors Without Borders or Unicef.

Sub-contractors and suppliers

Outsourcing does not concern the core business activities of Banque Palatine, but the Institution is still attached to the processes initiated within the Group: the AgiR project and the PHARE initiative (disability and responsible procurement policy).

Responsible procurement policy: The AgiR project

In September 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 and subcontractors. 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[(1)].

In 2015, a programme of targeted information (Matinales Achats, a programme reserved for new employees) was set up to present all the deployment tools for purchasing managers to address a wide audience (Procurement, Jobs, Disabled Representative, Innovation and Sustainable Development functions).

Disability and responsible procurement policy ("PHARE")

Groupe BPCE joined the Charter for Diversity in Business in November 2010. This initiative demonstrates its ambition to become a benchmark employer. The Group has put this commitment into specific action, as shown for example in July 2010, by the implementation of the disability and responsible procurement policy, "PHARE".

Since July 2010, the Procurement function became involved in Groupe BPCE's ambition regarding corporate responsibility by launching the "PHARE" initiative (disability and responsible purchasing policy). It is supported by the Procurement and Human Resources functions to contribute towards the vocational and social integration of people made vulnerable by a disability, by subcontracting certain activities to the protected and adapted sector (STPA).

As it is able to use the stakeholders in the social and solidarity economy, the PHARE approach can now be entirely used as one of the levers for the AgiR project and so has taken on a new dimension by becoming an integral part of a more global responsible procurement policy.

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.

The use of the protected and adapted sector by Banque Palatine relates to:

- video coding of part of the cheques by members of the French Association for the Paralysed (APF);
- cleaning ATMs;
- maintenance of green spaces;
- producing ready meals;
- the collection and destruction of confidential documents;
- the collection and recycling of equipment and furniture when a branch closes or at the end of the furniture's service life.

Use of the protected and adapted sector for the latter initiative has enabled us to post a forecast for the beneficiary units for 2015 of 4.73, which exceeds the target of three beneficiary units.

One beneficiary unit is the full-time equivalent of one disabled worker. The number of beneficiary units in a company is obtained by converting the amount of the supply or service provision contracts concluded with organisations helping disabled people into employment. This number is deducted from the compulsory disabled employment figure (DOETH) for this company.

Therefore, Banque Palatine is successfully continuing to support the protected and adapted sector.

	31 Dec. 2015			31 Dec. 2014		
Indicators	**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 (DOETH figures)	0.028	0.056	nr	0.025	0.054	nr

(1) http://www.bpce.fr/Fournisseur/La-politique-achats-responsables/Engagements-durables

Subcontracting policy

The use of temporary staff is determined by the choices and needs of each group company. However, this is relatively small as the group is continually seeking a balance between the workstations and workloads with the employees allocated to them.

Fair commercial practices

Anti-corruption

The prevention of corruption is part of a financial security system that reflects the Group's commitment, as a member of the United Nations Global Compact.

Employees are asked to be extremely vigilant with regard to the demands and pressures to which they may be subjected, or situations where unusually high commissions or overcharging in particular are involved, as well as informal and private meetings with public companies.

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 2015, 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 regularly sent to the network relating to the typologies and cases of fraud encountered within the Bank or the Group. Finally, awareness-raising initiatives/actions are carried out regularly and an External Fraud Committee has been set up;
- regarding the prevention and treatment of internal fraud, currently there is only one internal process within the compliance division The definition of the Group framework procedure will be carried out at Banque Palatine during FY 2016. An authorisation request has been made to the CNIL (French Data Protection Commission);
- as regards 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	2015	2014*
Proportion of employees who have received anti-money laundering training from the entity (excluding ALD)	60**	10%

* *This percentage reflects the number of employees who completed their training in 2014. The vast majority of employees were trained in 2013.*

* *2015: launch of a new anti-money laundering training campaign.*

The 2015 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@).

A campaign for all employees relating to anti-money laundering/terrorist financing is set up every two years.

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;
- on its remote banking websites:
  - for its private and business customers, Banque Palatine benefits from Groupe BPCE's secure architecture as it uses the Direct Ecureuil website, the Caisses d'Epargne remote banking website managed by the IT-CE economic interest group. A strong authentication system for online customers was set up in 2015, to enable customers to enter payee details themselves, amongst other functions,
  - for its business customers, Banque Palatine provides a secure signature by strong authentication of the orders for transfers and withdrawals by its customers. Moreover, additions to payment recipients made on-line are subject to a call-back system to the customer to verify the authenticity;
- 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

Quality is also included in the Group's projects that have an effect on customer and employee satisfaction.

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. The customer is considered as a whole by strongly including the employee, as encouraged by Groupe BPCE's Model of Excellence. Listening to the internal customer, therefore, is also at the core of improving internal supplier customer relations.

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 the customer is the basis of its approach: it consists of talking to its customers – both private and businesses – as often as possible, to find out their requirements and to improve the service provided. 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 2015, the Bank carried out:

- one survey of private banking customers and one survey of business customers (October 2015);
- one wave of surveys for new customers per half-year, which means two waves per market (carried out in January 2016 for those who became customers in 2015);
- five surveys for specialised businesses: Real estate, trading floor, regulated real-estate professionals, international and PAM (industry survey);
- two surveys for media/audiovisual customers.

Indicators	2015	2014
Percentage of new business customers satisfied overall	na	96.2
Percentage of new private customers satisfied overall	na	95.6
Annual barometer of private customer satisfaction (score out of 10)	7.2	7.4
Annual barometer of business customer satisfaction (score out of 10)	7.6	7.7
Media/audio-visual customer satisfaction* (score out of 10)	8.2	10

* *Audiovisual Department.*

Banque Palatine's quality approach and its management comply with the international European Foundation for Quality Management standard.

Banking products and services

Banque Palatine has a systematic 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). Combined together, the contributions of these experts are used to validate each product before it is brought to market by the institutions or for making significant changes to existing products.

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.

	31 Dec. 2015			31 Dec. 2014		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of branches/sales outlets/business centres	52	1	1	51	1	1
Total floor space of the entity's buildings (m^2)	29,699	408	10	29,324	408	10
Total floor space of the entity's administrative buildings (head office) (In m^2)	12,632	408	10	11,518	408	10
Total floor space of the entity's branches and business centres (in m^2)	16,836	nr	nr	17,805	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

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 2015 to 31 December 2015.

Reporting scope

In 2015, 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 2015 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 2015 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 2015 for any reason. Details are given for the following reasons: resignation, termination, transfer within the Group, retirement, voluntary redundancy, end of probation period and other reasons.
- Average basic salary for 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. Corporate officers are not included in the indicator.
- Absences taken into account for the calculation of 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 was obtained by extrapolating consumption figures at the end of September 2015. All paper consumed is in A4 format.
- Gas consumption is estimated on the basis of cost and the average price per kWh.
- Energy consumption: data was obtained by extrapolating consumption figures at the end of September 2015. It includes consumption *via* the district heating/cooling network for the two central buildings, which account for 44% of the Group's floor space. Only those two buildings use that kind of energy.
- Fuel consumption: data was obtained by extrapolating consumption figures at the end of September 2015.

2 Table of the results of the last five financial years

Article R. 225-102 of the French Commercial Code

(in thousands of euros)	**2011**	**2012**	**2013**	**2014**	**2015**
• **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	496,657	505,969	471,678	498,169	495,554
Income before tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	127,812	125,413	120,618	133,810	128,578
Income taxes	(22,526)	(16,100)	(18,706)	(21,864)	(25,675)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	57,186	46,036	37,729	53,505	50,734
• Dividend payments(2)	18,319	19,936	19,396	39,602	27,748
• **Earnings per share (€)**					
Revenues	18.44	18.78	17.51	18.49	18.39
Income after tax, employee profit-sharing, but before depreciation, amortisation, and impairment and provisions	2.03	3.86	3.63	3.93	4.77
Income taxes	(0.84)	(0.60)	(0.69)	(0.81)	(0.95)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	2.12	1.71	1.40	1.99	1.88
Dividend per share(2)	0.68	0.74	0.72	1.47	1.03
• **Employee data**					
Average headcount	1,209	1,195	1,185	1,193	1,202
o/w managerial	*755*	*769*	*758*	*770*	*767*
o/w non-managerial	*454*	*426*	*427*	*423*	*435*
Total payroll	65,396	61,188	62,822	64,478	66,008
Amount of employee benefits during the period	27,072	32,304	30,936	32,474	33,214

(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: 31/01/1960 **Term in office: 14 February 2014-14 February 2019**	• BANQUE PALATINE: chief executive officer • PALATINE ASSET MANAGEMENT: chairman of the Supervisory Board and Chairman of the Remuneration Committee • CEGC: director • FC LORIENT BRETAGNE SUD: director • OCBF: Banque Palatine's permanent representative • PALATINE ETOILE 9: Banque Palatine's permanent representative

Bertrand Dubus

DoB: 26/09/1959 **Term in office: 13 February 2015-14 February 2019**	• BANQUE PALATINE: executive vice-president for development, and accountable manager since 13/02/2015 • PALATINE ASSET MANAGEMENT: member of the Supervisory Board since 26/03/2015 • PALATINE ETOILE 13: Banque Palatine's permanent representative, director since 10/12/2015

Thierry Zaragoza

DoB: 09/01/1961 **Term in office: 14 February 2014-14 February 2019**	• BANQUE PALATINE: executive vice-president for finance and banking operations, and accountable manager • ARIÈS ASSURANCES: chairman of the Supervisory Committee • CAISSE D'ÉPARGNE SYNDICATION RISQUE EIG 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

Jean-Yves Forel

DoB: 17/05/1961 **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 Appointments Committee, chairman of the Remuneration Committee, member of the Audit Committee, member of the Risk Committee • CRÉDIT FONCIER DE FRANCE: director • BPCE INTERNATIONAL: 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 **Previous appointment:** • Partécis: director

Marguerite Bérard-Andrieu

DoB: 31/12/1977 **Permanent representative with effect from 14 February 2014**	• BPCE: executive vice-president in charge of strategy, legal affairs, corporate secretariat and compliance – Executive Management Committee • BANQUE PALATINE: BPCE's permanent representative, director • COFACE: BPCE's permanent representative, director • ISSORIA: chairman of the SAS and chairman of the Board of Directors • MAISON FRANCE CONFORT: director • NATIXIS COFICINE: director • S-MONEY: chairman and chairman of the Board of Directors • SCOR: director since 30 April 2015 **Previous appointments:** • ISSORIA INTERNATIONAL TRADING: chairman of the SAS • NEXITY: CE Holding Promotion's permanent representative, director

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 • ADONIS: chairman • ALBIANT-IT: director • ALLIANCE ENTREPRISE: member of the Management Committee • ALPHA DEMETER: director • AMATA: chairman • ANDROMÈDE: chairman • ANUBIS: Manager • ASSOCIATION DES BP POUR LA CRÉATION: director • ASSURANCES BP IARD: director • ATALANTE: chairman • AXELTIS: director • BANQUE DES ANTILLES FRANÇAISES: director • BANQUE PRIVÉE 1818: director • BANQUES POPULAIRES COVERED BONDS: member of the Supervisory Board • BASAK 1: chairman • BASAK 2: chairman • BASAK 3: chairman • BASAK 4: chairman • BÉHANZIN: chairman • BERRA 1: chairman • BERRA 2: chairman • BERRA 3: chairman • BERRA 4: chairman • BERRA 5: chairman • BP CRÉATION: chairman • BPCE IARD: director • BPCE IMMOBILIERE EXPLOITATION: chairman of the Supervisory Board • 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 • CHIMERE: chairman • CILOGER: member of the Supervisory Board • CILOGER HABITAT: member of the Supervisory Board • CILOGER HABITAT 3: member of the Supervisory Board • CIRRA: director • CLICK AND TRUST: director • COFACE: director • COFIMAGE 17: director • COFIMAGE 18: director • COFIMAGE 22: director • COFIMAGE 23: director • COFIMAGE 24: director • COFIMAGE 25: director • COFIMAGE 27: director • COMPAGNIE DE FINANCEMENT FONCIER SCF: director • CORONIS: chairman • CRÉDIT FONCIER DE FRANCE: director • CRÉDIT LOGEMENT: director • CREON: chairman • CAISSE DE REFINANCEMENT DE L'HABITAT: director • DORIS: chairman • DRENNEC GIE: director • DV HOLDING: member of the Supervisory Board • ÉCUREUIL CRÉDIT: director

BPCE	
	• FRANCE ACTIVE GARANTIE: director • GCE COVERED BONDS: director • CE SYNDICATION RISQUE: chairman of the Supervisory Board • ÉCOLOCALE: director • ÉCUREUIL VIE DÉVELOPPEMENT: director • ELECTRE: chairman • FLORE: chairman • GCE MOBILIZ: director • GCE ODE 007: director • GCE PARTICIPATIONS: chairman • HABITAT EN RÉGION SERVICES: director • INFORMATIQUE BANQUE POPULAIRES-I-BP: director • INGÉPAR: director • IPHIS: chairman • IT-CE: chairman of the Supervisory Board • IXION: chairman • LAMIA: chairman • LBPAM OBLI REVENUS SICAV: director • LES ÉDITIONS DE L'ÉPARGNE: director • LE LIVRET BOURSE INVESTISSEMENT SICAV: director • LE LIVRET PORTEFEUILLE SICAV: director • MEDEE: chairman • MENELIK: chairman • MENES: manager • MFC: director • MIHOS: chairman • MUGE 2: chairman • MUGE 3: chairman • 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 PAYMENT SOLUTIONS: director • NEFER: chairman • NORSCUT: director • NOTOS: chairman • ORESTE: chairman • ORION: chairman • OTOS: chairman • PALES: 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 • P.AV IMMOBILIER: chairman • PELIAS: chairman • PERCY: chairman

BPCE	
	• PERLE 1: chairman • PERLE 2: chairman • PERLE 3: chairman • PERLE 4: chairman • PETREL 1: manager • PETREL 2: manager • PRIAM: manager • RAMSES: chairman • REMUS: chairman • SALITIS: chairman • SATIS: chairman • SEA 1 GIE: director • SEDAR: chairman • SE MAP: member of the Supervisory Board • 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 • TARAH RAJ: chairman • TENES: chairman • T2S Africa: director • T2S MED: director • T2S OUTRE-MER: director • T2S PACIFIQUE: director • TRÉVIGNON GIE: director • TURBO SA: director • VIGÉO: director • VISA EUROPE LTD: director • VESTA: chairman

Max Bézard	
DoB: 05/03/1965 **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: group director of control of strategic management and banking operations, member of the Executive Committee • BANQUE PALATINE: director, member of the Audit Committee, member of the Risk Committee • BPCE IOM: member of the Supervisory Board

Jean-Charles Boulanger	
DoB: 01/06/1947 **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'EPARGNE AQUITAINE POITOU-CHARENTES: chairman of the Steering and Supervisory Board, member of the Audit Committee, member of the CSR Strategic Committee, chairman of the Remuneration Committee, chairman of the Appointments Committee • BANQUE PALATINE: director, chairman of the Audit Committee, member of the Risk Committee • FNCE: director • NATIXIS INTERÉPARGNE: director • NATIXIS INTERTITRES: director • SOCIÉTÉ LOCALE D'ÉPARGNE LA ROCHELLE-ROCHEFORT-ROYAN: chairman

Maurice Bourrigaud

DoB: 21/01/1958 **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**	• BANQUE POPULAIRE DE L'OUEST: chief executive officer • BANQUE PALATINE: director, member of the Audit Committee, member of the Risk Committee • AGATHE: chairman • CAISSE REGIONALE DE CREDIT MUTUAL MARITIME: representative of BPO • ÉCUREUIL CRÉDIT: IT-CE: 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 appointment:** • CAISSE D'ÉPARGNE AUVERGNE LIMOUSIN (CEPAL): chairman of the Management Board

Yves Breu

DoB: 3/04/1950 **Term in office: 14 February 2014-10 December 2015**	• ATEA VOYAGES: chairman • FEDERATION BANCAIRE FRANCAISE: vice-chairman of the Brittany Regional Committee • FONDATION D'ENTREPRISE BANQUE POPULAIRE: director • INGÉNIERIE ET DÉVELOPPEMENT: chairman • SA MONTGERMONT 1: 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 • • **Previous appointments:** • BANQUE POPULAIRE DE L'OUEST: chief executive officer • BANQUE PALATINE: director • BANQUE PRIVÉE 1818: director • FÉDÉRATION NATIONALE DES BANQUES POPULAIRES: secretary • i-B.P.: director • ORCHESTRE SYMPHONIQUE DE BRETAGNE: director • IGR-IAE RENNES: director

Gonzague de Villèle

DoB: 23/01/1953 **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**	• BANQUE POPULAIRE VAL DE FRANCE: chief executive officer • BANQUE PALATINE: director • BANQUE PRIVÉE 1818: director • BANQUE TUNISO-KOWEITIENNE: BPCE IOM's permanent representative, director • BPCE: non-voting director • BPCE IT: director • I-BP: 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:** • FNBP: vice-chairman

Jean-Pierre Gabriel	
DoB: 14/08/1946	• CAISSE D'EPARGNE DE BOURGOGNE FRANCHE COMTE (CEBFC): non-voting director • HOTEL TREMPLIN: director • LE RENOUVEAU: vice-chairman of the Board of Directors • SLOWFOOD: director **Previous appointments:** • BANQUE PALATINE: director • CEBFC: chairman • NATIXIS LEASE: director • FÉDÉRATION NATIONALE DES BANQUES POPULAIRES: CEBFC's representative • SOCIETE LOCALE D'ÉPARGNE SUD CÔTE D'OR (LOCAL SAVINGS COMPANY): Chairman of the Board
Term in office: 14 February 2014-1 July 2015	

Michel Grass	
DoB: 12/11/1957	• BANQUE POPULAIRE BOURGOGNE FRANCHE COMTE: chairman of the Board of Directors • BPCE: member of the Supervisory Board since 22 May 2015 and of the Risk Committee • BANQUE PALATINE: director • NATIXIS GLOBAL ASSET MANAGEMENT: director • NATIXIS: director • CITY OF SENS: deputy mayor • SÉNONAIS COMMUNE: vice-president of the Community • YONNE CHAMBER OF COMMERCE AND INDUSTRY: full member **Previous appointment:** • FÉDÉRATION NATIONALE DES BANQUES POPULAIRES: vice-chairman
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	

Pascal Marchetti	
DoB: 13/06/1964	• Banque Populaire des Alpes: chief executive officer • BANQUE PALATINE: director, member of the Audit Committee, member of the Risk Committee • BANQUE DE SAVOIE: Banque Populaire des Alpes' permanent representative, vice-chairman and Audit Committee member • SAS BPA ATOUT PARTICIPATIONS: Banque Populaire des Alpes' permanent representative, director • BPCE: non-voting director • LA COMPAGNIE DES ALPES: Banque Populaire des Alpes' permanent representative, director • COFACE: director, member of the Audit Committee • IBP: Banque Populaire des Alpes' permanent representative, director • INNOVAFONDS: Banque Populaire des Alpes' permanent representative, member of the Steering and Supervisory Board • NAXICAP PARTNERS: member of the Supervisory Board • PRIAM BANQUE POPULAIRE: Banque Populaire des Alpes' permanent representative, director • SAS SOCIETARIAT BANQUE POPULAIRE DES ALPES: Banque Populaire des Alpes' permanent representative, director **Previous appointment:** • IBP: Banque Populaire des Alpes' permanent representative and Audit Committee member
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	

Benoît Mercier	
DoB: 04/02/1953 **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 • BPCE IT: CELCA's permanent representative, director • BPI - REGIONAL STEERING COMMITTEE: CELCA's representative, qualified person • SCI 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 • FIRMAMENT PARTICIPATIONS: CELCA's permanent representative, director • FONDATION CAISSE D'ÉPARGNE POUR LA SOLIDARITÉ: vice-chairman • FONDS DE DOTATION DE LA CELCA: chairman of the Board of Directors, representative of CELCA • FONDS DE DOTATION DE L'ECOLE D'ENSEIGNEMENT SUPERIEUR 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 REGION: CELCA's permanent representative, director • LIVRET BOURSE INVESTISSEMENT: BPCE's permanent representative, director

Bernard Niglio	
DoB: 10/08/1949 **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'EPARGNE PROVENCE-ALPES-CORSE: chairman of the Steering and Supervisory Board • BANQUE PALATINE: director, member of the Remuneration Committee, member of the Appointments Committee • FNCE: office member • IMF CRÉASOL: director • NATIXIS FACTOR: director • PFIL OEBI MARTIGUES: director • SLE PROVENCE OUEST: chairman

Raymond Oliger	
DoB: 03/09/1945 **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: vice-chairman of the Board of Directors • BANQUE PALATINE: director, member of the Remuneration Committee, member of the Appointments Committee • BCP LUXEMBOURG: vice-chairman

Matthieu Godefroy	
DoB: 3/07/1979 **Term in office: from 14 May 2014 until the employee elections to be held in 2017**	• BANQUE PALATINE: director representing employees

Brigitte Briffard	
DoB: 29/12/1958 **Term in office: from 14 May 2014 until the employee elections to be held in 2017**	• BANQUE PALATINE: director representing employees

4 Remuneration and benefits awarded to senior executives and corporate officers

(Article L. 225-102-1 of the French Commercial Code)

(a) 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 2014: all amounts 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.
(c) Amounts due in respect of 2015: all remuneration due on a pro rata basis in respect of duties performed in 2015, regardless of the date of payment.
(d) Amounts paid 2015: all amounts actually paid and received in 2015 (due in 2014 and paid in 2015 + due in 2015 and paid in 2015) in respect of duties performed during the period.
N/A: not applicable.
N/R: not relevant.

Senior executives

	Amounts in respect of 2015		Amounts in respect of 2014	
Pierre-Yves DRÉAN	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	€290,000	€290,000	€290,000	€290,000
Variable remuneration	€232,000	€116,000	€223,532	€111,766
Directors' fees	€17,000	€17,000	€17,000	€17,000
Housing allowance	€40,000	€40,000	€40,000	€40,000
Benefits in kind	-	€17,097	-	€16,942

	Amounts in respect of 2015*		Amounts in respect of 2014	
Bertrand DUBUS	**Due[(c)]**	**Paid[(d)]**	**Due[(c)]**	**Paid[(d)]**
Fixed remuneration	€175,389	€175,389	NA	NA
Variable remuneration	€87,694	€74,224	NA	NA
Profit-sharing and incentive plans		€13,470	NA	NA
Directors' fees	€2,250	€2,250	NA	NA
Benefits in kind		€7,925	NA	NA

* *Effective 13 February 2015.*

	Amounts in respect of 2015		Amounts in respect of 2014	
Thierry ZARAGOZA	**Due[(c)]**	**Paid[(d)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	€205,000	€203,383	€190,000	€190,000
Variable remuneration	€102,500	€86,874	€98,482	€81,895
Profit-sharing and incentive plans		€15,626		€16,587
Contractual bonus		€1,786		€15,000
Directors' fees	€7,000	€7,000	€6,750	€6,750
Benefits in kind		€6,458		€10,228

Table 4 – Stock options awarded to Executive Directors during the 2015 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 2015 financial year						

Table 5 – Stock options exercised by Executive Directors during the 2015 financial year

Names of Executive Directors	Number and date of the plan	Number of options exercised during the year	Exercise price
No stock options were exercised during the 2015 financial year			

Table 6 – Performance shares awarded to Executive Directors during the 2015 financial year (bonus shares associated with performance criteria)

Performance shares awarded by the annual general meeting	Nbr and date of the 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 2015 financial year							

Table 7 – Performance shares available for Executive Directors during the 2015 financial year (availability of bonus shares associated with performance criteria)

Availability of performance shares	Nbr and date of the plan	Number of shares that have become available	Vesting terms
No performance shares were available for executive directors during the 2015 financial year (no award of this type of share)			

Table 8 – Past awards of stock options and bonus shares during the 2015 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 2015 financial year						

Table 9 – Stock options awarded to and exercised by the 10 employees other than Directors who were awarded the most during the 2015 financial year

Name of non-director employee	Number and date of the plan	Number of options awarded and exercised during the 2015 financial year	Weighted average price
No stock options were awarded or exercised by Banque Palatine employees during the 2015 financial year			

Table 10 – Post-employment benefits awarded to Executive Directors

Names of Executive Directors	Beginning Term in office	End Term in office	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 Chief Executive Officer	14/02/2014	14/02/2019	No	RÉUNICA: pay-as-you-go system ALLIANZ: defined-benefit pension	GSC: unemployment insurance for senior executives Enforced loss of office benefit	No
Bertrand DUBUS Executive Vice-President	13/02/2015	14/02/2019	Yes	RÉUNICA: pay-as-you-go system	No	No
Thierry ZARAGOZA Executive Vice-President	14/02/2014	14/02/2019	Yes	RÉUNICA: pay-as-you-go system	No	No

Directors

JEAN-YVES FOREL	Amounts in respect of 2015		Amounts in respect of 2014	
	Due(c)	Paid(d)	Due(a)	Paid(b)
Fixed remuneration	€500,000	€500,000	€500,000	€500,000
Variable remuneration	€401,191***	€283,586****	€413,022*	€215,999**
Exceptional remuneration	€0	€0	€0	€0
Directors' fees*****	€0	€0	€0	€0
Benefits in kind	€4,349	€4,349	€4,344	€4,344

* *Variable element in respect of 2014, of which €206,511 (50%) was paid in 2015 and the balance (50%) deferred over three ears in equal instalments of €68,837. In 2016, the amount finally awarded will be €76,554 (after application of an indexing factor).*

** *Amount paid in 2014 for the variable element in respect of FY 2013, i.e. €215,999*

*** *Variable element in respect of 2015, of which €200,596 (50%) was paid in 2016 and the balance (50%) deferred over three years in equal instalments of €66,865.*

**** *Amount paid in 2015 for the variable element in respect of 2014, i.e. €206,511, and for the deferred fraction of the variable element in respect of 2013, i.e. €77,075.*

***** *Paid to BPCE.*

Marguerite BÉRARD-ANDRIEU	Amounts in respect of 2015		Amounts in respect of 2014	
	Due(c)	Paid(d)	Due(a)	Paid(b)
Fixed remuneration	€330,000	€330,000	€300,000	€300,000
Variable remuneration	€170,153	€170,153	€129,599	€129,599
Exceptional remuneration	€0	€0	€0	€0
Incentive plan	€16,627	€16,627	€17,039	€17,039
Directors' fees*	€0	€0	€0	€0
Benefits in kind	€13.95	€13.95	€1,324.38	€1,324.38

* *Paid to BPCE.*

Max BÉZARD	Amounts in respect of 2015		Amounts in respect of 2014	
	Due(c)	Paid(d)	Due(a)	Paid(b)
Fixed remuneration	€250,000	€250,000	€250,000	€250,000
Variable remuneration	€87,812.50	€87,812.50	€111,825	€111,825
Exceptional remuneration	€0	€0	€0	€0
Incentive plan	€16,626.89	€16,626.89	€16,852	€16,825
Directors' fees*	€0	€0	€0	€0
Benefits in kind	€18.60	€18.60	€729	€729

* *Paid to BPCE.*

Jean-Charles BOULANGER	Amounts in respect of 2015		Amounts in respect of 2014	
	Due(c)	Paid(d)	Due(a)	Paid(b)
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€12,000	€12,000	€11,000	€11,000
Benefits in kind	NA	NA	NA	NA

Maurice BOURRIGAUD	Amounts in respect of 2015		Amounts in respect of 2014	
	Due(c)	Paid(d)	Due(a)	Paid(b)
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€10,000	€10,000	€10,000	€10,000
Benefits in kind	NA	NA	NA	NA

	Amounts in respect of 2015*		Amounts in respect of 2014	
Yves BREU	**Due[c]**	**Paid[d]**	**Due[a]**	**Paid[b]**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees**	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

** Up to 10 December 2015*

*** Paid to Banque Populaire de l'Ouest.*

	Amounts in respect of 2015		Amounts in respect of 2014	
Gonzague de VILLÈLE	**Due[c]**	**Paid[d]**	**Due[a]**	**Paid[b]**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€11,066.67	€11,066.67	€4,500	€4,500
Benefits in kind	NA	NA	NA	NA

** Including directors' fees paid by BPCE.*

	Amounts in respect of 2015*		Amounts in respect of 2014	
Jean-Pierre GABRIEL	**Due[c]**	**Paid[d]**	**Due[a]**	**Paid[b]**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€1,500	€1,500	€6,000	€6,000
Benefits in kind	NA	NA	NA	NA

** Up to 01/07/2015.*

	Amounts in respect of 2015		Amounts in respect of 2014	
Michel GRASS	**Due[c]**	**Paid[d]**	**Due[a]**	**Paid[b]**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€47,266.67	€47,266.67	€6,000	€6,000
Benefits in kind	NA	NA	NA	NA

** Including directors' fees paid by BPCE, Natixis.*

	Amounts in respect of 2015		Amounts in respect of 2014	
Pascal MARCHETTI	**Due[c]**	**Paid[d]**	**Due[a]**	**Paid[b]**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€14,066.67	€14,066.67	€6,500	€6,500
Benefits in kind	NA	NA	NA	NA

** Including directors' fees paid by BPCE.*

Benoît MERCIER	Amounts in respect of 2015 Due(c)	Paid(d)	Amounts in respect of 2014 Due(a)	Paid(b)
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€6,000	€6,000	€4,500	€4,500
Benefits in kind	NA	NA	NA	NA

Bernard NIGLIO	Amounts in respect of 2015 Due(c)	Paid(d)	Amounts in respect of 2014* Due(c)	Paid(d)
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€9,000	€9,000	€3,000	€3,000
Benefits in kind	NA	NA	NA	NA

* *Effective 29 July 2014.*

Raymond OLIGER	Amounts in respect of 2015 Due(c)	Paid(d)	Amounts in respect of 2014 Due(a)	Paid(b)
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€9,000	€9,000	€11,800	€15,300
Benefits in kind	NA	NA	NA	NA

* *Including directors' fees paid by BPCE.*

Brigitte BRIFFARD	Amounts in respect of 2015 Due(c)	Paid(d)	Amounts in respect of 2014* Due(a)	Paid(b)
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees**	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

* *Effective 14 May 2014.*
** *Paid to the CGT.*

Matthieu GODEFROY	Amounts in respect of 2015 Due(c)	Paid(d)	Amounts in respect of 2014* Due(a)	Paid(b)
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€6,000	€6,000	€4,500	€4,500
Benefits in kind	NA	NA	NA	NA

* *Effective 14/05/2014.*

Directors’ remuneration

Directors receive fees on a *pro rata* basis for attending meetings of the Board of Directors, Audit Committee, Risk Committee, Appointments 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.

Attendance fees due in respect of the financial year are paid in December of each year.

Remuneration payable to the Chief Executive Officer and the Executive Vice-Presidents

Fixed remuneration

Remuneration payable to Banque Palatine’s corporate officers is determined by its Board of Directors on the recommendation of the Remuneration Committee.

Apart from the chief executive officer, paid only in respect of his/her corporate appointment, executive vice-presidents have a corporate appointment and an employment contract. Their remuneration is 90% paid in respect of the employment contract, and 10% is paid in respect of the corporate appointment, car and/or housing benefits.

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-Presidents

The variable element payable to each Executive Vice-President is capped at 50% of annual fixed 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.

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-Presidents Flat-rate calculation based on the number of shares 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 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 three 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 six 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 which apply to the enforced loss of office benefit: on condition of 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-Presidents

The Executive Vice-Presidents holding both an employment contract and a corporate office qualifiy for a retirement benefit under the same terms and conditions as Banque Palatine'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.

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-Presidents 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 the Executive Vice-Presidents) 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 L. 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-Presidents hold a corporate office and an employment contract, they are 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-presidents 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)	2015	2014
The closing balance of amounts outstanding to all suppliers stood at	631,823.47	3,261,887.59
This balance breaks down as follows		
> due in less than one month	508,162.38	2,517,684.05
> due in between one month and two months	59,803.16	461,520.87
> due in between two and three months	44,618.52	216,430.65
> due in between three and six months	12,228.69	64,405.21
> due in over six months	7,010.72	1,846.81

6 Appropriation of income

• **Sources**	
• Net income	€50,734,441.05
• Carried forward	€112,434,351.68
TOTAL	**€163,168,792.73**
• **Appropriations**	
• To the statutory reserve	€2,536,722.05
• Dividend payments	€27,748,338.02
• Carried forward	€132,883,732.66
TOTAL	**€163,168,792.73**

7 List of branches

PARIS			
Auteuil branch	65 rue d'Auteuil	75016	PARIS
Breteuil branch	13 rue Eblé	75007	PARIS
Catalogne branch	17-19 place de Catalogne	75014	PARIS
Commerce branch	79 rue du Commerce	75015	PARIS
Lamartine branch	7 bis rue de Maubeuge	75009	PARIS
La Muette branch	77 avenue Paul Doumer	75016	PARIS
Matignon branch	12 avenue Matignon	75008	PARIS
Raspail branch	39 boulevard Raspail	75007	PARIS
Saint Lazare branch	74 rue Saint Lazare	75009	PARIS
PARIS REGION			
Boulogne branch	32 bis boulevard Jean Jaurès	92100	BOULOGNE
Courbevoie branch	29 boulevard Georges Clémenceau	92400	COURBEVOIE
Levallois branch	76 rue du Président Wilson	92300	LEVALLOIS PERRET
Neuilly branch	100 avenue Charles de Gaulle	92200	NEUILLY SUR SEINE
Palatine Direct branch	10 avenue of the Val de Fontenay	94120	FONTENAY SOUS BOIS
Paris Nord branch	35 allée des Impressionnistes	93420	VILLEPINTE
Parly II branch	Centre Commercial Parly II Local postal 361	78150	LE CHESNAY
Saint Germain branch	32 rue du Vieux Marché	78100	ST GERMAIN EN LAYE
Saint-Maur branch	17 avenue de la République	94100	SAINT-MAUR
Versailles branch	13 rue Colbert CS 78403	78004	VERSAILLES CEDEX

Vincennes branch	20 rue du Midi	94300	VINCENNES
ALSACE LORRAINE			
Metz branch	10 rue Winston Churchill	57000	METZ
Strasbourg branch	1 avenue de la Liberté	67000	STRASBOURG
AQUITAINE			
Bordeaux branch	27 cours Georges Clémenceau CS 11452	33064	BORDEAUX CEDEX
BOURGOGNE			
Dijon branch	20 boulevard de Brosses CS 52426	21024	DIJON CEDEX
BRETAGNE			
Rennes branch	8 bis rue du Patis Tatelin CS 30853	35708	RENNES CEDEX 7
CENTRE			
Orléans branch	123 A rue de la Juine CS 60623	45160	OLIVET CEDEX
LANGUEDOC-ROUSSILLON			
Montpellier branch	9 rue Maguelone CS 83180	34061	MONTPELLIER CEDEX 2
Nîmes branch	10 square de la Bouquerie	30000	NÎMES
MIDI-PYRÉNÉES			
Toulouse branch	25 boulevard Carnot	31000	TOULOUSE
NORD			
Lille branch	56 boulevard de la Liberté	59000	LILLE
NORMANDIE			
Caen branch	4 rue Bailey	14000	CAEN
PAYS DE LOIRE			
La Roche sur Yon branch	2 rue Benjamin Franklin	85000	LA ROCHE SUR YON
Nantes branch	2 rue Voltaire CS 52118	44021	NANTES CEDEX 1
PROVENCE CÔTE D'AZUR			
Aix-en-Provence branch	1 avenue Victor Hugo	13100	AIX-EN-PROVENCE
Antibes branch	38 avenue Robert Soleau	06600	ANTIBES
Avignon branch	3 rue de la Balance CS 10122	84010	AVIGNON CEDEX 1
Cannes branch	125 rue d'Antibes	06400	CANNES
Marseille Prado branch	65 avenue du Prado	13006	MARSEILLE
Marseille Castellane branch	Tour Méditerranée 65 avenue Jules Cantini 22nd floor	13006	MARSEILLE
Menton branch	11 avenue de Verdun	06500	MENTON
Nice Arénas branch	455 Promenade des Anglais Immeuble Aéropole Quartier de l'Arenas CS 23256	06205	NICE CEDEX 3
Nice Promenade branch	7 Promenade des Anglais	06000	NICE
Toulon branch	139 avenue Vauban	83000	TOULON
RHÔNE-ALPES			
Annecy branch	15-17 rue du Président Favre CS 90296	74008	ANNECY CEDEX
Chamonix branch	7 avenue du Mont Blanc	74400	CHAMONIX
Grenoble branch	2 cours Berriat	38000	GRENOBLE
Lyon Brotteaux branch	12 place Jules Ferry CS 80068	69456	LYON CEDEX 06
Lyon Cordeliers branch	1 place des Cordeliers	69002	LYON
Lyon Croix-Rousse branch	161 boulevard de la Croix-Rousse	69004	LYON
Lyon Vaise branch	51 rue des Docks	69009	LYON
Saint-Etienne branch	1 boulevard Dalgabio	42000	SAINT-ÉTIENNE

6 DRAFT RESOLUTIONS PRESENTED TO THE ORDINARY GENERAL MEETING ON 24 MAY 2016

First resolution

After hearing the reports of the Board of Directors, the Chairman of the Board of Directors and the Statutory Auditors on the annual financial statements for the 2015 financial year, the general meeting approves the annual financial statements showing earnings of €50,734,441.05.

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 the Statutory Auditors on the consolidated financial statements for the 2015 financial year, the general meeting approves the consolidated financial statements showing earnings of €55,465 million.

Third resolution

The general meeting approves the appropriation of earnings recorded in 2015, as proposed by the Board of Directors:

• Net income	€50,734,441.05
• Carried forward	€112,434,351.68
TOTAL	**€163,168,792.73**
• To the statutory reserve	€2,536,722.05
• Dividend payments	€27,748,338.02
• Carried forward	€132,883,732.66
TOTAL	**€163,168,792.73**

The dividend for the 2015 financial year will amount to €1.03 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 2016.

After hearing the Statutory Auditors' special report, the general meeting sets the issue price of new shares at €28.6962 (issue premium of €8.6962 included).

The right to receive payment of the dividend in new shares will be based on a ratio of 0.03589329 new shares for each existing one.

Shareholders will have to elect to receive the dividend in shares between 25 May and 31 May 2016. 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 2016.

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
2012	26,940,134	€19,935,699.16	€0.74*
2013	26 940 134	€19,396,896.48	€0.72*
2014	26,940,134	€39,601,996.98	€1.47*

* *Not eligible for the 40% rebate.*

Fourth resolution

After taking note of the special report by the Statutory Auditors on the agreements referred to in Article L. 225-38 of the French Commercial Code, the general meeting formally acknowledges this report and approves said agreements and the terms of said report.

Fifth resolution

In view 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 Bertrand Dubus, the general meeting ratifies the possibility for him to benefit, under the same terms and conditions as Banque Palatine's employees, from the social protection arrangements put in place by Banque Palatine, and from 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.

Sixth resolution

After hearing the Board of Directors' report, the general meeting issues a favourable opinion on the details of the remuneration due or awarded during the financial year ended 31 December 2015 to the chief executive officer, Pierre-Yves Dréan, which amounted to €607,509.

Seventh resolution

After hearing the Board of Directors' report, the general meeting issues a favourable opinion on the details of the remuneration due or awarded during the financial year ended 31 December 2015 to the Executive Vice-President, Bertrand Dubus, which amounted to €283,022.

Eighth resolution

After hearing the Board of Directors' report, the general meeting issues a favourable opinion on the details of the remuneration due or awarded during the financial year ended 31 December 2015 to the Executive Vice-President, Thierry Zaragoza, which amounted to €332,539.

Ninth resolution

After hearing the Board of Directors' report, the general meeting issues a favourable opinion on the overall allocation of remuneration of any kind paid in respect of the financial year ended 31 December 2015 to all members of staff who are regulated persons, which amounted to €7,187,093.

Tenth resolution

The general meeting 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.

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BANQUE PALATINE
L'Art d'être Banquier

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