FINANCIAL REPORT 2016

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.

2016
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 50 branches in France offers solutions and services to some 11,600 companies and 70,000 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.

www.palatine.fr

STATEMENT FROM THE PERSON RESPONSIBLE

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

I state, after having taken all reasonable measures to this end, that the information contained in this annual financial report is, to the best of my knowledge, accurate and does not omit any material fact.

I declare, to the best of my knowledge, that the accounts were prepared in accordance with applicable accounting standards and provide a faithful presentation of the assets, financial position and income of the company and all the companies included in consolidation, and the management report appearing on page 4 presents a faithful table of the change in business, income and financial position of the Company and the companies included in consolidation as well as a description of the primary risks and uncertainties to which they are exposed.

Signed in Paris, on 14 April 2017

Chief Executive Officer

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1 Board of Directors’ management report for financial year 2016

Economic environment

2016 was difficult on the economic level, and more specifically, during the first three quarters. After having reached 3.0% in 2015, global growth was lower than expected, with a level near 2.8% in 2016.

Although it brought a second wind to emerging economies, the increase in the cost of raw materials (+90% on the Brent) limited the growth potential of advanced economies. Fears concerning world trade were very unfavourable for the Chinese economy, which resulted in the fall of the Yuan and world stock markets from the beginning of the year. Later, the economies had to operate with the slowed growth in the United States and the vote on 23 June 2016 in favour of the United Kingdom's exit from the European Union.

At the end of the year, the markets stabilised following the agreement by oil-producing countries who decided on 30 November 2016, for the first time since 2008, to decrease their production (1.2 million barrels per day for OPEC and 0.55 million for the other countries). This agreement created a more favourable environment for all of the producing countries and led to the acceleration of their growth or favoured the outlook on a more rapid exit from the recession for other countries (Brazil and Russia).

With growth of 6.7% during the third quarter of 2016, China remained burdened by a debt and production costs that were too significant for companies.

In the euro-zone, growth is close to +1.7% in 2016, following +2% in 2015, and +0.9% in 2014. The position of the various countries remains relatively unequal. Germany again consolidated its growth at 1.9% (compared with 1.7% in 2015). France experienced a weak recovery in 2016, partially linked to the attacks and to the slowdown of foreign trade. In contrast, the unemployment rate decreased by 0.5 points over the year to stand at 9.4% of the active population and the public debt decreased to 3.3% of GDP, as compared with 3.5% in 2015 and 4% in 2014. As for Italy, it had to manage a political crisis after the rejection of the referendum on the constitution, the resignation of its Prime Minister and problems with its banking system.

In the United States, growth increased from 0.8% in the first quarter of 2016 to 3.2% in the third quarter of 2016. The health of the American economy (annual growth of 1.6%) as well as the effect of the election of the new American president allowed the primary American indices to post solid performances in 2016. A particularly dynamic labour market and the solidity of household consumption remain key to the growth outlook in the United States.

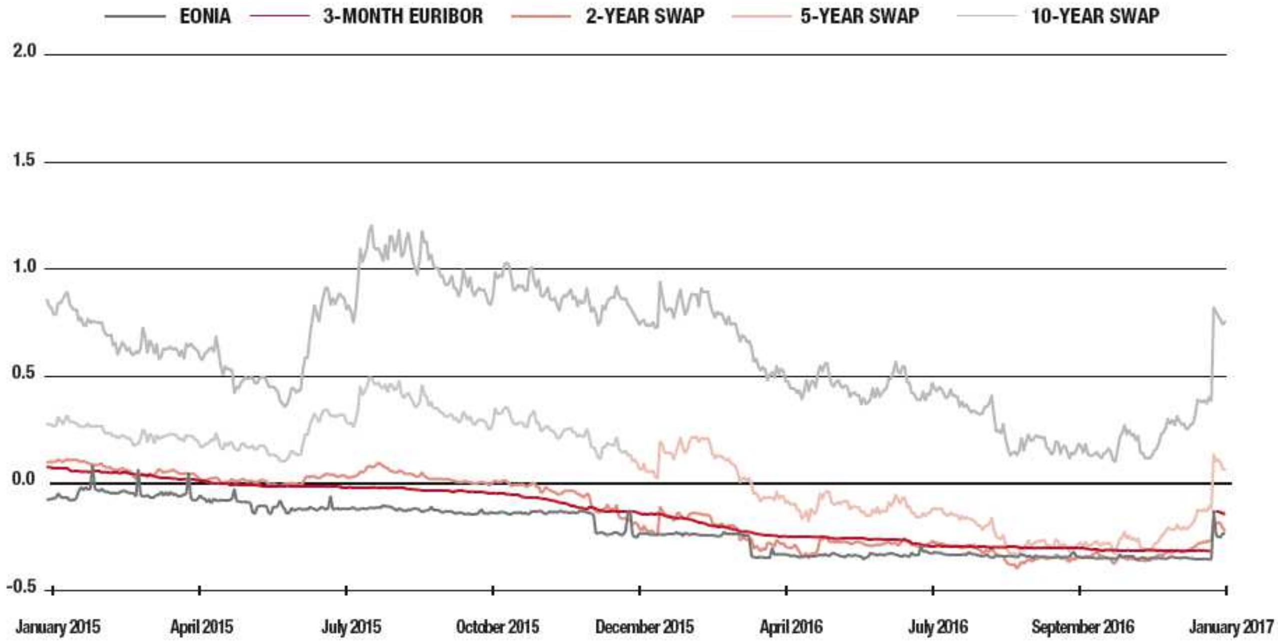
Interest rate trends

After having prepared the market for tightening of its monetary policy, *via* first through a hike in the prime rate in December 2015 (increase of 0.25%), the US Federal Reserve tempered its action in 2016. It is only after confirmation of the soundness of the American economy and under the pressure of the financial markets that the Board of Governors raised its rates by 25 basis points during the last meeting of the Federal Reserve on 14 December 2016, thus increasing the prime rate to 0.75%.

By contrast, the monetary policy of the European Central Bank (ECB) remained mostly accommodating. In March 2016, the ECB once again lowered its deposit rate, setting it at -0.4%. It was only at the end of the year, during its last meeting on 8 December, that the bank decided to reduce the monthly volume of its quantitative repurchase programme (€60 billion beginning in April 2017, compared with €80 billion until then). At the same time, based on expectations of inflation lower than the target rate (1.3% in 2017) and economic growth still struggling to take off (1.7% in 2017), the institution approved continuation of its purchase plan until December 2017 and thus retained a very conciliatory policy. These actions kept the monetary rates anchored in negative territory. The 3-month Euribor rate was -0.319% at the end of the year.

More generally, the effect of the programme was to drive down rates along the curve. Both 5-year and 10-year swaps were at respective lows of 0.338% in August 2016 and 0.101% in September.

■ **Euro interest rate trends since the beginning of 2015**

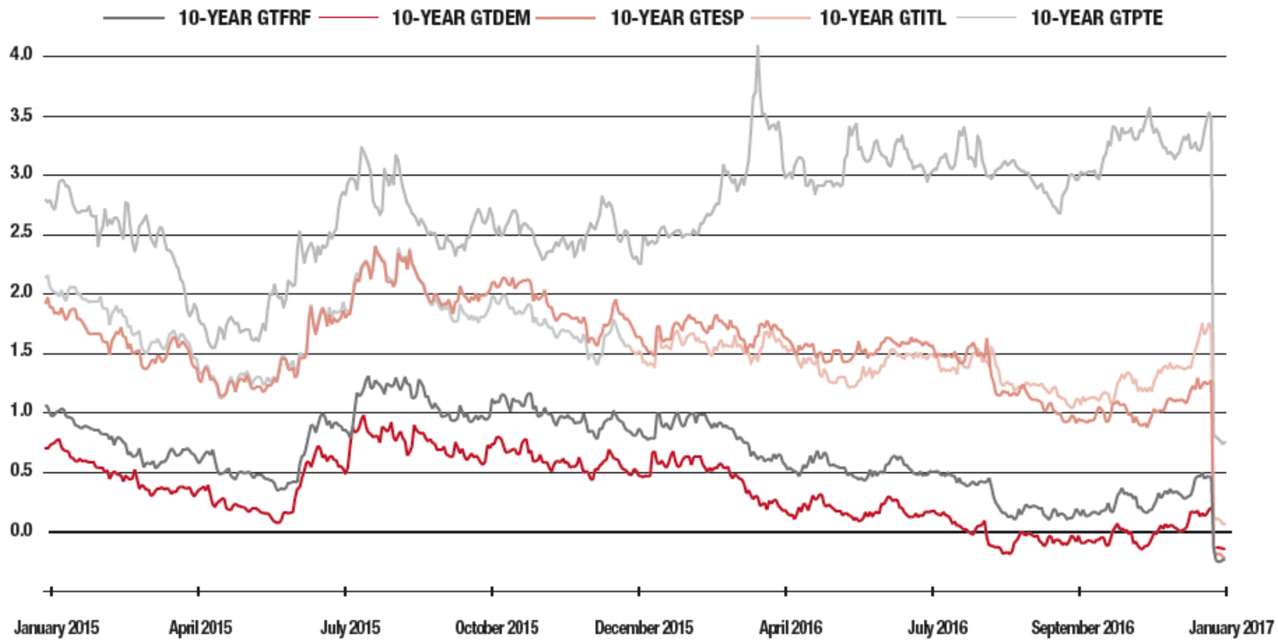


In 2016, yields on European sovereign bonds experienced two phases of change. The first took place as a result of the ECB's quantitative purchase programme. The yields primarily trended downwards. The second change started after the British referendum ("Brexit"). Since then, yields on sovereign bonds have trended up, without however, completely erasing the decrease in the first half. The rate curve was then lifted in anticipation of a softening of the rates in the United States.

The ten-year Bund had started the year yielding close to 0.63%. By year-end this stood at around 0.20%. Yields on German notes with a maturity of nine years or less turned negative in December 2016.

The divergence between the American and European policies should contribute to maintaining the difference between the rate curves. Long-term interest rates are now, however, on an upward slope.

■ **Yields on the main ten-year euro-zone government bonds**



Key figures of Banque Palatine

■ Ratings at 31 December 2016

	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. 2016	31 Dec. 2015
Equity attributable to equity holders of the parent	777.2	831.9
Tier 1 capital	721.9	694.9

■ Prudential ratios

	31 Dec. 2016	31 Dec. 2015
Core Tier 1 ratio	7.9%	7.9%
Tier 1 ratio	7.9%	7.9%
Total capital adequacy ratio	9.5%	9.7%

■ Consolidated income statement

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Net banking income	318.1	325.4
Gross operating income	119.0	131.9
Net income	46.3	55.5
Cost/income ratio	62.6%	59.5%

■ Activities

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Total assets	15,337.7	17,359.3
Customer loans	8,551.8	8,317.6

Significant events

BPCE Group highlights

In 2016, the BPCE Group accelerated implementation of its online strategy, reinforced its positions in its key lines and took the first steps towards the strategic plan outlook that it will present in 2017.

BPCE's acquisition of Fidor Bank AG

The BPCE Group announced on 28 July 2016 the signature of an agreement with the main shareholders as well as the founders and managers of the German online bank Fidor Bank AG.

This acquisition represents a key first step in the online transformation of the Group.

Acquisition by Natixis of the American advisory firm Peter J. Soloman Company (PJSC)

PJSC is a company that specialises in consulting on merger-acquisitions and reorganisations.

This transaction demonstrates the ambition of Natixis to become a bank with strong value-added financial solutions that is entirely dedicated to its customers.

Merger of AEW Europe and Ciloger

This transaction, finalised on 27 October 2016, gave rise to one of the European leaders in management of real estate assets in Europe, with combined loans of over €25 billion.

Pursuit of divestment strategy

On 2 March 2016, the BPCE Group transferred all of its residual investment in Nexity, which generated an impact of +€40 million on the net income attributable to equity holders of the parent.

The sale of securitisations of mortgages or public assets (Crédit Foncier portfolio) was also actively pursued. Thus, other lines of RMBS were sold, generating a capital loss of €106 million and an impact of -€69 million on the net income attributable to equity holders of the parent.

Transformation programme

Two mergers of regional banks were decided upon in 2016, which contribute to the new objectives of transformation and operational excellence set by Groupe BPCE.

Participation in the medium-long term refinancing operations (TLTRO II) of the ECB.

This mechanism leads to an improvement in the cost of resource, as soon as the institutions participate in financing the economy through TLTRO II (Targeted Long Term Refinancing Operations II).

In this context, BPCE redeemed on value date 29 June 2016, all of the TLTRO I received from the ECB (*i.e.* €10 million) and borrowed €10 million of TLTRO II from the ECB with a maturity of June 2020.

Participation in resistance tests

In 2016, BPCE participated in resistance tests that were jointly led by the European Banking Authority (EBA) and the European Central Bank (ECB). The was results were published on 29 July 2016.

Highlights of the year for Banque Palatine

Governance

During its meeting on 9 February 2016, the Board of Directors approved the governance principles of the risk appetite system implemented in Banque Palatine and modified the regulation of the Board of Directors committees by adding, to the duties of the Risk Committee, the review of the Bank's compliance with the regulations under the French law of separation and regulation of banking activities and the Volcker Rule.

On 24 May 2016, the Board of Directors accepted the resignation of Max Bézard as Director and provisionally co-opted Laurent Roubin in replacement. Then the Board of Directors noted the resignation of Jean-Yves Forel as a Director and Chairman of the Board of Directors, a position to which the Board of Directors elected Laurent Roubin. In addition, the Board of Directors took note of the appointment of Max Bézard as permanent representative of BPCE in place of Marguerite Bérard-Andrieu. Next, it appointed BPCE, represented by Max Bézard, as a member of the Audit Committee and member of the Risk Committee.

Within the context of striving for balanced female/male representation on the Board of Directors and the committees, on 5 October 2016, the Board of Directors accepted the resignations of Jean-Charles Boulanger, Michel Grass, Pascal Marchetti, Raymond Oliger and Gonzague de Villèle and provisionally co-opted in replacement Sylvie Garcelon, Marie Pic-Pâris Allavena and Caisse d'Epargne d'Alsace represented by Christine Meyer-Forrler. Then the Board of Directors made the committee appointments which are now composed as follows:

Audit Committee	Risk Committee		
Bernard Niglio:	Chairman	Marie Pic-Pâris Allavena:	Chairman
Maurice Bourrigaud:	member	Maurice Bourrigaud:	member
Sylvie Garcelon:	member	Sylvie Garcelon:	member
Laurent Roubin:	member	Laurent Roubin:	member
BPCE represented by Max Bézard:	member	BPCE represented by Max Bézard:	member

Appointments Committee	Remuneration Committee		
Laurent Roubin:	Chairman	Laurent Roubin:	Chairman
Benoît Mercier:	member	Benoît Mercier:	member
Bernard Niglio:	member	Bernard Niglio:	member
Marie Pic-Pâris Allavena:	member	Marie Pic-Pâris Allavena:	member

At 31 December 2016, the percentage of female Directors was 37.5%.

Banque Palatine: the leading bank for mid-sized enterprises

Banque Palatine pursued its commitment to medium-sized businesses and showed its proximity to their senior executives, through meetings of the Cercle Palatine of mid-sized enterprises, which in 2016 took the following forms:

- breakfast meetings with iconic personalities such as the journalists Alba Ventura and Laurent Bazin, authors of the book "Le bal des dézingueurs" and Christine Kerdellant, who came to speak about her work: "Ils se croyaient les meilleurs– histoire des plus grandes erreurs marketing" (They believed they were the best - history of the biggest marketing mistakes);
- an event organised in connection with international women's day: about 30 heads of companies were invited for a prestigious evening event at the legendary jeweller Boucheron;
- lunches for senior executives in about 15 cities in France as well as a thematic dinner in Bordeaux in the presence of Alain Rousset, the president of the Nouvelle-Acquitaine region.

Banque Palatine is also a partner in the economic courses co-organised by METI (Ministry of Economy, Trade and Industry).

Since 2011, Banque Palatine is a partner in the publication "Ambitions d'Entrepreneurs" distributed this year on LCI each weekend. It highlights the path of senior executives who play a driving and exemplary role in France's economic development, employment and cultural reputation, both in the regions and internationally.

Finally, since 2010, every month Banque Palatine has published Bank Palatine Observations on mid-sized businesses, conducted by OpinionWay, measuring the levels of confidence, investment and employment of 300 heads of companies with revenue of between €15 and €500 million. The magazine Challenges devotes a page to the results of this barometer every third Thursday.

Business review of 2016

Commercial banking

Corporate market

In 2016, within an economic context of recovery of growth in France, the development of commercial activity accelerated on the mid-sized business market:

- the conquest of the core target - businesses with more than €15 million in revenue - continued at a sustained pace with 306 new customer relationships in 2016, an increase of 10.1%;
- with its full range of financing solutions, Banque Palatine continues to support the French economy. Loans outstanding to corporate customers grew substantially this year by 3.5% to €6,603 million. New lending volumes were strong across all loan categories (equipment, syndication, LBOs);
- pre-financing offers by CICE (*Crédit d'impôt pour la compétitivité et l'emploi*) and bonds, introduced in 2015, were developed in 2016. The Bank also confirmed its position in arranging financial solutions with 20 transactions arranged, each generating fee income of more than €100,000;
- on-balance sheet savings and deposits by companies decreased by about 9% in 2016 and were €10,435 million, which reflects the adjustment strategy for liabilities pursued by Banque Palatine within a context of negative interest rates.

The expansion in activities in the corporate market is underpinned by its organisation shaped around its nationwide network, its areas of expertise and Groupe BPCE's specialist business lines, which allow it to address the needs of the various customers targeted by the Bank:

- through its nationwide network of branches, Banque Palatine showcases its historic brand: a personalised and tailored approach that keeps it close to its customers. In 2016, corporate business operates through 31 branches across six regions: Western France, South & Mediterranean, Central & Eastern France, Western Paris, Central Paris, and Eastern Paris;
- Banque Palatine strengthened its position as a leading player in the property administrators market, with close to 1,400 customers, in particular by offering them solutions to facilitate implementation of the new ALUR law on access to housing;
- real estate professionals, in particular in the real estate investor market, the Bank's traditional customer base, made a major contribution to loan production in 2016;
- the large 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 specialist business lines;
- in 2016, the audiovisual/cinema function set up six years ago also enjoyed further expansion during the year. Its mission is to offer the various knowledge of the Bank to the customers in this sector to support them in all their needs. The Bank draws in particular on its ability to bring together various players in the sector (production companies, directors) by drawing on synergies within Groupe BPCE, a long-standing financial backer of cinema and the audiovisual industries;
- Corporate finance activity was brisk in 2016, with deals generating nearly €9.7 million in fee income, as compared with €8.8 million in 2015. The distribution platform was ramped up with an increase in amount invested, standing at €291 million in 2016 (compared with €117 million in 2015) as well as the development of arrangement transactions;
- in 2016, international business lines beat the record 2015 volume of documentary credits, issuing a total volume of €1,044 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 the Bank's customers by offering an extended range of custom-made solutions to hedge risks or to invest surplus cash:
    - it has thus concluded hedging transactions at fixed and variable rates allowing customers to arm themselves against an unfavourable change in rates,
    - it has, similarly, undertaken currency hedges in order to protect customers against an unfavourable change in the primary world currencies,
- in addition, the structured EMTN securities investment offer was continued in 2016 with the launch of three campaigns that proved very popular with the Bank's private customers;
- finally, Banque Palatine pursued the development of business through partnerships with the specialised financing business lines of Natixis, including in particular, Natixis Lease, Natixis Factor, Natixis Garanties and the Natixis Interépargne range.

Private banking market

The development of commercial activity with its core private sector customers - company senior executives and wealth management customers - increased in 2016.

Thus, the conquest of private customers with more than €50 thousand in assets at the start of the relationship achieved a record 1,071 new accounts, up 19% compared with 2015 (+101% over three years).

Banque Palatine pursued development of the volume of financial and on-balance sheet resources in this market, with savings totalling €4,436 million at the end of 2016, a 0.9% increase.

Outstanding real estate loans increased by 5.4% and amounted to €1.4 billion at end-2016.

The development of commercial activity in the private customer market is based on the following organisation:

- a nationwide network of 36 branches dedicated to private customers, including two specialised branches, one for mass affluent customers (PalatineEtVous) and the other for major protected customers;
- an online product with an internet website and mobile application;
- its specialist business lines consisting of private bankers, wealth management specialists and experts in financing for company senior executives (capital transactions for businesses and capital incentive plans for senior executives), put their skills and know-how to work in support of the network;
- an extensive range of savings, investment and loan products, supported by the skills and know-how of:
  - Banque Palatine (Palatine Asset Management UCITS, EMTN issues, SOFICA, PME ISF Cinéma, real estate, individual and student financing, asset advances and financing of senior executives),
  - Groupe BPCE (SCPI Ciloger offer, Natixis Luxembourg partnership, real estate offer in property and income tax planning iSelection/Crédit Foncier, Natixis payment services),
  - external partners (tax planning, UCITS, SCPI real estate funds, life insurance, Girardin products, Fintech test in process, asset valuation expertise.

Quality of service, especially customer relationships, is another strength of Banque Palatine's private banking offering. Many training sessions were held in 2016 to provide our private banking customers with the best possible advice.

Financial activities

2016 was marked by an overall unfavourable economic environment and increased market volatility.

In this environment, Banque Palatine invested €400 million in euro-zone sovereign bonds during the first half. At the end of 2016, the value of the portfolio stood at €2,064 million. This portfolio's purpose is to constitute the liquidity reserve of the Liquidity Coverage Ratio (LCR). As this portfolio is eligible to be posted as collateral against central bank financing, these securities represent a secure source of funding for the Bank.

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 91.7% at the end of 2016. The Bank therefore has a substantial customer deposit base giving it significant scope for commercial development.

Banque Palatine maintained its targets for balance sheet management in 2016, limiting its liquidity and rate risks:

- managing short and medium-long-term liquidity is first and foremost aimed at ensuring the refinancing of the Bank while guaranteeing attractive loan terms for its customers;
- the second objective 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 Bank is well-prepared for any future changes in interest rates. The residual gap measuring global interest-rate risk is now negative, which means the Bank is favourably exposed to any rise in rates.

The Bank's financial strategy complies with regulatory ratios set by the Group. The Liquidity Coverage Ratio (LCR) remained above 100% throughout 2016.

Similarly, while the loans outstanding continued to grow, the solvency ratio was sustained at high levels throughout the year, ending 2016 at 9.5%.

Business review of principal subsidiaries

Asset management – Palatine Asset Management

Palatine Asset Management offers an extensive and diversified range of products, covering every major type of investment: UCITS, but also money-market, fixed and diversified 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 during the last quarter and account for more than 55% of total assets under management. Total assets under management grew by 5.5% resulting in income that fell by €1 million compared to 2015, but which was greater than that realised from 2009 to 2014.

This equity weighting had a positive impact on the profitability of Palatine Asset Management, in an environment of low rates unfavourable to management companies which helped to curb risk exposure, which is now more the focus of fund managers in the money and bond markets.

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 2016.

Consolidated and parent-company balance sheet

Consolidated balance sheet

The Bank's consolidated assets totalled €15,338 million at 31 December 2016, down €2,022 million compared with 2015.

On the asset side, the primary decrease resulted from loans and advances due from credit institutions, which decreased by €2,323 million.

On the liabilities side, amounts due to credit institutions decreased by €1,267 million and amounts due to customers decreased by €943 million, which reflected savings customers' desire to decrease outflows in the context of a more closely managed LCR ratio (which was 117.8% at end-2016 compared with 152.3% at end 2015).

Equity decreased by €55 million to €777 million, in line with the decrease in consolidated retained earnings.

Parent-company balance sheet

The separate balance sheet was €15,270 million at 31 December 2016, a decrease of €1,978 million compared to 31 December 2015, which reflects an outflow for remunerated savings customers for better management of the balance sheet.

Thus, on the asset side, loans and advances due from credit institutions decreased by €2,323 million while loans and advances due from customers increased by €244 million.

On the liability side, the tighter management of the LCR ratio and the orientation towards outflows of customer resources resulted in a decrease of €937 million in amounts due to customers, while amounts due to credit institutions were €2,687 million, or a decrease of €1,265 million compared to 31 December 2015.

Property, plant and equipment and intangible assets, amounted to €140 million, reflecting the goodwill of the banking service businesses contributed by Crédit Foncier de France in 2008.

Subordinated debt was €166 million, down by €105 million compared with the 2015 financial year.

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 €318.1 million in 2016, down 2.2% or €7.3 million compared with 31 December 2015. Net interest income was down by €4.1 million, reflecting the lower returns on assets in an adverse interest rate environment, exacerbated by renegotiations of customer loans.

Net fee income totalled €94.9 million, compared with €95.6 million in 2015, or a decrease of 0.7%.

Net gains and losses on financial instruments at fair value through profit or loss were down slightly by €0.3 million, which reflects support by the dealing room despite a complicated economic environment at the beginning of 2016. Net gains and losses on available-for-sale financial assets also increased by €0.3 million.

Finally, net income from other activities was a loss of €2.3 million, compared to a €0.2 million gain in 2015, a decrease of €2.4 million following the disposal of unoccupied commercial premises in 2015.

Total operating expenses came to €199.1 million, up €5.6 million or 2.9% compared with 2015, largely due to an increase in the Bank's costs, chiefly in external services, payroll costs and tax.

At end-2016, gross operating income came to €119.0 million, down by €12.9 million (-9.8%) giving a consolidated cost/income ratio of 62.6%, compared to 59.5% in 2015.

The annual cost of risk came to €46.0 million in 2016, up €4.5 million on its 2015 level.

The share in net income of associates came to €0.7 million, generated entirely by Conservateur Finance, up €0.2 million compared to 2015.

IFRS consolidated net income at 31 December 2016 came to €46.3 million, down from €55.5 million in 2015.

Parent-company financial statements

Net banking income was €299.8 million, an increase of €1.9 million (+0.6%) on 2015.

Thus, net gains on investment portfolio transactions increased by €5.3 million. Income from variable-income securities increased by €4.5 million. Net fee income improved by €0.9 million.

Conversely, net interest income, other income and net losses on trading book transactions fell by, respectively, €5.2 million, €2.6 million, and €1 million.

Total operating expenses rose by €6.1 million to €190.9 million, a result of the increase in payroll expenses, external services and tax.

Cost of risk increased by 10.8% compared to 2015, and stood at €40.4 million at end-2016.

Income before tax decreased by €6.4 million to €70 million at end-2016, or a decrease of 8.4% compared to 2015.

The decrease in tax expense recognised (€6.2 million) reflects the decrease in interim balances as well as the end to the special corporate tax which applied to financial years ended since 31 December 2011. The corporate tax increase of 3.57% ended on 31 December 2015. The corporate tax rate thus went from 38% to 34.43%.

On this basis, net income posted a slight decrease of €0.2 million (or -0.4%) compared with 2015. The decrease in the corporate tax rate offset the decrease observed in interim balances.

Results of the subsidiaries

Palatine Asset Management recorded net income of €11.5 million in 2016, down €1.1 million compared with 2015.

Ariès Assurances' net income totalled €0.23 million in 2016, an increase of €0.06 million on 2015.

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 2016

At 31 December 2016, 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 2016 include €63,501.12 in non-tax deductible expenses.

Accordingly, the tax charge incurred as a result of these expenses amounted to €21,864.47.

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 2016

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 of which the Bank comes into possession directly or indirectly of over half of its share capital.

In 2016, an agreement between Banque Palatine and Natixis S.A. and signed on 16 February 2016 fell into this category.

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

Trading by Banque Palatine in its own shares

In 2016, Banque Palatine did not trade in its own shares.

Resolutions

The Board of Directors presented to the general shareholders' meeting the management report, the Board Chairman's report on the work of the Board of Directors, the internal control and risk management procedures, parent-company and consolidated financial statements for 2016 as well as the appropriation of income, which appears 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
2013	26,940,134	€19,396,896.48	€0.72*
2014	26,940,134	€39,601,996.98	€1.47*
2015	26,940,134	€27,748,338.02	€1.03*

* *Not eligible for the 40% rebate.*

The special report of the Statutory Auditors relating to the aforementioned agreement was then submitted to the shareholders for approval.

With respect to governance, the ratification of the provisional co-optations made by the Board of Directors after the general shareholders' meeting in May 2016 was presented as well as the renewal of the terms of the Directors of the Board of Directors.

The principles and criteria for determining the allocation and distribution of fixed, variable or exceptional elements constituting the total remunerations and benefits of any kind attributable to the Chief Executive Officer and the Executive Vice-Presidents by virtue of their position, are submitted to the general shareholders' meeting for approval.

Finally, 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.

Future outlook and expected developments

In a sluggish economic environment in France, 2017 begins as a new year of transformation for the banking sector: physical networks and the customer's path should be rethought to integrate new online uses, a rate context that will remain less than favourable and a regulatory environment that will continue to weigh, requiring in particular strict management of the allocation of capital and commercial action geared towards fee generating activities.

Subject to the interest rate climate, the net banking income of Banque Palatine should experience growth in 2017, thanks to the cumulative efforts of sales forces and specialist business lines focused on increasing the size and return on key target customers and in particular on the development of arranged financing.

2017 is the final year of Banque Palatine's "Impulsions" Strategic Plan. The Bank will also focus on preparing the new 2018-2020 strategic plan.

2 Chairman's report on the work performed by the Board of Directors, internal control and risk management procedures for the 2016 financial year

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 2016 and the principles and rules governing the determination of remuneration and benefits of any kind 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 Audit Committee and Risk Committee on Monday 6 February 2017, then approved by the Board of Directors at its meeting on Wednesday 8 February 2017.

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 November 2016 including the recommendations on executive remuneration.

Only certain provisions that are not applicable 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 Caisse d'Epargne and 15 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.

An action plan was defined and implemented to apply the principle of balanced gender representation within the Board of Directors and its committees. It is not yet reached at 31 December 2016; as of that date, the percentage of female Directors is 37.5%.

Two Directors were elected by employees – one representing managerial-level employees and the other representing technical and supervisory-grade staff.

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 yet totally 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 Executive 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 Executive 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 shareholders and employee-elected Directors.

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 the 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.

However, in the event of death, resignation, dismissal or termination of employment contract, the term in office 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 on 14 February 2014 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 2016, the Board of Directors had eight 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
Laurent Roubin, Chairman of the Board of Directors, member of BPCE's Management Board and Chief Executive Officer in charge of commercial banking and insurance	47 years	24/05/2016	2017
Maurice Bourrigaud, Chief Executive Officer, Banque Populaire de l'Ouest	58 years	14/02/2014	2017
Brigitte Briffard, elected by employees (technical staff)	58 years	14/05/2014	2017
Sylvie Garcelon, Chief Executive Officer of Casden Banque Populaire	51 years	5/10/2016	2017
Matthieu Godefroy, elected by employees (managerial-grade staff)	37 years	14/05/2014	2017
Benoît Mercier, Chairman of the Management Board of Caisse d'Epargne Lorraine Champagne-Ardenne	63 years	14/02/2014	2017
Bernard Niglio, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Provence-Alpes-Corse	67 years	29/07/2014	2017
Marie Pic-Pâris Allavena, Chief Executive Officer of Eyrolles	56 years	5/10/2016	2017
BPCE represented by Max Bézard, Head of Groupe BPCE strategic management control and banking activities	51 years	14/02/2014	2017
Caisse d'Epargne d'Alsace represented by Christine Meyer-Forrler, Board Director in charge of Businesses and Institutions	47 years	5/10/2016	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 2016.

Changes to the Board during 2016

On 24 May 2016, the Board of Directors noted the resignation of Max Bézard as Director and co-opted on a provisional basis Laurent Roubin in replacement. Then the Board of Directors noted the resignation of Jean-Yves Forel as a Director and Chairman of the Board of Directors, a position to which the Board of Directors elected Laurent Roubin. In addition, the Board of Directors took note of the appointment of Max Bézard as permanent representative of BPCE in place of Marguerite Bérard-Andrieu.

On 5 October 2016, the Board of Directors took note of the resignation of Jean-Charles Boulanger, Michel Grass, Pascal Marchetti, Raymond Oliger and Gonzague de Villèle and provisionally co-opted Sylvie Garcelon, Marie Pic-Pâris Allavena and Caisse d'Epargne d'Alsace represented by Christine Meyer-Forrler.

Non-voting Directors

Pursuant to Article 19 of the Articles of Association, the ordinary general meeting can appoint up to six non-voting Directors.

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

Role

Duties and powers

The Board of Directors, the governing body representing shareholders and employees, determines the Bank's business goals and oversees their implementation. Except for the powers expressly reserved for the general meeting of 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 consolidated financial statements 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.

Since the option for the form of a *société anonyme* (French limited liability corporation with a Board of Directors), the Board of Directors on 14 February 2014 opted for the separation of duties of the President and 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 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 its meeting on 20 May 2015 to incorporate the rules of procedure for Board Committees introduced after the creation of the Risk Committee and the Appointments Committee;
- at its meeting on 9 February 2016, in order to add to the scope of the Risk Committee the review of the Bank's compliance with the regulations of the French Law on Separation and Banking and the Volcker Rule.

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

In accordance with the internal regulations of the Board of Directors committees, the Appointments Committee is responsible for issuing an opinion on the suitability of candidates for Director of Banque Palatine prior to co-optations on a provisional basis decided upon by the Board of Directors or appointments to submit to the general shareholders' meeting.

In addition, Directors have undertaken to perform their duties with integrity and professionalism 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 are 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 five times in 2016 and the average attendance rate was 75.31%.

The main topics covered at the meetings in 2016 were:

- resignations and co-options of Directors;
- appointment of the Committee Chairmen and Members;
- update of the remuneration policy;
- the variable portion of Executives' remuneration;
- related party agreements;
- update of the rules of procedure for the Board of Directors;
- 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;
- review of the annual report on internal control (articles 258 and 262 of the order of 3 November 2014);
- 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 minutes of each of the committees of the Board of Directors;
- 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 has 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 has 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.

Members of these committees are neither corporate officers of Banque Palatine nor related to it by any employment contract or other subordinate relationship. They 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 2016, Banque Palatine's Audit Committee had the following members:

- Bernard Niglio .... chairman;
- Maurice Bourrigaud .... member of the Committee;
- Sylvie Garcelon .... member of the Committee;
- Laurent Roubin .... member of the Committee;
- BPCE represented by Max Bézard .... 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 not 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 2016 with an average attendance rate of 60%.

The main topics covered at the meetings 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;
- the review of the draft annual report;
- the review of the budget;
- the Chairman's report on internal control;
- fees paid to and independence of the Statutory Auditors;
- the Statutory Auditors' 2016 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 2016, Banque Palatine's Risk Committee had the following members:

- Marie Pic-Pâris Allavena .... chairman;
- Maurice Bourrigaud .... member of the Committee;
- Sylvie Garcelon .... member of the Committee;
- Laurent Roubin .... member of the Committee;
- BPCE represented by Max Bézard .... 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 proposes 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, procedures, systems, tools and limits mentioned in Article 148 of the Order and the underlying assumptions and report its conclusions to the Board of Directors;
- review the global risk exposures of Banque Palatine based on the relevant reporting statements;
- review the Bank's compliance with the regulations of the French Law on Separation and Banking and the Volcker Rule;
- 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 risk appetite, 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(s) 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 four times in 2016 with an average attendance rate of 60%.

The main topics covered at the meetings were:

- the quarterly report on risk, compliance and internal audit;
- the RCSI report;
- review of the report by the Chairman of the Board of Directors on internal control;
- 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*;
- the review of the risk appetite system;
- the review of the modification of the regulation of the committees of the Board of Directors;
- a focus on the Bank's commitments in the oil and chemical sectors, the AML strategy, the change in provision rate;
- the review of the modification of the rules of procedure of the committees;
- the communication of the main conclusions of Banque Palatine's IGG mission;
- 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 three 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 2016, the Committee's members were as follows:

- Laurent Roubin .... chairman;
- Benoît Mercier.. member of Committee;
- Bernard Niglio .... member of Committee;
- Marie Pic-Pâris Allavena .... member of Committee.

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;
- assesses 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;
- assesses 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, skills 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 three times in 2016 with an attendance of 100%.

The main topics covered at the meetings were:

- the principles of the diversity policy in the Board of Directors;
- review of the Chairman's report on the work performed by the Board of Directors, internal control and risk management procedures (governance section) - financial year 2015;
- the opinion on the integrity and any incompatibilities of candidates proposed as Directors;
- information on delay of appraisal of the Board of Directors.

Remuneration Committee

Composition

The Committee has a Chairman and three 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 2016, the Committee's members were as follows:

- Laurent Roubin .... chairman;
- Bernard Niglio .... member of Committee;
- Benoît Mercier.. member of the Committee;
- Marie Pic-Pâris Allavena .... member of the Committee.

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 makes 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 shareholders' 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 Committee met four times in 2016 with an attendance rate of 100% to deliberate concerning:

- the review of the variable remuneration of the Chief Executive Officer and of the Executive Vice-Presidents for 2015;
- the definition of the criteria defining the variable remuneration of the Chief Executive Officer and Executive Vice-Presidents in 2016;
- the review of which employees are classed as regulated persons - financial year 2015;
- the review of the Chairman's report (remuneration section);
- the review of total remuneration of corporate officers;
- the review of remuneration policy - 2016;
- the opinion on the civil liability insurance policies taken out by Banque Palatine on behalf of its senior executives;
- information concerning the variable remuneration component for the Chief Executive Officer and the Executive Vice-Presidents linked to BPCE income in 2015;

- the background on the elements of remuneration of the Chief Executive Officer and the Executive Vice-Presidents;
- information on parts 4 and 5 of the report pursuant to Article 266 of the order of 3 November 2014;
- the review of remuneration of the Head of risk management and the Head of compliance and permanent controls;
- the review of recommendations by BPCE's general inspection division regarding variable remuneration.

Executive management

The Board of Directors on 14 February 2014 opted for the separation of duties of the President and Chief Executive and appointed Pierre-Yves Dréan as Chief Executive Officer of the institution.

Pursuant to Article L. 512-107 of the French Monetary and Financial Code, the appointment and renewal of the Chief Executive Officer is subject to the approval of the central body for companies forming part of a mutualist group.

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 this 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 Bank 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.

Upon proposal by the Chief Executive Officer, the Board of Directors appointed two Executive Vice-Presidents.

Members of executive management	Age	Date of appointment	Expiry date of appointment
Pierre-Yves Dréan, Chief Executive Officer	56 years	14/02/2014	14/02/2019
Bertrand Dubus, Executive Vice-President for development	57 years	13/02/2015	14/02/2019
Thierry Zaragoza, Executive Vice-President for finance and banking production	55 years	14/02/2014	14/02/2019

Pursuant to Article L. 512-107 of the French Monetary and Financial Code, any Executive Vice-President(s) 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 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 transactions or 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 and interest 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 and 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 executive management plus the Head of human resources and working conditions.

Participation by shareholders at general meetings (section V of the Articles of Association)

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

A general meeting of shareholders is called and meets in accordance with regulations in force. It deliberates on issues listed on the agenda as provided for in law.

The general meeting is 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 a general meeting 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 29 July 2015 meeting.

The allocations were not revised and thus applied to financial year 2016, according to the following methods, 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 with 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 remuneration 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 remuneration 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 remuneration 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 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 remuneration 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 remuneration 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

The composition of the population of regulated persons of Banque Palatine is reviewed annually according to the 18 criteria (15 qualitative and 3 quantitative) pronounced by EU regulation no. 604/2014 of the European Commission of 4 March 2014.

For the 2016 financial year, and in compliance with the Groupe BPCE standard, two criteria have been added in order to take account of employees under the Law on the separation and regulation of banking activities (SRAB) and the Volcker rule.

A Banque Palatine employee is deemed to be a regulated person if he/she meets at least one of the criteria.

The identification of regulated persons was approved by the human resources department supported by the risk management, compliance and permanent control divisions during the Committee of Identification of MRT (material risk takers) and associated variable remuneration.

The list of regulated persons is subsequently submitted for information to the Executive Management Committee.

Then it is reviewed by the Remuneration Committee and finally approved by the Board of Directors.

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

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

- the Group risk management division and the Group compliance and permanent control 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. These charters were rolled out at Banque Palatine 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 and ensure that its control framework is appropriate to the Bank's and Groupe BPCE's financial position and strategy.
- 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 assessed 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* is responsible for preparing the decisions of the Board of Directors, in particular concerning the issues of follow up on preparation of financial information, on 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.
- 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 and the Head of risk.

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 the 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 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 risk appetite system, the institution's policy in terms of risk appetite, 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 Control Committees common to the various permanent control functions within Banque Palatine are as follows:

Committees	**Frequency**	**Type of risks**
Coordination committee for internal control functions	I	Coordination of control function
Audit and Internal Control Committee	Q	All risks
Operational Risks and Security Committee	Q	Operational risk
Product and services approval committee	M or Q	All risks

Key : I = interim, Q = quarterly, M = monthly.

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
31 December 2015	€3.47 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 2016.

Risk appetite system of Banque Palatine

The risk appetite is defined by the level of risk that the Bank finds acceptable, in a given context, to generate a recurrent and resilient income, by offering the best service to its customers and by preserving its solvency, liquidity and reputation.

The system is based on:

- the definition of the risk profile, which ensures the coherence of the Bank's DNA, its cost and income model, its risk profile and its capacity to absorb losses, as well as its risk management system;
- the indicators covering all the main risks to which the Bank is exposed and completed by the limits or thresholds triggering the measures and specific governance in the event of overruns;
- a governance integrated into the Group's governance bodies for constitution and review, as well as in the event of a major incident, and also by applying all the principles to each Group institution;
- a full operational inclusion with cross-cutting systems for financial planning.

Risk appetite is defined according to five Banque Palatine-specific criteria:

- its DNA;
- its business model;
- its risk profile;
- its capacity to absorb losses; and
- its risk management system.

Based on the business model, the following risks are assumed:

- credit risk, induced by the preponderant activity as a credit provider to individuals and companies, which is managed through risk policies applied to all the Group entities and through concentration limits by counterparty, by country and by sector;
- structural interest rate risk, which corresponds to the risk, current or future, to which the Bank's equity or income are exposed as a result of unfavourable interest rates changes affecting the positions of the banking portfolio. It is managed through common standards and limits by entity;
- liquidity risk, which covers the risk that a counterparty does not fully settle a commitment when it is due. Liquidity risk does not imply a counterparty's or participant's insolvency, because the required settlement can take place at a subsequent, non-specified moment. It is managed through static and dynamic limits, as well as by regulatory short-term liquidity coverage ratios (LCR). Market risk, which corresponds to a potential loss on the trading portfolios as a result of market price changes. It is managed through Value at Risk and income stress test limits;
- non-financial risks, which are managed through common Group standards; these standards cover non-compliance risks, fraud risks, information systems security risks, conduct risks, as well as other operational risks.

The development of the business model extends its exposure to certain types of risk, notably risks in relation to asset management and the development of activities at an international level.

However, it did not make any commitment on activities not controlled by the Bank or trading on its own behalf. Activities with high risk and profitability profiles are strictly managed.

Whatever the activity, the objective is to operate according to the highest ethical and conduct standards, and according to the best operational implementation and security standards.

The institution:

- is responsible for the first-level management of the risks within its scope and, with this in mind, has dedicated staff responsible for permanent control;
- breaks down the management of the risk appetite components through a set of standards and benchmarks stemming from charters dedicated to internal control which are conceived at Group level;
- adopts a set of limits which are applicable to the different risks and broken down at Group level.

The Risk Appetite Framework (RAF) and Risk Appetite Statement of Banque Palatine were approved by the Board of Directors in February 2016 and are regularly updated. Any overrun of the quantitative limits set in the RAF is the object of an alert and an appropriate remedial plan, which may be established by the Executive Management Committee and communicated to the Board of Directors where necessary.

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, compliance and permanent controls division (RCPCD), 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 management, compliance and permanent control 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 (compliance with SRAB (*Séparation et de régulation des activités bancaires*) and Volcker regulations, 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;
- control respect of 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 alert it where limits are exceeded;
- act as the functional point of contact on risk-related matters for the Group's RCPCD. 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 department.

Credit risks

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

In addition, compliance with the limits set is 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 created within the risk management division that handles dialectic analyses of files presented to the credit committees, second level controls on credit risks and monitoring of the quality of credit risk data associated with the deployment of the corporate rating tool used at Banque Palatine.

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 internal 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.

The committees for follow up and monitoring of commitments (commercial bank, real estate, regulated real estate professionals) regularly bring together the development unit and the lending division to analyse problematic cases, 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, Asset-Liability Management 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.

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 examines the results of SRAB and Volcker indicators in order to confirm the Bank's compliance with the regulations on the French law on Separation and Banking and the Volcker Rule;
- 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 operating 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 2016.

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, 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 RCPCD 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 RCPCD 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 Committee 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 latest Group asset-liability management standards in force since April 2015. 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 with the 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 Asset-Liability Management Committee and the Audit and Internal Control Committee. 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 and working conditions, 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 planning (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 and updated in 2016, paying particular attention to the standards for 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.

The increasing digitisation of the economy as a whole and of banking activities in particular comes with increased risks for customers and for the security of information systems; cyber security has become an area of potential risk that requires increasingly strong vigilance.

Financial risks related to climate change

Organisation

BPCE Group is profoundly aware of its role in leading the migration to a smaller carbon footprint and is continuing its actions to take account of the risks posed by climate change and put in place measures to reduce them. The risk in relation to climate change is included in the identification and management of its risks in the same manner as other types of risks.

Groupe BPCE participates, like all the other French banking groups, in the work of the ACPR (*Autorité de contrôle prudentiel et de résolution*) in the framework of provision V of Article 173 of the law on energy transition for green growth.

Since 2016, the general credit risk policy includes risk in relation to climate change and integrates social and environmental responsibility as a significant topic in respect of the evolution of risks. Climate risk was also included in the work carried out in 2016 to prepare the institutions' risk maps.

Work done in 2016

Moreover, in 2016 Groupe BPCE has formalised a Group CSR approach, validated by the BPCE Executive Management Committee, which includes the reduction of direct and indirect environmental impacts. Steps were therefore taken by BPCE to reduce these risks in all the components of its business.

Indirect impact

- Completion of an inventory of green growth markets, through the identification and evaluation of the various economic functions involved, analysis of the positioning and the current performance of the Group's banks in these markets and evaluation of commercial development potential for the Group's banks.
- The introduction, for the most sensitive sectors at Natixis, of CSR policies for internal use, integrated in the risk management policies of the business lines working in the sectors concerned (defence, nuclear, energy/mining and palm oil). On 15 October 2015, Natixis also committed to no longer financing coal-fired power stations or thermal coal mines worldwide with the technologies currently available.
- Financing of renewable energies and of thermal renovation, through all the Group's principal commercial networks; in particular, with a specific expertise within Banque Palatine.
- An offering including green savings products and loans for these customers.

Direct impact

- The annual measurement of the carbon footprint of all the Group companies, linked to energy, travel, real estate and procurement.
- The implementation of action plans targeting, for example, energy efficiency of buildings and reducing the impact of employee travel.
- Information on these actions is presented in Chapter 6 of this document regarding Group social, corporate and environmental information.

Banque Palatine is included in the Group policy.

Emerging risks

Groupe BPCE, like other European and French players, must face the risks induced by its environment. It pays particular attention to emerging risks.

The international situation is a source of concern, marked by lower economic growth in emerging countries which is reinforced in certain regions by political and budgetary instability, notably as a consequence of the price of commodities which is still low. In Europe, Brexit - as well as the security and migration context - are weighing on the stability of the European Union and its currency, which is a source of potential risk for banking institutions.

The current context of particularly low interest rates, negative for certain maturities, generates a potential risk for commercial banking activities, notably in France with the preponderance of fixed-rate loans, and for life insurance activities.

Since 2016, the general credit risk policy also includes risk in relation to climate change and integrates social and environmental responsibility as a significant topic in respect of the evolution of risks. Climate risk was also included in the work carried out in 2016 to prepare the institutions' risk maps.

Misconduct risk is monitored in the framework of operational risk monitoring and is addressed by the Code of Conduct and Management of Conflicts of Interest Charters at the different levels of Groupe BPCE.

The regulatory environment is another area being monitored, as banking institutions conduct their business under increasingly stringent requirements.

Compliance

The compliance and permanent controls division reports hierarchically to the Chief Executive Officer and functionally to Groupe BPCE's Head of compliance, security and operational risk.

It is composed of:

- two departments: permanent control management and compliance & ethics;
- two services: financial security and IT 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 compliance division endeavours to control the risks of non-compliance:

- before a new product goes onto the market, through the Product Approval Committee;
- 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 governed by the framework put in place for permanent controls. These are based on mapping that catalogues, for each activity, all the controls. They include a quarterly reporting system to the Group permanent controls division *via* the PILCOP tool. The 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.

The Head of compliance and permanent controls is also responsible for investment services compliance (RCSI). He is invited to attend various Bank Committees to fulfil this function.

Non-compliance risk is monitored particularly by the Audit and Internal Control Committee, which meets on a quarterly basis. A detailed quarterly report via activity reporting from the compliance and permanent control division is also submitted to members of the Risk Committee and is the topic of a meeting presentation. It covers the main failings observed and the measures taken to remedy them.

The permanent control management department

The role of the permanent control management department is to control risks at all times and ensure the compliance of transaction processing with respect to 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 scope of this department does not include second level controls of credit risk (control that is provided by the risk management division) nor that of risks associated with the information systems (provided by the Head of information systems security) nor the control of the security of assets and of employees (provided by the division of human resources and working conditions).

The main improvements made in 2016 were as follows:

Update and implementation of new controls adapted to the risks identified during the year and changes to the BPCE control standards, for example:

- implementation of second level controls in two investment services (RTO and investment advice) in the framework of an approach by risk;
- transposition of the BPCE 2016-608 standard of 15 January 2016 regarding branch managerial controls;
- standardisation of contracts for essential outsourced services;
- movement from overall control through knowledge of a customer to a "Regulatory Customer File" control and a control based on the reliability of data by market, in order to separate the result of compliance with supporting documentation from reliability of data in the information system.

The compliance & ethics department

This new department, implemented in late 2015, combines banking compliance and investment service compliance and has helped in 2016 to streamline the compliance system, particularly regulatory watch, assessment of non-compliance risk and reporting.

Among other tasks the department contributes to:

- identification and control of the main non-compliance risks;
- assistance and advice for employees in the branch network and head office (training, memorandum drafting, validation of procedures);
- compliance controls (new product and marketing processes, conflict of interest management, theme-based controls, customer protection, etc.).

All new products and services are subject to approval by the Product Approval Committee before being brought to market. The Committee is chaired by the Chief Executive Officer and the Head of compliance and permanent control acts as secretary. In 2016, the Committee reviewed 37 new products or partners.

The risk control framework covering banking compliance consists of:

- the introduction of a regulatory watch based in particular on the circulars sent by Groupe BPCE. In 2016, a regulatory watch committee that brings together various divisions in order to ensure proper handling and monitoring of all the topics met regularly;
- annual ranking of non-compliance risks (see table below);
- 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 projects (FATCA, EAI, CREDIT IMMO, MIF II, for example).

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 15 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

The compliance and ethics department has ranked non-compliance risks as part of a Group-led procedure.

The main area for improvement in 2016 related to IeL risk. Following revision of the procedural process, an action was launched in 2016 and will be pursued in 2017 in conjunction with all divisions to review the processing of sensitive information.

With respect to compliance of investment services, the PEIPCI (*Personnes exposées aux informations privilégiées et aux conflits d'intérêts,* or employees having access to privileged information and conflicts of interest) system was rolled out at Banque Palatine in compliance with the BPCE standard. Controls incorporated in the PILCOP permanent control monitoring system ensure compliance with the principal AMF obligations.

Financial security service

The financial security service ensures financial crime prevention, which includes: money laundering, terrorist financing, tax fraud and external and internal fraud. It supervises detection of customer transactions that appear to be unusual based on a risk-based approach.

Its role is to report any suspicious movements of funds to the Tracfin authority. To this end, the unit analyses any suspicious activity reported internally by the branches, usually following the processing of alerts generated by the Group's VIGILAB behavioural monitoring system.

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 2016, the financial security department focused its efforts in particular on the following areas:

- the review of the relevance of alerts issued by the system and its improvement;
- steering with the development division the development of timeframes for handling alerts issued (implementation of control tools);
- training of all teams of the network to further improve the handling of alerts, internal declarations of suspicions and files of evidence;
- update of procedural process: update of regulatory customer file procedure in November 2016 and, in September 2016, of the AMLTF (anti-money laundering and terrorist financing) general procedure.

Information systems security

The information systems security officer proposes the security policy, implements it and adjusts it in conjunction with BPCE Group's information systems department. He makes sure that it is applied properly.

He helps to build and implement the 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.

Similarly, cyber-crime risk is monitored in cooperation with 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).

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 laws, regulations and Groupe BPCE's rules, and the 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 assent given by Groupe BPCE's Head of general inspection for the appointment and scrapping of the position of Banque Palatine's Head of internal 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 13 June 2016;
- provision of suitable standards, 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 and supplemented by the Bank's specific characteristics.

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 map 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 internal audit.

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 the standard recommendation issued by Groupe BPCE's general inspection division. 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 on:

- assignments performed by it in connection with the 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.

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 internal audit rapidly of any major incident that comes to their attention. They themselves are aware of the internal audit function's audit plan and receive all the reports issued by the internal audit division.

Work performed in 2016 and future plans

The 2016 audit plan was given the go-ahead by the Group general inspection division and presented to the Risk Committee on 3 December 2015. In accordance with this plan and including the key decisions made during the year, the following units were audited:

- 7 units in the auditable head office scope established by the Group general inspection function;
- the permanent control system of the Bank in the framework of the Group coordinated assignment;
- 25 commercial units in the commercial network;
- Palatine Asset Management (wholly-owned subsidiary of Banque Palatine);
- 12 essential outsourced services;
- 4 specific themes;
- 3 cases of fraud/code of conduct-related matters.

At the same time, the *Autorité de contrôle prudentiel et de résolution* (ACPR) reviewed the application of the SRAB law and the IGG undertook a general audit of the Bank.

After being given the go-ahead by the Chief Executive Officer and Head of Group general inspection, the 2017 audit plan was presented to the Risk Committee on 2 December 2016. It includes:

- 15 units in the auditable head office scope established by the Group general inspection;
- 23 units in the commercial network;
- Palatine Asset Management (subsidiary of Banque Palatine);
- Ariès Assurances (subsidiary of Banque Palatine);

- 1 essential outsourced service;
- 1 assignment covering the Bank's information system;
- 2 specific themes;
- 1 assignment 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.

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, two employees are primarily tasked with handling legal consultations;
- the main role of two employees 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 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;
- participate in cross-functional projects (TEG (*Taux Effectif Global*, or Global Tax Effect), Eckert law, consumer loans, mortgages, etc.).

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 four 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 procedures when there are changes in the legislative, regulatory or case law environment;
- alignment with the standards of document frameworks following these changes;
- publication of a monthly legal bulletin covering problems encountered by the Bank, jurisprudence of interest for the profession or new regulations.

Consultations

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

In conjunction with conducting its legal watch, major projects, telephone consultations and direct conversations with user services, the legal affairs service answered 1,800 questions in 2016.

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 is governed by 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.

2016 saw in particular reinforcement of the permanent control system with a complete makeover of its standards, which went from 60 to 128 controls in accordance with Groupe BPCE standards.

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 (Computer Emergency Response Team) operated by LEXSI which handles external surveillance of information leaks and hi-jacking of domain names.

Actions taken to mitigate risks

Since 2015, the Bank's risk map includes information services. This initial mapping includes 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 important events, for example cases of social engineering involving impersonation fraud.

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.

IT traces are centralised in a SIEM *(*Security Information and Event Management).

Primary area of work in 2017: mapping

In order to reduce its exposure to IT risks and in accordance with the Group's approach, the Head of information systems security will intensify the mapping of operational risks related to information system security to cover all its activities.

Emergency and business continuity plan – EBCP

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.

Following the publication of the Group's new Safety and Business Continuity Charter, including notably a change in the governance framework in relation to the duties of the Head of the security of goods and people and the Head of the emergency and business continuity plan (HEBCP - formerly HBCP), the Head of the emergency and business continuity plan now reports to the Head of resources and working conditions, who is a member of the Executive Management Committee.

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:

- CMP: the crisis management plan covering continuity of service and resumption of normal service;
- COMP: internal and external communication plans under which crisis communication tools are launched;
- HP/RP: hosting and re-population plans ensuring that backup sites are properly equipped and organised;
- RP: the IT recovery plan to get IT hardware started up again;
- ACP: 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 level 2 business continuity permanent controls campaign, organised by the Group Safety and Business Continuity Charter, is conducted by the HBCP and registered in the Group's PILCOP tool.

Highlights of the year and areas for improvement identified

In 2016, 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:

- the active participation of Banque Palatine's EBCP function in the national "Seine Flooding" exercise of 8 March 2016, with the Group Safety and Business Continuity Charter and the other Group institutions, demonstrating the operational nature of Banque Palatine's crisis management system. 28 people from the operational crisis unit participated actively in this exercise;
- the successful implementation of the BCP exercise "withdrawal of head office users", which took place on 5 April 2016, moving users and re-initiating their production activities on the IT equipment at the contingency sites of Noisy-le-Grand et Val de Fontenay (for the employees at the Anjou head office). On this occasion, three new activities were included in the exercise: the commitments division, the market risk management division and HR. 71 people took part, including 54 at the Noisy-le-Grand site;
- the development and implementation of a human resources framework in relation to the EBCP function. The purpose of this framework is two-fold: on the one hand, to support the system to manage the movements of the BCP correspondents and, on the other, to make it possible to manage scenario 3 regarding the unavailability of employees by integrating the key competences mapping implemented in 2015. The framework was rolled out in June 2016;
- roll-out of the alerts management tool (CRISISCARE);
- development, with the division of Human resources and working conditions, of the human impact management plan;
- continuation of the work to add new activities to the framework;
- review of the business line impact analyses (BIA) for 37 of the Bank's critical activities;
- launch of the crisis management plan six times. Incidents were of different kinds (local branch incidents, IT incidents, etc.). The BCP was triggered for one branch; employees were pulled out and the activities of the branch were continued at the back-up site.

Another BCP was triggered as a result of the bad weather in June 2016. A technical site of the company Orange was flooded, which led to a telecoms failure at the Val de Fontenay head office. This incident meant that voice and fax communication resources were unavailable. The telephone and fax lines were restored the next day. As a precautionary measure, the users of PRI middle-office activities and of Palatine Direct at Val de Fontenay were directed, for one day, to the back-up site of the Saint-Lazare branch.

The IT activity recovery plan exercise could not be conducted as planned. The Bank decided to entrust its IT operations to Groupe BPCE's BPCE-IT, a migration that took place over the last quarter. Conflicting dates between the two projects led to is deferral until 2017.

The action plan for 2017 also includes:

- improving the management of core competencies to ensure the continuity of their activities;
- pursuing the work to add new activities to the EBCP;
- continuing to improve monitoring of business continuity planning by external service providers in charge of mission-critical activities by conducting business continuity tests;
- conducting an IT recovery plan for indispensable infrastructures together with BPCE-IT, with recovery of activities of the Bank from the back-up site. This recovery plan will take place on Banque Palatine's new computer equipment and will involve end users;
- going ahead with an unavailable premises business continuity exercise with a transfer of users and the resumption of activity on the back-up site’s IT infrastructure, with user involvement;
- raising awareness of business continuity among new employees;
- deploying the EBCP tools of the Group's security and business continuity division that are being developed (Easylience Alert, Easylience Build and Easylience Report);
- deploying the Cyber EBCP of the Group's security and business continuity division developed in 2016.

Quality controls on accounting and financial information

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

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. On 1 October 2015, the tax accounting division was the subject of a reorganisation, the objective of which was to form homogeneous competence centres. It was progressively implemented in 2016. Since January 2016, the division is part of the accounting, legal and litigation division.

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 maintained by the central body, which ensures the internal consistency of the various scopes, charts of accounts, processes and analyses 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.

Banque Palatine will become compliant in 2017 within the time frame set by the Group.

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.

First-level controls

First-level controls relate to operational or functional services embedded in accounting treatment processes and essentially controlled by the Head of accounting.

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. Deployed in 2014, this tool hit its stride in 2015. A group of requests developed based on the tool's data allowed for better steering of the justification of accounts and measuring customer feedback in quantitative and qualitative terms.

Second-level controls

Second-level controls are organised and performed by a specialised and dedicated department within the Tax 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 general assignments:

- second-level control of the parent-company and consolidated financial statements;
- second-level control of the prudential and regulatory reports;
- organisation of the review framework.

On this last point, the review focuses primarily on:

- updating the mapping of accounting and financial information;
- development of the review plan;
- preparation and communication of summaries;
- implementation of recommendations issued.

Given the nature of its assignments, the review should seek to maintain an elevated level of competency and should in particular have a good understanding of accounting and regulatory statements, audit techniques and information systems, in order to facilitate the required investigations.

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.

The current reporting structure is being studied given the update to the Group Regulatory review chart approved during the 3CIG of 9 June 2016 approving in principle the reporting structure to the Risk and/or Compliance division and maintaining reporting to the Head of finances, subject to functional reporting to the Risk and/or Compliance division, and specifying that the reporting to the Accounting division was possible on an exceptional basis subject to approval by the central body.

Third-level controls

The top level, or third-level controls, cover:

- 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

To respond to certain ECB recommendations, Groupe BPCE created a risk management, compliance and permanent controls division (RCPCD) which encompasses the risk, compliance, security and review functions.

Within the RCPCD, financial review is attached to the Coordination of permanent controls division, which belongs to the four BPCE specialised divisions. It is still organised as a function and has, as in the past, its own body of standards and governance; its assignments remain unchanged within the function. Within the central body, it coordinates preparation of standards regarding the accounting and financial information control framework, organisation of the review function within the Group, the visit and testing of institutions having anomalies or a system to be perfected, steering and reporting allowing analysis of the production system and control of accounting and financial information including the rules defined in the Framework for controlling the quality of accounting and financial information.

The Head of financial review is a member of the Expanded Management Committee of the RCPCD.

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 of management control.

Within Banque Palatine, this 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 standards and systems for the Company

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 Chief Executive Officer, is responsible for distributing financial information, which is published and made available to financial analysts and institutional investors on Banque Palatine's website and in documents updated annually and filed, where necessary, 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.

Laurent Roubin

Chairman of the Board of Directors

Appendix

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

Remuneration policy and practice for the persons 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 remuneration 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 remuneration 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 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 remuneration 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 shareholders' 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.

In financial year 2016, and in accordance with Groupe BPCE standards, two criteria were added in order to take into account employees related to the French law on the Separation of banking activities and the Volcker law.

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 remuneration of the Head of human resources and working conditions 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, responsibilities 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 based on their fixed remuneration and evaluated by management.

B.6 Remuneration of the Chairman of the management board of Palatine Asset Management, a wholly-owned subsidiary of Banque Palatine

The remuneration of the Chairman of the management board is decided by the Supervisory Board 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, social protection to Heads of Company, defined benefits pension plan.

The criteria and amounts of the variable remuneration of the Chairman of the management board are approved by the Palatine Asset Management Remuneration Committee.

The variable remuneration is determined based on attainment of objectives set for earnings for Palatine Asset Management and qualitative objectives.

The amount of variable remuneration is annually capped at 100% of the fixed remuneration and at €100 thousand.

B.7 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.8 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 increases 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 Head of human resources and working conditions.

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.

This annual review 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

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.

C.3.2 Persons concerned

All Bank entities are included in the project to develop the performance management and variable remuneration systems.

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 human resources and working conditions, the Head of risk management, the Head of internal audit and the Head of compliance.

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

C.3.3 Number and nature of performance targets

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

■ Allocation of objectives by profile

		Entity portion			Individual portion		Team portion
Group profile		1 Target No outperformance					1 Target Outperformance 130%
Individual profile		1 Target No outperformance		Target No. 1 Outperformance 140%	Target No. 2 Outperformance 140%	Target No. 3 No outperformance	
Corporate finance	Target No. 1 Outperformance 120%	Target No. 2 Outperformance 120%	Target No. 3 Outperformance 120%		1 Target Outperformance 120%		
Group finance	Target No. 1 No outperformance	Target No. 2 No outperformance	Target No. 3 Outperformance		1 Target No outperformance		
Financing of senior executives	Target No. 1 Outperformance 130%	Target No. 2 Outperformance 130%	Target No. 3 Outperformance 130%		1 Target No outperformance		
Investment bankers		1 Target No outperformance		Target No. 1 Outperformance 130%	Target No. 2 Outperformance 130%	Target No. 3 Outperformance 130%	

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 of 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, team and individual level.

Each of the individual or multiple entity targets needs to be weighted respectively for the purposes of assessing individual performance.

This weighting, which is identical for all individual contributors, excluding specialist business lines, is as follows:

- 40% for individual target no. 1;
- 35% for individual target no. 2;
- 25% for the qualitative target.

With regard to the specialist business lines, the weighting is the following:

		Entity portion			Individual portion	
Corporate finance	Target No. 1 43%	Target No. 2 43%	Target No. 3 14%			
Group finance	Target No. 1 74%	Target No. 2 13%	Target No. 3 13%			
Financing of senior executives	Target No. 1 40%	Target No. 2 35%	Target No. 3 25%			
Investment bankers				Obj. n°1 40% of the indiv. portion	Obj. n°2 35% of the indiv. portion	Obj. n°3 25% of the indiv. portion

C.3.5 Evaluation of performance

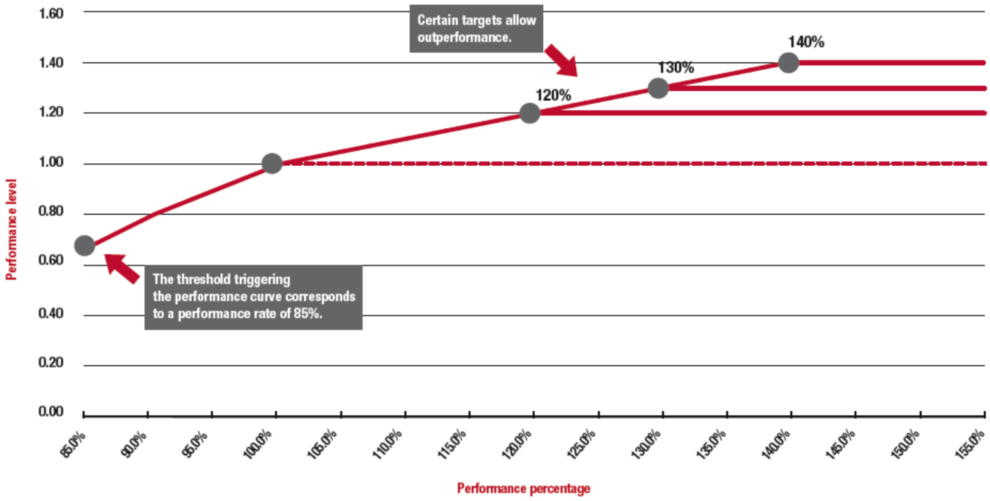
When each target is set, including the qualitative target, a scale of measurement must be defined to be able to objectively determine how far the original aim has been achieved at the year-end review.

Recognition of outperformance

As discussed in point C.3.3. above (see table), certain targets acknowledge outperformance beyond 100% attainment of the target.

Likewise, short of 100% attainment of the target, there is acknowledgement of partial attainment of the targets.

This partial attainment and outperformance are measured based on a performance curve:



The performance curve is based on the following three segments:

- between 85% and 89.99%: a decrease of 2.5% in the target performance rate (100%) by percentage of failure to hit the 100% attainment;
- between 90% and 99.99%: a decrease of 2% in the target performance rate (100%) by percentage of failure to hit the 100% attainment;
- above 100%: the attainment rate is equal to the rate of attainment of the target and is capped at the various possible rates of outperformance.

C.3.6 Performance management calendar

Performance management in a given year n, is 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 and amounts

In order to satisfy the terms of Article L. 511-77 paragraph 1 of the French Monetary and Financial Code, variable remuneration is composed of two parts, an "entity" portion and an "individual or team" portion, and the two parts are adjusted by the level of the Bank's performance.

The proportion of the two parts of the bonus may not be the same for all the functions: for the lines focusing on commercial activity, the individual portion is preponderant; for entity heads, the portion linked to the entity's income has greater weight.

Functions were grouped into 14 standardised contribution profiles, making it possible to define for each the amount and the breakdown of the on-target bonus:

			Composition of bonus			Level of bonus		
Contribution profiles	**Persons concerned**	**Bonus base**	**Indiv. portion**	**Entity portion**	**Team portion**	**On-target bonus**	**Bonus +**	**Maxi bonus**
Executive Officer	Officers who are members of the Bank's Executive Committee	Annual basic salary	50%	50%		21.7%	25.0%	27.5%
Head of division	Non-executives managing an operational or functional division	Annual basic salary	50%	50%		13.0%	15.0%	16.4%
Head of support activities	Heads of middle office, back office *or* support functions	Annual basic salary	66 %	33%		10.0%	12.0%	13.2%
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	Annual basic salary Amount	66%	33%		5.0% €1,500	6.0% €1,800	6.6% €1,980
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")	Annual basic salary	80%	20%		16.1%	20.0%	22.0%
Area manager	Branch managers in the network or similar roles	Amount	50%	50%		€12,200	€14,030	€15,433
Branch manager	Network branch and 'regulated real estate professions' managers	Amount	50%	50%		€8,700	€10,005	€11,006
Customer portfolio manager	Roles including CAE/DCE, CGP/CCP/RCP/DCP in the network, management of the private customer and commercial market, and "regulated real estate professions"	Amount	80%	20%		€5,800	€7,192	€7,911
Financing of senior executives	Senior executive financing employees of the private customers market department	Annual basic salary	30%	70%		30.0%	36.0%	40.0%
Investment bankers	Investment banker employees of the corporate market department	Annual basic salary	70%	30%		30.0%	36.0%	40.0%

Contribution profiles	Persons concerned	Bonus base	Composition of bonus: Indiv. portion	Composition of bonus: Entity portion	Composition of bonus: Team portion	Level of bonus: On-target bonus	Level of bonus: Bonus +	Level of bonus: Maxi bonus
Specialised finance line	Heads of division	Annual basic salary	25%	75%		50.0%	50.0%	50.0%
	Employees of the finance division, excluding commercial, ALM and treasury activities	Annual basic salary	25%	75%		100.0%	100.0%	100.0%
	Employees of the finance division, support, commercial, ALM and treasury activities	Annual basic salary	25%	75%		40.0%	40.0%	40.0%
Specialised ***corporate line***	head of division	Annual basic salary	40%	60%		82.0%	91.0%	100.0%
	Heads of departments and project heads (CORL & SYND) Heads of departments and project heads (CORF)	Annual basic salary	30%	70%		77.0% 46.0%	91.0% 54.0%	100.0% 60.0%
	LBO portfolio managers and syndication platform coordinators	Annual basic salary	30%	70%		40.0%	47.0%	52.0%
Financial operator	Middle/back office operators in the dealing room, analysts, special affairs advisors and managers of risk monitoring of commitments and middle office managers and middle office real estate assistants and regulated real estate professions	Amount		33%	66%	€1,500	€1,800	€1,980
Other contributors	All Banque Palatine employees whose job is not covered by any of the other profiles	Amount		33%	66%	€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.3.8 Bonus by contribution profile

The **"on-target bonus"** is paid when all the performance scores (individual/team, entity, bank) are 100% met.

The on-target bonus may be exceeded, either by outperformance on certain targets or by outperformance by the Bank.

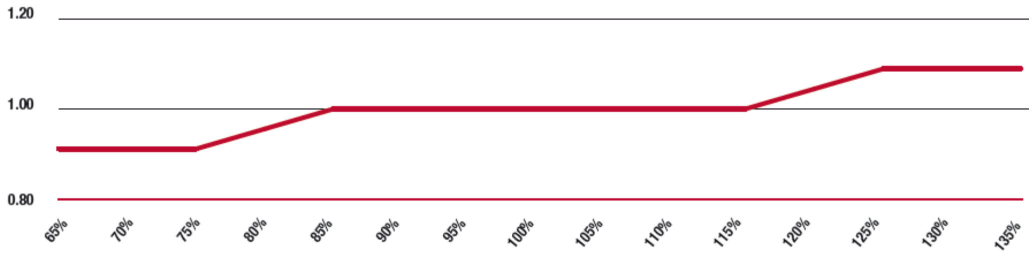
"Bonus +": is the amount of bonus in the event of maximum outperformance on certain targets and a 100% "entity" and Bank performance.

"Maxi bonus": is the amount of bonus in the event of maximum outperformance on certain targets, 100% "entity" performance and outperformance by the Bank.

C.3.9 Bank performance multiplier

As previously noted, 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 included in the budget. This ratio is then associated with a Bank performance rate, according to the following curve:



If the Bank's income is between 85% and 115%, the performance co-efficient is neutral.

For income that is between 75% and 85%, the performance coefficient is reduced by 0.1 point per percentage of the rate missed, but cannot surpass 0.9.

For income that is between 115% and 125%, the performance coefficient is increased by 0.1 point per percentage of the rate exceeded, but cannot surpass 1.10.

Dealing room market

In order to comply with Article 2 of the order of 9 September 2014 implementing the law of 26 July 2013: "the remuneration of persons in charge of these transactions is fixed in a manner consistent with the organisation's rules (...) and does not encourage taking risk without a link to their objectives", the dealing room does not have a bank co-efficient system, but has a penalty system that operates as follows:

- 5 % for e-learning missed (ethics, AML, fraud, Volcker, etc.);
- 10% for failure to comply with compliance rules, notified by the Head of compliance (AML, KYC, whistleblowing, PEIPCI, market relations, conflicts of interest);
- 10% per week of non-technical VaR breaches;
- 10% in the event of non-signature of a road map following reminder by the Head of Finance;
- 5% in the event of non-remediation of breach of the market risk limit following request by the Head of finance;
- 100% in the event of voluntary, serious, repeated or abnormal breaches of the risk limits detailed in the operator road map.

These penalty percentages are cumulative but limited to 100%, and apply to the individual total of the bonus calculated according to the various rates of performance targets.

C.3.10 Bonus calculation

Bonus = [entity portion + individual/team portion] x Bank performance rate

Or the entity portion = amount foreseen for an entity performance of 100% x entity performance rate

And the individual/team portion = amount foreseen for 100% performance x individual or team performance rate

C.3.11 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 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.5 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. An amendment signed in May 2016 reinforced the links with the Bank's strategic orientations by updating the fourth indicator.

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 corporate market captured during the year;
- the number of new private banking customers captured during the year;
- the overall customer satisfaction rate by market reflected in annual surveys.

Payment is conditional on the Bank's income 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 having received 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 has contributed up to €670, calculated as follows:

- for the first €150 of incentive bonuses invested, the employer contribution is 300%;
- above €150, the employer's contribution is 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 loss

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 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
Between 10.00% and 14.99%	20
Between 5.00% and 9.99%	15
Between 0.10% and 4.99%	10

2. Decision-making process

The Remuneration Committee has four members at 31 December 2016:

- The Chairman of the Board of Directors and Chairman of the Remuneration Committee;
- and three 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 2016, the Committee's members were as follows:

- Laurent Roubin .... chairman;
- Benoît Mercier.......... member of Committee;
- Bernard Niglio .... member of Committee;
- Marie Pic-Pâris Allavena .... member of Committee.

The Committee met three times in 2016.

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;
- allocation of Directors' fees;
- reviews the civil liability insurance policies taken out by Banque Palatine on behalf of its senior executives.

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

The Board of Directors 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 and general principles of the remuneration policy

In accordance with 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.

In 2016, and in accordance with Groupe BPCE standards, two criteria are added in order to take into account employees related to the French law on the Separation of banking activities and the Volcker law.

A Banque Palatine employee is deemed to be a regulated person if he/she meets at least one of the criteria.

Exclusions were applied under quantitative criterion c) of the aforementioned rule. Application of this criterion concerned a total of 51 employees whose jobs and/or responsibilities do not belong to the criteria of this report.

The identification of the regulated population was approved by the human resources division, the risk management division, and the compliance and permanent controls division during the MRT and related remuneration committee meeting of 31 January 2017.

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

In 2016, Banque Palatine's regulated persons were as follows:

Functions		Fixed remunerations	Variable remunerations
1.	Chief Executive Officer	A.1.1	A.1.1
2.	Executive Vice-Presidents*	A.1.2	A.1.2
3.	Chairman of the management board of Palatine Asset Management	B.6	B.6
4.	Directors*	A.2	A.2
5.	Head of human resources and working conditions	C.	B.4
6.	Head of compliance and permanent controls	B.5	B.5
7.	Head of audit	B.5	B.5
8.	Head of risk management	B.5	B.5
9.	Head of finance*	C.	C.3
10.	Head of corporate finance*	C.	C.3
11.	Head of international affairs	C.	C.3
12.	Head of legal affairs	C.	C.3
13.	Head of management control*	C.	C.3
14.	Head of banking production	C.	C.3
15.	Head of corporate market	C.	C.3
16.	Head of real estate	C.	C.3
17.	Head of lending	C.	C.3
18.	Head of non-performing loans	C.	C.3
19	Head of accounting and legal department	C.	C.3
20.	Head of private banking market	C.	C.3
21.	Head of banking services	C.	C.3
22.	Head of regulated real estate professions	C.	C.3
23.	Head of information systems	C.	C.3
24.	Regional director*	C.	C.3
25.	Deputy Head of risk management	C.	C.3
26.	Deputy Head of corporate market	C.	C.3
27.	Head of operational risk department	C.	C.3
28.	Head of customer and brokerage department	C.	C.3
29.	Head of engineering and trading department	C.	C.3
30.	Head of ALM and MLT investment department	C.	C.3
31.	Head of liabilities and ECM	C.	C.3
32.	Head of LMBO	C.	C.3
33.	Head of syndication department	C.	C.3
34.	Head of structured financing and distribution department	C.	C.3

Functions		Fixed remunerations	Variable remunerations
35.	Head of investment fund hedging department	C.	C.3
36.	Head of international finance department	C.	C.3
37.	Head of international trade department	C.	C.3
38.	Head of financial risk department	C.	C.3
39.	Head of banking management department	C.	C.3
40.	Head of large corporates department*****	C.	C.3
41.	Head of special affairs surveillance department	C.	C.3
42.	Head of remuneration and benefits department	C.	C.3
43.	Head of compliance and ethics department	C.	C.3
44.	Head of the permanent control management department	C.	C.3
45.	Head of risk management and measurement department	C.	C.3
46.	Head of loan department*****	C.	C.3
47.	Head of tax service	C.	C.3
48.	Head of research services*****	C.	C.3
49.	Head of euro and foreign currency service	C.	C.3
50.	Head of financial security service	C.	C.3
51.	Head of information systems security service*****	C.	C.3
52.	Head of international banking relationships service	C.	C.3
53.	Head of market risk and balance sheet management	C.	C.3
54.	Head of risk monitoring and control service	C.	C.3
55.	Head of monitoring service	C.	C.3
56.	Dealing room sales employee *****	C.	C.3
57.	Commercial operator	C.	C.3
58.	Market operators*****	C.	C.3
59.	ALM manager*****	C.	C.3

***** *Functions that were filled by more than one person during 2016.*

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

3.2 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 year n for their different regulated functions exercised in year n 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 condition 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.

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.

(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.

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.

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(1) 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 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 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.

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	3.0	11.0	0.0	5.2	1.0	36.7	13.0	6.0	76.0
Fixed remuneration	€700,000	€48,000	€0	€481,598	€167,623	€3,657,824	€1,038,146	€400,685	€6,493,876
Variable remuneration	€372,148	€0	€0	€112,717	€100,000	€1,283,881	€121,414	€364,780	€2,354,940
Total remuneration	€1,072,148	€48,000	€0	€594,315	€267,623	€4,941,705	€1,159,560	€765,465	€8,848,816

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	14.0	61.9	76.0
Total remuneration	€1,120,148	€7,728,668	€8,848,816
• of which fixed remuneration	€748,000	€5,745,876	€6,493,876
• of which variable remuneration	€372,148	€1,982,792	€2,354,940
• of which non-deferred	€266,472	€1,910,001	€2,176,473
• of which cash	€266,472	€1,910,001	€2,176,473
• of which shares and related instruments	€0	€0	€0
• of which other instruments	€0	€0	€0
• of which deferred	€105,676	€72,791	€178,467
• of which cash	€0	€72,791	€0
• of which shares and related instruments	€105,676	€0	€178,467
• of which other instruments	€0		€0
Total variable remuneration awarded for prior years and not yet vested	€114,589		114,589€
Amount of variable remuneration awarded for prior years and vested (after reduction)	€113,139		€113,139
• Amount of reductions	€0		€0
Termination benefits agreed	€0	€281,578	€281,578
Number of beneficiaries of termination benefits	0	3	3
Highest amount of termination benefits agreed	€0	€170,000	€170,000
Amounts paid for recruitment	€0	€0	€0
Number of beneficiaries of amounts paid for recruitment	0	0	0

In 2016, no Banque Palatine employee received total remuneration of more than €1 million.

5. Individual information

(a) Amounts due in respect of 2016: all remuneration due on a pro rata basis in respect of duties performed in 2016, regardless of the date of payment.

(b) Amounts paid in respect of 2016: all amounts actually paid and received in 2016 (due in 2015 and paid in 2016 + due in 2016 and paid in 2016) in respect of duties performed during the period.

	Amounts in respect of 2016	
Pierre-Yves Dréan	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	€290,000	€290,000
Variable remuneration	€211,352	€105,676
Directors’ fees	€17,000	€17,000
Housing allowance		€40,000
Benefits in kind		€19,317

		Amounts in respect of 2016
Bertrand Dubus	**Due[(a)]**	**Paid [(b)]**
Fixed remuneration	€205,000	€205,000
Variable remuneration	€94,546	€80,451
Profit-sharing and incentive plans		€14,095
Directors’ fees	€2,250	€2,250
Benefits in kind		€11,770

	Amounts in respect of 2016	
Thierry Zaragoza	**Due[(c)]**	**Due[(d)]**
Fixed remuneration	€205,000	€205,000
Variable remuneration	€94,546	€80,345
Profit-sharing and incentive plans		€14,201
Directors’ fees	€7,000	€7,000
Benefits in kind		€12,958

	Amounts in respect of 2016	
Henri Gallon	**Due**	**Paid**
Fixed remuneration	€96,000	€96,000
Variable remuneration		€14,400

	Amounts in respect of 2016	
Marc Philippe	**Due**	**Paid**
Fixed remuneration	€131,898	€131,898
Variable remuneration		€18,993
Benefits in kind		€3,501

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FINANCIAL STATEMENTS

1 Parent-company financial statements at 31 December 2016

1.1 Balance sheet and off-balance sheet

Assets

(in millions of euros)	Notes	31 Dec. 2016	31 Dec. 2015
Cash, central banks		325.6	607.3
Treasury bills and similar securities	3.3	1,223.3	770.1
Loans and advances due from credit institutions	3.1	4,145.4	6,468.1
Transactions with customers	3.2	8,144.5	7,900.9
Bonds and other fixed-income securities	3.3	866.9	934.5
Equities and other variable-income securities	3.3	2.6	2.1
Investments in subsidiaries and long-term equity investments	3.4	7.0	4.7
Investments in associates	3.4	9.3	9.3
Intangible assets	3.6	119.8	117.8
Property, plant and equipment	3.6	20.2	20.0
Other assets	3.8	209.9	209.2
Accrual accounts	3.9	195.7	204.2
TOTAL ASSETS		**15,270.0**	**17,248.3**

Off-balance sheet items

(in millions of euros)	Notes	31 Dec. 2016	31 Dec. 2015
Commitments given			
Financing commitments	4.1	1,876.9	1,705.3
Guarantee commitments	4.1	1,073.0	1,087.3
Commitments on securities		50.0	80.0

Liabilities

(in millions of euros)	Notes	31 Dec. 2016	31 Dec. 2015
Amounts due to credit institutions	3.1	2,687.4	3,952.0
Transactions with customers	3.2	8,992.2	9,929.5
Debt securities	3.7	2,250.7	1,944.3
Other liabilities	3.8	40.7	45.4
Accrual accounts	3.9	247.6	240.3
Provisions	3.10	60.7	64.0
Subordinated debt	3.11	165.7	270.8
Fund for general banking risks (FGBR)	3.12	1.3	1.3
Total equity (excl. FGBR)	3.13	823.6	800.8
Issued capital		538.8	538.8
Share premium		56.7	56.7
Retained earnings		44.6	42.1
Carried forward		132.9	112.4
Net income/(loss) for the year		50.6	50.7
TOTAL EQUITY AND LIABILITIES		**15,270.0**	**17,248.3**

Off-balance sheet items

(in millions of euros)	Notes	31 Dec. 2016	31 Dec. 2015
Commitments received			
Financing commitments	4.1	583.2	351.1
Guarantee commitments	4.1	279.0	301.4
Commitments on securities		0.6	1.2

1.2 Statement of income

(in millions of euros)	Notes	2016	2015
Interest and similar income	5.1	304.9	335.7
Interest and similar expenses	5.1	(100.4)	(126.0)
Income from variable-income securities	5.3	14.5	10.0
Fee and commission income	5.4	73.9	72.0
Fee and commission expenses	5.4	(6.8)	(5.8)
Net gains or losses on trading book transactions	5.5	11.4	12.3
Net gains or losses on available-for-sale securities and similar items	5.6	2.9	(2.4)
Other banking income	5.7	1.2	4.6
Other banking expenses	5.7	(1.7)	(2.6)
NET BANKING INCOME		**299.8**	**297.9**
Operating expenses	5.8	(180.0)	(173.8)
Depreciation, amortisation and impairment of property, plant & equipment and intangible assets		(10.8)	(10.9)
GROSS OPERATING INCOME		**108.9**	**113.2**
Cost of risk	5.9	(40.4)	(36.4)
OPERATING INCOME		**68.5**	**76.7**
Gains or losses on long-term investments	5.10	1.5	(0.3)
INCOME BEFORE TAX		**70.0**	**76.4**
Income taxes	5.12	(19.4)	(25.7)
NET INCOME		**50.6**	**50.7**

2 Notes to the parent-company annual financial statements

NOTE 1 General background

1.1 Groupe BPCE

Groupe BPCE[1] 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 15 Banque Populaire and the 17 Caisse 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 Caisse d'Epargne banks and the local savings companies (LSCs).

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

The capital of the Caisse d'Epargne banks 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 15 Banque Populaire and the 17 Caisse d'Epargne.

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

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 71.03%-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).

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.

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(1) The institution is included in the consolidated financial statements of Groupe BPCE. These financial statements are available at the head office of Groupe BPCE SA's central body as well as on BPCE's institutional internet site.

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 BPCE's affiliates, and to organise financial support within the Banque Populaire and Caisse d'Epargne networks.

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

BPCE manages the Banque Populaire Network Fund, the Caisse d'Epargne Network Fund and complementary Personal Protection plans 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 ten-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 ten-year term account renewable in perpetuity.

The **Mutual Guarantee Fund** was formed through deposits made by the Banque Populaire and the Caisse d'Epargne banks. These deposits were booked by BPCE in the form of ten-year term accounts renewable in perpetuity. The deposits by network amounted to €181.3 million at 31 December 2016, 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 Caisse d'Epargne banks, 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 Caisse de Crédit Maritime Mutuel banks 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 et de Prévoyance 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

There was no significant event in 2016.

1.4 Post-balance sheet events

No events liable to have a material effect on the 2016 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 2016. They were approved by the Board of Directors on 8 February 2017. They will be presented to the annual general meeting on 16 May 2017.

2.2 Changes in accounting methods

No change in accounting methods affected the financial statements in 2016.

The texts adopted by the ANC and the obligatory application in 2016 did not have any significant impact on the Company's individual financial statements.

The institution does not anticipate that the regulations adopted by the ANC will be applied when it is optional, unless otherwise specifically mentioned.

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.

The securities are classed in the following categories: investments in unconsolidated subsidiaries and shares in affiliates, other long-term equity investments, held-to-maturity securities, equity investments available for sale in the medium term, available-for-sale securities and trading securities.

The trading securities, available-for-sale securities, held-to-maturity securities, equity investments available for sale in the medium term and counterparts with incurred default risks the impacts of which can be separately identified are recognised in the form of impairments. 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 based on the nature of their underlying support: retail certificates of deposit, interbank and negotiable debt securities, bonds and other debt securities, other than subordinated notes, which are 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 No. 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 Caisse d'Épargne and Banque Populaire 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

The procedures for feeding the deposit guarantee and resolution fund were amended by an order of 27 October 2015. In 2016, the Prudential Control and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR), in its decision No. 2016-C-51 of 10 October 2016, ordered a method of calculation by stock of buildings for the deposit mechanism. For the deposit guarantee fund, the cumulative amount of contributions paid and available to the fund for deposit, guarantee and security mechanisms represents €3.4 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €9.8 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 €2.2 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 the resolution available to the resolution authority (Single Resolution Board). This system could call upon this fund as part of the implementation of resolution procedures.

In 2016, in compliance with the 2015/63 delegated regulation and implementing regulation 2015/81 supplementing the BRRD directive on *ex-ante* contributions to the systems for financing the resolution, the Single Resolution Board determined the contributions for 2016. The amount of contributions paid and available to the fund represents €3.5 million for the financial year including €3 million recognised as an expense and €0.5 million in the form of cash deposit guarantees that are recognised as assets in the balance sheet (15% in the form of cash deposit guarantees). The total contributions that are entered in the balance sheet assets amount to €1.1 million.

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. 2016**	**31 Dec. 2015**
Current accounts	*45.2*	*53.0*
Overnight loans	*1,306.1*	*2,272.0*
Demand accounts	**1,351.4**	**2,325.0**
Term accounts and loans	*2,773.1*	*4,120.4*
Subordinated and participating loans	*2.5*	*2.5*
Term accounts	**2,775.6**	**4,122.9**
Accrued interest	**18.4**	**20.3**
TOTAL	**4,145.4**	**6,468.1**

Receivables arising from transactions with the network break down into €1,306.1 million in demand accounts and €2,514.1 million in term accounts, against respectively €2,273.3 million and €3,869.3 million at 31 December 2015.

The funds collected for Livret A and LDD accounts and held centrally by Caisse des dépôts et consignations amounted to €253.1 million at 31 December 2016, up from €245.2 million at 31 December 2015.

Liabilities **(in millions of euros)**	**31 Dec. 2016**	**31 Dec. 2015**
Current accounts in credit	*175. 2*	*240.4*
Overnight deposits	*174.1*	*157.9*
Other amounts due	*15.2*	*14.9*
Accrued interest on demand accounts	*0.1*	*0.0*
Demand accounts	**364.5**	**413.1**
Term accounts and loans	*2,318.6*	*3,533.3*
Accrued interest payable on term loans	*4.3*	*5.5*
Term accounts	**2,322.9**	**3,538.9**
TOTAL	**2,687.4**	**3,952.0**

Payables arising from transactions with the network break down into €201.7 million in demand accounts and €2,120.2 million in term accounts against respectively €236.5 and €3,296 million at 31 December 2015.

3.2 Customer transactions

3.2.1 Customer transactions

Assets **(in millions of euros)**	**31 Dec. 2016**	**31 Dec. 2015**
Current accounts with overdrafts	**486.1**	**433.3**
Trade receivables	**188.1**	**172.2**
Export loans	*72.6*	*75.0*
Short-term and consumer credit facilities	*1,299.3*	*1,383.6*
Equipment loans	*1,777.5*	*1,746.7*
Home loans	*1,872.6*	*1,785.8*
Other customer loans	*2,067.5*	*1,920.2*
Subordinated loans	*3.4*	*4.7*
Other	*77.5*	*37.5*
Other facilities granted to customers	**7,170.1**	**6,953.5**
Accrued interest	**20.1**	**19.6**
Doubtful loans and advances(*)	**571.6**	**592.2**
Impairment of loans and advances to customers	**(291.5)**	**(269.9)**
TOTAL	**8,144.5**	**7,900.9**
(*) o/w restructured loans	*66.2*	*142.2*
o/w restructured loans reclassified as performing	*0.0*	*0.0*

Loans and advances to customers eligible for central bank refinancing where the bank is established amounted to €340.4 million.

Liabilities **(in millions of euros)**	**31 Dec. 2016**	**31 Dec. 2015**
Regulated savings accounts	995.4	1,015.5
Livret A savings accounts	*175.4*	*177.3*
PEL / CEL	*263.8*	*276.7*
Other regulated savings accounts	*556.2*	*561.5*
Other accounts and loans from customers(1)	7,991.2	8,892.1
Other amounts due	3.3	15.4
Accrued interest	2.3	6.5
TOTAL	**8,992.2**	**9,929.5**

(1) Breakdown of accounts and loans from customers.

	31 Dec. 2016			**31 Dec. 2015**		
(in millions of euros)	**Demand**	**Term**	**Total**	**Demand**	**Term**	**Total**
Current accounts in credit	6,896.6		6,896.6	7,758.9		7,758.9
Other accounts and loans		1,094.6	1,094.6		1,133.2	1,133.2
TOTAL	**6,896.6**	**1,094.6**	**7,991.2**	**7,758.9**	**1,133.2**	**8,892.1**

3.2.2 Breakdown of outstanding loans by sector

(in millions of euros)	Performing loans and advances	Doubtful loans and advances		o/w Irrecoverable doubtful loans and advances	
	Gross	Gross	Specific impairment	Gross	Specific impairment
Non-financial companies	6,493.2	471.9	240.6	255.5	181.0
Self-employed customers	9.0	0.7	0.3	0.4	0.3
Individual customers	1,140.0	82.9	42.2	44.9	31.8
Non-profit institutions	38.7	2.8	1.4	1.5	1.1
Government and social security institutions	1.4	0.1	0.0	0.1	0.0
Other	182.1	13.2	6.7	7.2	5.1
TOTAL AT 31 DECEMBER 2016	**7,864.3**	**571.6**	**291.4**	**309.4**	**219.2**
TOTAL AT 31 DECEMBER 2015	**7,578.6**	**592.2**	**269.9**	**304.2**	**202.5**

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

3.3.1 Securities portfolio

(in millions of euros)	31 Dec. 2016			31 Dec. 2015		
	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Gross	1,922.2	10.0	1,202.1	745.0	9.9	754.9
Accrued interest	20.9	0.3	21.1	14.9	0.3	15.2
Impairment	0.0			(0.0)		
Treasury bills and similar securities	**1,213.1**	**10.2**	**1,223.3**	**759.9**	**10.1**	**770.0**
Gross	379.7	482.2	861.9	424.5	502.7	927.2
Accrued interest	6.8	6.4	13.2	7.6	7.1	14.7
Impairment	(7.0)	(1.3)	(8.2)	(7.3)	0.0	(7.3)
Bonds and other fixed-income securities	**379.7**	**487.4**	**866.9**	**424.7**	**509.8**	**934.5**
Gross amounts	2.6		2.6	2.1		2.1
Accrued interest						
Impairment	0.0		0.0	0.0		0.0
Equities and other variable-income securities	**2.6**		**2.6**	**2.1**		**2.1**
TOTAL	**1,595.2**	**497.6**	**2,092.8**	**1,186.7**	**520.0**	**1,706.6**

The market value of held-to-maturity securities stood at €501.2 million.

The change in treasury bills and related securities is explained mainly by the acquisition of sovereign securities acquired for €457 million.

■ **Treasury bills, bonds and other fixed-income securities**

	31 Dec. 2016			31 Dec. 2015		
(in millions of euros)	**Available-for-sale securities**	**Held-to-maturity securities**	**Total**	**Available-for-sale securities**	**Held-to-maturity securities**	**Total**
Listed securities	1,192.2	10.0	1,202.2	745.0	9.9	754.9
Accrued interest	20.9	0.2	21.1	14.9	0.3	15.2
TOTAL	**1,213.1**	**10.2**	**1,223.3**	**759.9**	**10.1**	**770.1**
o/w subordinated notes	*5.0*		*5.0*	*5.0*		*5.0*

Unrealised capital gains on available-for-sale securities after deduction of hedging (mostly swapped assets) total €9.8 million at 31 December 2016 compared to €3 million at 31 December 2015.

Unrealised capital losses subject to an impairment provision on available-for-sale securities amounted to €7 million at 31 December 2016, compared with €7.4 million at 31 December 2015.

Unrealised capital gains on held-to-maturity securities amounted to €12.3 million at 31 December 2016. Unrealised capital gains on held-to-maturity securities amounted to €8 million at 31 December 2015.

Unrealised capital losses on held-to-maturity securities came to €0.9 million at 31 December 2016, stable compared with the €5.3 million recorded at 31 December 2015.

The portion of bonds and other fixed-income securities issued by public bodies amounted to €1,202.2 million at 31 December 2016.

■ **Equities and other variable-income securities**

	31 Dec. 2016	31 Dec. 2015
in millions of euros	**Available-for-sale securities**	**Available-for-sale securities**
Listed securities	2.6	2.1
TOTAL	**2.6**	**2.1**

Among the shares and other variable-income securities are included €2.6 million in UCITS of which €2.6 million were monetary UCITS at 31 December 2016 (against €2.1 million monetary UCITS at 31 December 2015).

3.3.2 Changes in held-to-maturity securities

(in millions of euros)	**01 Jan. 2016**	**Purchases**	**Sales**	**Redemptions**	**Discount/ premium**	**Other changes**	**31 Dec. 2016**
Treasury bills	10.1	0.0	0.0	0.0	0.1	0.0	10.2
Bonds and other fixed-income securities	509.8	39.8	(7.5)	(52.3)	(0.4)	(3.3)	486.2
TOTAL	**520.0**	**39.8**	**(7.5)**	**(52.3)**	**(0.3)**	**(3.3)**	**496.4**

3.3.3 Reclassifications of assets

Reclassification owing to market illiquidity (CRC No. 2008-17 replaced by ANC regulation No. 2014-07 [ANC])

Pursuant to the provisions of the aforementioned regulation relating to the transfers of securities excluding the "Trading securities" category and excluding the "Available-for-sale securities" category, Banque Palatine carried out an asset reclassification in October 2008.

Type of reclassification (in millions of euros)	**Reclassified amount remaining at the end of FY 2015**	**Securities that matured during FY 2016**	**Reclassified amount remaining at the end of FY 2016**	**Unrealised capital gains and losses that would have been recognised without the reclassify-cations**	**Unrealised capital loss that would have been provided for without the reclassify-cations**	**Gains and losses during the period on the reclassified securities**
From available-for-sale securities to held-to-maturity securities	0.0	0.0	0.0	0.0	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. 2015**	**Increase**	**Decrease**	**31 Dec. 2016**
Investments in subsidiaries and long-term equity investments	*4.7*	*2.3*		*7.0*
Investments in associates	*10.8*			*10.8*
Gross	**15.5**	**2.3**		**17.8**
Investments in associates	*(1.5)*	*0.0*		*(1.5)*
Impairment	**(1.5)**	**0.0**		**(1.5)**
TOTAL	**14.0**	**2.3**		**16.3**

Other long-term equity investments particularly include associate or association certificates with guarantee deposits (€2.3 million).

3.4.2 Subsidiaries and investments

The amounts shown are stated in millions of euros.

Subsidiaries and investments	Share capital at 31 Dec. 2016	Equity other than share capital incl. fund for general banking risks, as appropriate at 31 Dec. 2016	% interest held at 31 Dec. 2016	Carrying amount of shares held at 31 Dec. 2016	
				Gross	Net
A. DETAILED INFORMATION CONCERNING EACH SECURITY WITH A GROSS VALUE EXCEEDING 1% OF THE SHARE CAPITAL OF THE COMPANY REQUIRED TO PUBLISH THEM					
Subsidiaries (over 50%-owned)					
PALATINE ASSET MANAGEMENT SA 42, rue d'Anjou – 75008 PARIS	1.9	18.3	100%	5.8	5.8
B. GENERAL INFORMATION CONCERNING OTHER INSTRUMENTS WITH A GROSS VALUE THAT DOES NOT EXCEED 1% OF THE SHARE CAPITAL OF THE COMPANY REQUIRED TO PUBLISH THEM					
French subsidiaries (together)				5.0	3.5
Investments in French companies				4.8	4.8

Subsidiaries and investments	Loans and advances granted by the parent-company and not yet redeemed (incl. perpetual subordinated notes) in 2016	Guarantees and endorsements given by the parent-company in 2016	Net revenue before tax for the year to 31 Dec. 2016	Net income for the year to 31 Dec. 2016	Dividends received by the parent-company in 2016	Obser-vations
A. DETAILED INFORMATION CONCERNING EACH SECURITY WITH A GROSS VALUE EXCEEDING 1% OF THE SHARE CAPITAL OF THE COMPANY REQUIRED TO PUBLISH THEM						
Subsidiaries (over 50%-owned)						
PALATINE ASSET MANAGEMENT SA 42, rue d'Anjou – 75008 PARIS	0.0	0.0	36.6	11.6	12.6	0.0
B. GENERAL INFORMATION CONCERNING OTHER INSTRUMENTS WITH A GROSS VALUE THAT DOES NOT EXCEED 1% OF THE SHARE CAPITAL OF THE COMPANY REQUIRED TO PUBLISH THEM						
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

Corporate name	Head office	Legal form
Domaine du Grand Duc	20, avenue André Prothin – 92060 PARIS LA DEFENSE	SNC – partnership
GIE Tadorne Aviation	88, avenue de France – 75013 PARIS	Economic Interest Grouping
GIE Caisse d'Epargne Syndication Risque	50, avenue Pierre Mendès France – 75013 PARIS	Economic Interest Grouping
BPCE Services Financiers	50, avenue Pierre Mendès France – 75013 PARIS	Economic Interest Grouping
IT-CE	50, avenue Pierre Mendès France – 75013 PARIS	Economic Interest Grouping
BPCE Achats	12/20, rue Fernand Braudel – 75013 PARIS	Economic Interest Grouping
GIE GDS	42, rue d'Anjou – 75008 PARIS	Economic Interest Grouping
GIE GDS 24	42, rue d'Anjou – 75008 PARIS	Economic Interest Grouping

3.4.4 Related-party transactions

	31 Dec. 2016			31 Dec. 2015
(in millions of euros)	**Credit institutions**	**Other businesses**	**Total**	**Total**
Receivables	**0.8**	**0.0**	**0.8**	**1.0**
Liabilities	**0.3**	**0.2**	**0.5**	**0.7**
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. 2015**	**Increase**	**Decrease**	**Other movements**	**31 Dec. 2016**
Leasehold rights and commercial goodwill	106.6	0.0	0.0	0.0	106.6
Software	30.7	5.5	(1.7)	0.0	34.5
Other	2.4	0.0	0.0	1.9	4.3
Gross	**139.6**	**5.5**	**(1.7)**	**1.9**	**145.4**
Leasehold rights and commercial goodwill	1.1	0.0	0.0		1.1
Software	20.6	5.5	(1.7)	0.0	24.5
Depreciation and impairment	**21.8**	**5.5**	**(1.7)**	**0.0**	**25.6**
TOTAL NET VALUE	**117.9**	**0.0**	**0.0**	**1.9**	**119.8**

3.6.2 Property, plant and equipment

(in millions of euros)	**31 Dec. 2015**	**Increase**	**Decrease**	**Other movements**	**31 Dec. 2016**
Land	20.5	0.7			21.2
Other	43.8	2.3	(1.0)	2.1	47.2
Property, plant & equipment used in operations	**64.3**	**3.0**	**(1.0)**	**2.1**	**68.5**
Property, plant & equipment not used in operations	***0.1***	***0.4***	***0.0***		***0.4***
Gross	**64.4**	**3.4**	**(1.0)**	**2.1**	**68.9**
Land	14.4	1.0			15.4
Other	29.9	4.3	(1.0)		33.2
Property, plant & equipment used in operations	**44.3**	**5.3**	**(1.0)**		**48.6**
Property, plant & equipment not used in operations	**0.1**	**0.0**	**0.0**		**0.1**
Depreciation and impairment	**44.4**	**5.3**	**(1.0)**	**0.0**	**48.7**
TOTAL NET VALUE	**20.0**	**(1.9)**	**0.0**	**2.1**	**20.2**

3.7 Debt securities

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Certificates of deposit and savings bonds	0.2	0.2
Interbank market instruments and money market instruments	2,134.7	1,869.8
Other debt securities	115.0	72.6
Accrued interest	0.8	1.6
TOTAL	**2,250.7**	**1,944.3**

3.8 Other assets and other liabilities

	31 Dec. 2016		31 Dec. 2015	
(in millions of euros)	Assets	Liabilities	Assets	Liabilities
Tax and social security receivables and liabilities	0.3	11.9	0.2	18.6
Security deposits paid and received	186.9	12.6	184.7	7.8
Other non-trade receivables, other accounts payable	22.7	16.3	24.3	18.9
TOTAL	**209.9**	**40.7**	**209.2**	**45.4**

Guarantee deposits paid reflect the €183.5 million in cash collateral paid at 31 December 2016, compared to €176.5 million at the end of 2015.

Guarantee deposits received reflect the €12.3 million in cash collateral collected at 31 December 2016.

3.9 Accrual accounts

	31 Dec. 2016		31 Dec. 2015	
(in millions of euros)	Assets	Liabilities	Assets	Liabilities
Foreign exchange commitments	96.3	88.6	81.0	74.5
Deferred gains and losses on forwards, futures and options used for hedging purposes	0.1	9.6	0.1	6.0
Prepaid expenses and unearned income	3.9	2.5	2.3	2.5
Accrued income/expenses(1)	21.8	68.0	18.0	61.4
Items in process of collection	28.7	40.1	51.1	67.2
Other(2)	44.9	38.7	51.8	28.7
TOTAL	**195.7**	**247.6**	**204.2**	**240.3**

(1) Accrued expenses at 31 December 2016 included €21.3 million in payroll costs (paid leave, reduction in working hour allocations, social contributions, etc.), €31.2 million in accrued interest on financial instruments (interest-rate swaps, caps, floors), compared to, respectively, €20.1 million and €29.9 million at the end of 2015.

(2) The item "Other" mainly recognises the maturities of syndicated loans awaiting appropriation of the funds received from partners.

3.10 Provisions

3.10.1 Changes in provisions

(in millions of euros)	31 Dec. 2015	Charges	Reversals	Uses	Other movements	31 Dec. 2016
Provisions for counterparty risk	**27.7**	**6.5**	**(7.5)**	**0.0**		**26.7**
Provisions for employee benefit obligations	**19.9**	**0.1**	**(0.2)**			**19.8**
Provisions for PEL/CEL regulated accounts	**3.8**		**(0.5)**			**3.3**
Securities portfolio and forwards, futures and options	*1.7*	*0.7*				*2.4*
Provisions for taxes	*0.3*					*0.3*
Litigation	*2.4*	*0.9*	*(0.4)*	*(2.0)*	*2.2*	*3.1*
Provisions for contingencies	*4.5*		*(0.2)*	*0.0*	*(2.2)*	*2.0*
Other	*3.6*	*0.4*	*(0.6)*	*(0.4)*		*3.0*
Other provisions for contingencies	**12.5**	**1.9**	**(1.2)**	**(2.4)**	**0.0**	**(10.9)**
TOTAL	**64.0**	**8.8**	**(9.1)**	**(0.4)**	**4.4**	**60.7**

3.10.2 Provisions and impairment for counterparty risks

(in millions of euros)	31 Dec. 2015	Charges	Reversals	Uses	Translation and other movements	31 Dec. 2016
Impairment of loans and advances to customers(1)	260.3	91.2	(49.7)	(22.1)	1.5	281.2
Impairment of other loans and advances	2.9	1.3	0.0	0.0	0.0	4.2
Impairment of assets	**263.2**	**92.5**	**(49.7)**	**(22.1)**	**1.5**	**285.4**
Provisions for off-balance sheet commitments(2)	11.6	6.5	(5.6)	0.0	1.2	13.7
Provisions for customer counterparty risk(3)	14.9	0.0	(1.9)	0.0	0.0	13.0
Provisions for counterparty risk recognised as liabilities	**26.5**	**6.5**	**(7.5)**	**0.0**	**1.2**	**26.7**
TOTAL	**289.7**	**99.0**	**(57.2)**	**(22.1)**	**2.7**	**312.1**

(1) The €1.5 million amount includes a reclassification of interest provisions to capital provisions resulting from the capitalisation of interest due.

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

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

3.10.3 Provisions for employee benefit obligations

Post-employment benefits related to defined-contribution plans

Defined-contribution plans refer to mandatory social security pension schemes as well as those managed by the AGIRC and ARRCO pension funds and the supplementary pension schemes to which the Caisses d'Epargne and the Banque Populaire banks belong. Banque Palatine's obligations under these schemes are confined to the payment of contributions (€11.7 million in 2016).

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;
- 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

	2016				2015			
	Post-employment benefits under defined-benefit plans		Other long-term benefits		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	Total	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total
Actuarial liabilities	0.6	14.5	2.5	17.6	0.6	14.7	2.7	18.0
Unrecognised actuarial gains/(losses)	0.1	(2.5)		(2.4)	0.1	(2.8)		(2.6)
NET AMOUNT REPORTED ON THE BALANCE SHEET	**0.7**	**12.0**	**2.5**	**15.2**	**0.7**	**11.9**	**2.7**	**15.3**
Employee benefits, liabilities	0.7	12.0	2.5	15.2	0.7	11.9	2.7	15.3

■ Analysis of the expense for the period

	Post-employment benefits under defined-benefit plans		Other long-term benefits	2016	2015
(in millions of euros)	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Total
Service cost	(0.1)	(0.9)	(0.2)	(1.2)	(1.1)
Interest cost	0.0	0.0	0.0	0.0	(0.2)
Benefits paid	0.1	1.0	0.2	1.3	1.5
Actuarial gains and losses	0.0	(0.1)	0.1	0.0	(0.1)
TOTAL EXPENSE FOR THE PERIOD	**0.0**	**0.0**	**0.1**	**0.0**	**0.1**

■ Main actuarial assumptions

	2016			2015		
	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	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%
Inflation/wage growth rate	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%
Wage growth rate	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%

The 1.41% rate corresponds to that taken from the composite AA Bloomberg EUR curve for 10-year zero-coupon issues.

The life tables used are those established 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. 2016	31 Dec. 2015
Deposits held in PEL regulated home savings plans		
• plans in place for less than 4 years	97.5	97.9
• plans in place for more than 4, but less than 10 years	29.0	38.6
• plans in place for more than 10 years	123.0	126.7
Deposits held in PEL regulated home savings plans	**249.5**	**263.1**
Deposits held in CEL regulated home savings accounts	**18.2**	**18.7**
TOTAL	**267.7**	**281.8**

Loans granted

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Loans granted		
• in respect of PEL regulated home savings plans	0.1	0.1
• in respect of CEL regulated home savings accounts	0.2	0.3
TOTAL	**0.3**	**0.4**

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

in millions of euros	31 Dec. 2015	Net charges/ reversals	31 Dec. 2016
Provisions for PEL regulated home savings plans			
• plans in place for less than 4 years	1.0	(0.1)	0.9
• plans in place for more than 4, but less than 10 years	0.2	(0.1)	0.1
• plans in place for more than 10 years	2.4	(0.2)	2.2
Provisions set aside in respect of PEL regulated home savings plans	**3.6**	**(0.4)**	**3.2**
Provisions set aside in respect of CEL regulated home savings accounts	**0.2**	**(0.1)**	**0.1**
TOTAL	**3.8**	**(0.5)**	**3.3**

3.11 Subordinated debt

in millions of euros	31 Dec. 2016	31 Dec. 2015
Term subordinated debt	165.0	190.0
Perpetual subordinated debt	0.0	80.0
Accrued interest	0.7	0.8
TOTAL	**165.7**	**270.8**

These borrowings have the following characteristics:

Currency	Issue date	Outstandings at 31 Dec. 2016 in millions of euros	Issue price in millions of euros	Rate	Interest step-up in basis points[(1)]	Date of call or interest step-up	Mandatory payment	Maturity date if not determined
EUR	29 June 2005	15.0	15.0	3.90%			yes	18 Feb. 2017
EUR	7 Dec. 2015	150.0	150.0	3-month Euribor + 2.29%			yes	8 Dec. 2025
TOTAL	**165.0**	**165.0**						

(1) Above 3-month Euribor.

3.12 Fund for general banking risks

(in millions of euros)	31 Dec. 2015	31 Dec. 2016

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 shareholders' equity excl. FRBG
Total at 31 December 2014	**538.8**	**56.7**	**39.4**	**101.2**	**53.5**	**789.7**
Movements in the year	0.0	0.0	2.7	11.2	(2.8)	11.1
Total at 31 December 2015	**538.8**	**56.7**	**42.1**	**112.4**	**50.8**	**800.8**
Appropriation of 2015 income			2.5	20.5	(23.0)	0.0
Dividend payments					(27.7)	(27.7)
Net income for the period					50.7	50.7
TOTAL AT 31 DECEMBER 2016	**538.8**	**56.7**	**44.6**	**132.9**	**50.6**	**823.6**

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. 2016						
(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	0.0	36.1	182.9	1,004.3			1,223.3
Loans and advances due from credit institutions	1,661.9	126.4	312.5	1,838.3	206.3		4,145.4
Transactions with customers	1,149.3	462.0	798.8	3,139.7	2,314.7	280.0	8,144.5
Bonds and other fixed-income securities	44.3	88.5	147.5	447.0	139.6		866.9
Total uses of funds	**2,855.5**	**712.9**	**1,441.8**	**6,429.3**	**2,660.6**	**280.0**	**14,380.1**
Amounts due to credit institutions	466.0	242.5	211.7	1,717.2	50.0		2,687.4
Transactions with customers	7,891.5	231.5	518.5	350.6	0.2		8,992.2
Debt securities	220.9	742.0	1,180.4	2.9	104.4		2,250.6
Subordinated debt	0.7	15.0	0.0	0.0	150.0	0.0	165.7
Total sources of funds	**8,579.2**	**1,230.9**	**1,910.6**	**2.070.7**	**304.5**	**0.0**	**14,096.0**

NOTE 4 Information on off-balance sheet items and similar transactions

4.1 Commitments given and received

4.1.1 Financing commitments

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Financing commitments given		
Documentary credits	*121.3*	*118.9*
Other confirmed credit lines	*1,680.4*	*1,531.9*
Other commitments	*75.2*	*54.5*
To customers	**1,876.9**	**1,705.3**
TOTAL FINANCING COMMITMENTS GIVEN	**1,876.9**	**1,705.3**
Financing commitments received from credit institutions	**583.2**	**351.1**
TOTAL FINANCING COMMITMENTS RECEIVED	**583.2**	**351.1**

4.1.2 Guarantee commitments

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Guarantee commitments given		
Confirmed documentary credit lines	41.4	67.5
Other guarantees	7.5	7.5
To credit institutions	**48.9**	**75.1**
Real estate guarantees	129.1	119.2
Government and tax guarantees	81.0	81.3
Other guarantees given	813.9	811.7
To customers	**1,024.1**	**1,012.2**
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,073.0**	**1,087.3**
Guarantee commitments received from credit institutions	279.0	301.4
TOTAL GUARANTEE COMMITMENTS RECEIVED	**279.0**	**301.4**

4.1.3 Other commitments not recognised off-balance sheet

	31 Dec. 2016		31 Dec. 2015	
(in millions of euros)	Commitments given	Commitments received	Commitments given	Commitments received
Other securities pledged as collateral to credit institutions	340.4		351.1	
Other securities pledged as collateral received from customers		4,626.7		4,744.8
TOTAL	**340.4**	**4,626.7**	**351.1**	**4,744.8**

At 31 December 2016, amounts pledged as collateral under funding arrangements only concerned securities, no receivable was provided to Banque de France under the TRICP system for €340.4 million, compared to €351.1 million at 31 December 2015.

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

	31 Dec. 2016		31 Dec. 2015	
(in millions of euros)	**Hedge**	**Fair value**	**Hedge**	**Fair value**
Futures and forwards				
Interest rate contracts	*3.6*		*4.0*	
Currency contracts	*0.3*	*0.0*	*9.1*	*0.0*
Transactions in organised markets	**3.9**	**0.0**	**13.1**	**0.0**
Interest rate swaps	*2,752.4*	*7.3*	*2,675.8*	*7.0*
Currency swaps	*6,730.0*	*0.0*	*6,135.6*	*0.0*
Other forward and futures	*69.3*	*0.0*	*71.5*	*0.0*
Over-the-counter transactions	**9,551.7**	**7.3**	**8,882.9**	**7.0**
TOTAL FORWARDS AND FUTURES	**9,555.6**	**7.3**	**8,895.9**	**7.0**
Options				
Other options	*671.3*	*1.9*	*352.1*	*0.5*
Transactions in organised markets	**671.3**	**1.9**	**352.1**	**0.5**
Interest rate options	*3,756.9*	*1.9*	*2,885.2*	*1.2*
Currency options	*978.6*	*0.0*	*1,781.5*	*0.0*
Over-the-counter transactions	**4,735.5**	**1.9**	**4,666.7**	**1.2**
Total options	**5,406.8**	**3.9**	**5,018.8**	**1.7**
TOTAL FINANCIAL INSTRUMENTS AND CURRENCY FUTURES AND OPTIONS	**14,962.4**	**11.2**	**13,914.8**	**8.7**

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

	31 Dec. 2016			31 Dec. 2015		
(in millions of euros)	**Micro-hedge**	**Macro-hedge**	**Total**	**Micro-hedge**	**Macro-hedge**	**Total**
Interest rate swaps	*5,937.7*	*763.3*	*6,701.0*	*5,633.2*	*890.4*	*6,523.6*
Currency swaps	*2,785.3*		*2,785.3*	*2,300.9*		*2,300.9*
Other interest rate forwards	*69.3*		*69.3*	*71.5*		*71.5*
Futures and forwards	**8,792.3**	**763.3**	**9,555.6**	**8,005.5**	**890.4**	**8,895.9**
Interest rate options	*5,406.8*		*5,406.8*	*5,018.8*		*5,018.8*
Options	**5,406.8**	**0.0**	**5,406.8**	**5,018.8**	**0.0**	**5,018.8**
TOTAL	**14,199.1**	**763.3**	**14,962.4**	**13,024.4**	**890.4**	**13,914.8**

No transactions were transferred to another portfolio during the period.

	31 Dec. 2016			31 Dec. 2015		
(in millions of euros)	**Micro-hedge**	**Macro-hedge**	**Total**	**Micro-hedge**	**Macro-hedge**	**Total**
Fair value	18.1	0.0	18.1	14.6	0.0	14.6

4.2.3 Commitments on forwards, futures and options by maturity

	31 Dec. 2016			
(in millions of euros)	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Transactions in organised markets	*3.9*	*0.0*	*0.0*	*3.9*
Over-the-counter transactions	*4,062.0*	*3,880.5*	*1,609.2*	*9,551.7*
Futures and forwards	**4,065.9**	**3,880.5**	**1,609.2**	**9,555.6**
Over-the-counter transactions	*1,912.2*	*3,321.5*	*173.1*	*5,406.8*
Options	**1,912.2**	**3,321.5**	**173.1**	**5,406.8**
TOTAL	**5,978.2**	**7,202.1**	**1,782.3**	**14,962.5**

4.3 Breakdown of assets and liabilities by currency

	31 Dec. 2016		31 Dec. 2015	
(in millions of euros)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Euro	14,865.2	14,873.5	16,816.5	16,835.1
Dollar	340.7	302.1	399.8	379.4
Pound sterling	52.5	58.6	18.8	20.7
Swiss franc	2.8	1.8	3.6	3.9
Yen	0.0	0.0	1.8	0.8
Other	8.8	34.0	7.8	8.5
TOTAL	**15,270.0**	**15,270.0**	**17,248.3**	**17,248.3**

4.4 Foreign currency transactions

(in millions of euros)	**31 Dec. 2016**	**31 Dec. 2015**
Spot foreign exchange transactions		
Currencies receivable not received	78.8	8.8
Currencies deliverable not delivered	78.6	8.8
TOTAL	**157.4**	**17.5**

NOTE 5 Information on the income statement

5.1 Interest and similar income and expense

	2016			2015		
in millions of euros	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Transactions with credit institutions	41.0	(23.5)	17.5	57.1	(25.9)	31.2
Transactions with customers	188.6	(27.6)	161.1	199.9	(52.0)	147.9
Bonds and other fixed-income securities	59.2	(43.9)	15.3	61.6	(45.8)	15.8
Subordinated debt		(4.9)	(4.9)		(1.7)	(1.7)
Other	16.0	(0.6)	15.5	17.1	(0.7)	16.4
TOTAL	**304.9**	**(100.4)**	**204.5**	**335.7**	**(126.0)**	**209.7**

Interest income from transactions with credit institutions include income from the Livret A, LDD and LEP passbook savings accounts, which are deposited centrally with Caisse des dépôts et consignations.

The provision for the regulated home savings accounts amounted to €3.3 for 2016, compared with €3.8 million for 2015.

5.2 Income and expenses on finance and operating leases

Banque Palatine does not enter into this type of activity.

5.3 Income from variable-income securities

(in millions of euros)	2016	2015
Investments in subsidiaries and long-term equity investments	0.1	0.1
Investments in associates	14.4	9.9
TOTAL	**14.5**	**10.0**

Including €12.6 million in dividends received from its Palatine Asset Management subsidiary, compared to €9.3 million in 2015.

5.4 Fees and commission

	2016			2015		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Cash and interbank transactions	0.1	(0.1)	(0.0)	0.1	(0.1)	0.0
Transactions with customers	36.0		36.0	34.7		34.7
Securities transactions	2.8	(0.1)	2.7	3.5	(0.1)	3.3
Payment services	11.1	(6.3)	4.8	10.9	(5.3)	5.6
Insurance products	12.7			12.3		12.3
Foreign exchange transactions	0.3			0.3		0.3
Financial services	7.3	(0.3)	7.0	6.9	(0.3)	6.7
Other fee and commission income(1)	3.7			3.3		3.3
TOTAL	**73.9**	**(6.8)**	**67.1**	**72.0**	**(5.8)**	**66.2**

(1) This consists of financial engineering fees.

5.5 Net gains or losses on trading book transactions

(in millions of euros)	2016	2015
Foreign exchange transactions	(12.9)	0.2
Forwards, futures and options	24.2	12.1
TOTAL	**11.4**	**12.3**

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

	2016	2015
(in millions of euros)	Available-for-sale securities	Available-for-sale securities
Impairment		
Charges	*0.0*	*(2.9)*
Reversals	*3.4*	*0.1*
Net gain/(loss) on disposal	(0.5)	0.4
TOTAL	**2.9**	**(2.4)**

5.7 Other banking income and expense

	2016			2015		
(in millions of euros)	Income	Expense	Total	Income	Expense	Total
Rebilling of banking income and expense	0.5		0.5	1.1		1.1
Miscellaneous other activities	0.6	(1.7)	(1.1)	3.5	(2.6)	1.0
TOTAL	**1.2**	**(1.7)**	**(0.6)**	**4.6**	**(2.6)**	**2.1**

5.8 Operating expenses

(in millions of euros)	2016	2015
Wages and salaries	(66.7)	(64.4)
Pension costs and similar obligations	(6.7)	(6.8)
Other social security charges	(27.0)	(27.0)
Employee incentive scheme	(3.9)	(4.0)
Employee profit-sharing scheme	(0.7)	(1.2)
Payroll taxes	(12.1)	(11.5)
Total salary and employee benefit expense	**(117.1)**	**(114.9)**
Taxes other than on income	(10.2)	(8.5)
Other operating expenses	(52.7)	(50.5)
Total other operating expenses	**(63.0)**	**(59.0)**
TOTAL	**(180.0)**	**(173.8)**

The average headcount during the year, broken down by professional category, was as follows: 781 managers and 432 non-managers, representing a total of 1,213 persons.

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1.1 million in 2016. 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

	2016					2015				
(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										
Interbank		0.0	0.0	0.2	0.2		0.0	0.0	0.0	0.0
Customers	(86.8)	66.0	(22.9)	1.7	(42.0)	(77.7)	63.1	(26.1)	1.6	(39.1)
Securities portfolio and other receivables		0.2			0.2		0.2			0.2
Provisions										
Provisions for customer credit risks	(6.5)	7.7			1.2	(5.2)	7.6			2.4
TOTAL	**(93.3)**	**73.9**	**(22.9)**	**1.9**	**(40.4)**	**(82.8)**	**70.9**	**(26.1)**	**1.6**	**(36.4)**
o/w:										
• reversals of obsolete impairment charges		66.1					63.3			
• reversals of impairment losses used		22.1					25.0			
• reversals of obsolete provisions		7.7					7.6			
• reversals of provisions used		0.0					0.4			
• losses covered by provisions		(22.1)					(25.4)			
Net reversals		**73.9**					**70.9**			

5.10 Gains or losses on long-term investments

	2016	2015
in millions of euros	Investments in subsidiaries and other long-term equity investments	Investments in subsidiaries and other long-term equity investments
Impairment		
Charges	0.0	(0.6)
Net gain/(loss) on disposal	**1.5**	**0.3**
TOTAL	**1.5**	**(0.3)**

During financial year 2016, after the simplified merger with the Société Foncière d'Investissement (SFI), the merger premium is recognised as gains on fixed assets for an amount of €1.5 million.

5.11 Non-recurring items

No non-recurring items were recorded in 2016.

5.12 Income tax

5.12.1 Breakdown of income tax in 2016

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), Aries Assurances and Société Immobilière d'Investissement (SII).

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	2016
Tax bases at rates of	**33.33%**
Tax on income before non-recurring items	56.4
Tax bases	**56.4**
Corresponding tax expense	18.8
+ 3.3% contributions	0.6
Tax expense reported	**19.4**
TOTAL	**19.4**

5.12.2 Breakdown of 2016 taxable income – Reconciliation from book to taxable income

in millions of euros	2016	2015
Net income per the financial statements (A)	**50.6**	**50.7**
Corporate tax (B)	**19.4**	**25.7**
Add-backs (C)	**21,5**	**22.0**
Impairment losses on property, plant and equipment and intangible assets	0.0	0.6
Other impairment losses and provisions	15.8	17.3
Other	5.7	4.1
Deductions (D)	**35.1**	**31.3**
Reversals of impairment losses and provisions	18.1	20.3
Dividend payments	14.3	9.4
Other	2.7	1.6
Tax base at standard rate (A)+(B)+(C)-(D)	**56.4**	**67.1**

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 2016 to members of the management bodies came to €1.3 million.

During 2016, no advances and loans were granted to any one of the members of the administration, management or supervisory bodies.

6.3 Statutory Auditors' fees

	PricewaterhouseCoopers Audit				KPMG				TOTAL			
	Amount		%		Amount		%		Amount		%	
Amounts in thousands of euros	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Audit												
Role of certification of financial statements	183	189	86%	99%	191	188	77%	85%	374	377	81%	92%
Services other than the certification of the financial statements	30	2	14%	1%	56	33	23%	15%	86	35	19%	8%
TOTAL	**213**	**191**	**100%**	**100%**	**247**	**221**	**100%**	**100%**	**460**	**412**	**100%**	**100%**
Change (%)	12%	12%	12%									

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 tax information 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 2016, Banque Palatine had no offices or activities in uncooperative tax havens.

3 IFRS consolidated financial statements of the Palatine Group at 31 December 2016

3.1 Consolidated balance sheet

Assets

(in millions of euros)	Notes	31 Dec. 2016	31 Dec. 2015
Cash, central banks	5.1	325.6	607.3
Financial assets at fair value through profit or loss	5.2.1	178.6	171.1
Hedging derivatives	5.3	5.4	8.2
Available-for-sale financial assets	5.4	1,702.6	1,347.6
Loans and advances due from credit institutions	5.6.1	4,149.5	6,472.3
Loans and advances due from customers	5.6.2	8,551.8	8,317.6
Remeasurement gains and losses on interest rate risk-hedged portfolios	5.6.3	15.2	0.0
Held-to-maturity investments	5.7	51.0	51.4
Deferred tax assets	5.9	13.6	16.1
Accrued income and other assets	5.10	294.2	318.4
Non-current assets held for sale	5.11	0.0	0.0
Investments in associates	8.1	3.3	4.4
Investment property	5.12	0.3	0.0
Property, plant and equipment	5.13	18.4	18.5
Intangible assets	5.13	25.1	23.3
Goodwill	5.14	3.1	3.1
TOTAL ASSETS		**15,337.7**	**17,359.3**

Liabilities

(in millions of euros)	Notes	31 Dec. 2016	31 Dec. 2015
Financial liabilities at fair value through profit or loss	5.2.2	161.9	157.9
Hedging derivatives	5.3	98.3	131.5
Amounts due to credit institutions	5.15.1	2,687.4	3,954.1
Amounts due to customers	5.15.2	8,991.7	9,934.4
Debt securities	5.16	2,250.6	1,943.8
Remeasurement gains and losses on interest rate risk-hedged portfolios	5.6.3	5.0	0.0
Current tax liabilities		1.6	5.5
Deferred tax liabilities	5.9	2.6	0.3
Accrued expenses and other liabilities	5.17	147.6	158.3
Provisions	5.18	48.1	50.9
Subordinated debt	5.19	165.7	190.7
Equity		**777.2**	**831.9**
Equity attributable to equity holders of the parent		**777.2**	**831.9**
Share capital and share premium		595.5	595.5
Retained earnings		132.3	185.4
Gains and losses recognised directly in other lines of comprehensive income		3.0	(4.5)
Net income for the period		46.3	55.5
Non-controlling interests (minority interests)		**0.0**	**0.0**
TOTAL LIABILITIES AND EQUITY		**15,337**	**17,359.3**

3.2 Consolidated income statement

(in millions of euros)	Notes	2016	2015
Interest and similar income	6.1	309.4	339.3
Interest and similar expenses	6.1	(98.2)	(123.9)
Fee and commission income	6.2	108.2	108.7
Fee and commission expenses	6.2	(13.3)	(13.1)
Net gains or losses on financial instruments at fair value through profit or loss	6.3	13.0	13.3
Net gains or losses on available-for-sale financial assets	6.4	1.2	1.0
Income from other activities	6.5	0.6	3.8
Expenses from other activities	6.5	(2.8)	(3.7)
NET BANKING INCOME		**318.1**	**325.4**
Operating expenses	6.6	(188.3)	(182.6)
Net depreciation and amortisation of intangible assets and property, plant and equipment		(10.9)	(10.9)
GROSS OPERATING INCOME		**118.9**	**131.9**
Cost of risk	6.7	(46.0)	(41.5)
OPERATING INCOME		**72.9**	**90.4**
Share in net income of associates	8.2	0.7	0.5
Change in value of goodwill	6.9	0.0	(0.7)
INCOME BEFORE TAX		**73.6**	**90.2**
Income tax expense	6.10	(27.3)	(34.7)
NET INCOME		**46.3**	**55.5**
Non-controlling interests (minority interests)		0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**46.3**	**55.5**

3.3 Comprehensive income

(in millions of euros)	2016	2015
NET INCOME	**46.3**	**55.5**
Remeasurement gains and losses on defined-benefit plans	0.3	(1.9)
Tax impact of remeasurement gains and losses on defined-benefit plans	(0.2)	0.6
ITEMS THAT CANNOT BE RECLASSIFIED IN INCOME	**0.1**	**(1.3)**
Change in the value of available-for-sale financial assets	10.2	(5.4)
Changes in the value of hedging derivatives	0.4	0.0
Income taxes	(3.2)	1.9
ITEMS THAT CAN BE RECLASSIFIED IN INCOME	**7.4**	**(3.5)**
GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER LINES OF COMPREHENSIVE INCOME (NET OF TAXES)	**7.5**	**(4.8)**
COMPREHENSIVE INCOME	**53.8**	**50.7**
Attributable to equity holders of the parent	53.8	50.7
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 the fair value of the 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. 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**
Appropriation of 2015 net income			51.9		3.6						55.5		55.5
Reclassification											0.0		0.0
Effect of IFRS 21											0.0		0.0
EQUITY AT 1 JAN. 2016	**538.8**	**56.7**	**206.4**	**80.0**	**(45.5)**	**(0.1)**	**(1.9)**	**(0.4)**	**(2.1)**	**55.5**	**887.4**	**0.0**	**887.4**
Dividend payments			(28.9)							55.5	(84.4)		(84.4)
Redemptions of deeply subordinated notes				(80.0)							80.0		80.0
Interest on deeply subordinated notes					0.4						0.4		0.4
Gains and losses recognised directly in other lines of comprehensive income							7.4	0.0	0.1		7.5		7.5
Income										46.3	46.3		46.3
Other changes											0.0		0.0
EQUITY AT 31 DEC. 2016	**538.8**	**56.7**	**177.5**	**0.0**	**(45.1)**	**(0.1)**	**5.5**	**(0.4)**	**(2.0)**	**46.3**	**777.2**	**0.0**	**777.2**

3.5 Cash flow statement

(in millions of euros)	2016	2015
Income before tax	**73.6**	**90.2**
Net depreciation and amortisation of property, plant and equipment, and intangible assets	10.9	11.2
Goodwill impairment	0.0	0.7
Net charge to provisions and impairment losses	16.3	13.7
Share in net income of associates	(0.1)	0.0
Net gains/losses on investing activities	(2.8)	(4.5)
Other movements	58.6	75.6
Total non-cash items included in net income before tax	**82.8**	**96.7**
Net increase or decrease arising from transactions with credit institutions	133.0	2,225.8
Net increase or decrease arising from transactions with customers	(1,203.7)	1,214.0
Net increase or decrease arising from transactions affecting financial assets and liabilities	(114.5)	(1,901.3)
Net increase or decrease arising from transactions affecting non-financial assets and liabilities	(3.5)	(16.9)
Tax paid	(29.4)	(27.4)
Net increase/(decrease) in assets and liabilities generated by operating activities	**(1,218.0)**	**1,494.2**
NET CASH FLOW FROM OPERATING ACTIVITIES (A)	**(1,061.7)**	**1,681.0**
Net increase or decrease related to financial assets and investments	2.2	42.8
Net increase or decrease relating to investment property	(0.4)	2.5
Net increase or decrease related to property, plant and equipment, and intangible assets	(12.7)	(11.3)
NET CASH FLOW FROM INVESTMENT ACTIVITIES (B)	**(10.8)**	**34.0**
Net increase or decrease arising from transactions with shareholders(1)	(109.0)	(39.6)
Cash flow from financing activities	(25.0)	150.2
NET CASH FLOW FROM FINANCING ACTIVITIES (C)	**(134.0)**	**110.6**
EFFECT OF EXCHANGE RATE FLUCTUATIONS ON EXCHANGE RATES (D)	**0.0**	**0.0**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(1,206.4)**	**1,825.6**
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)
Opening cash and cash equivalents	**2,534.1**	**708.5**
Cash and net balance of accounts with central banks	**325.6**	**607.3**
Cash and net balance of accounts with central banks (assets)	325.6	607.3
Net balance of demand transactions with credit institutions	**1,002.1**	**1,926.8**
Current accounts with overdrafts(2)	45.3	53.0
Demand accounts and loans	1,306.1	2,272.0
Demand accounts in credit	(349.3)	(398.3)
Closing cash and cash equivalents	**1,327.7**	**2,534.1**
CHANGE IN NET CASH FLOW	**(1,206.4)**	**1,825.6**

(1) Cash flow received from or paid to shareholders corresponds to dividends paid.

(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 Caisse d'Epargne banks

Groupe BPCE is a cooperative group whose members own two retail banking networks: the 15 Banque Populaire and the 17 Caisse 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 Caisse d'Epargne banks and the local savings companies (LSCs).

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

The share capital of the Caisse d'Epargne banks 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 15 Banque Populaire banks and the 17 Caisse d'Epargne.

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

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 71.03%-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 BPCE's 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 ten-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 ten-year term account renewable in perpetuity.

The **Mutual Guarantee Fund** was formed through deposits made by the Banque Populaire banks and the Caisse d'Epargne banks. These deposits were booked by BPCE in the form of ten-year term accounts renewable in perpetuity. The deposits by network amounted to €181.3 million at 31 December 2016.

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

When deposits are recorded in the institutions' individual accounts under the guarantee and solidarity system, an item of an equivalent amount is recorded under a dedicated capital heading.

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

1.3 Significant events

The Finance Act 2017, published in the Official Gazette on 30 December 2016, reduced the tax rate from 34.43% to 28.92% as from 2019 for establishments with revenues of less than €1 billion and from 2020 for establishments with revenues of more than €1 billion. This provision led the Palatine Group to revalue its net deferred tax position in its balance sheet and to recognise a deferred tax liability of €1 million in 2016.

1.4 Post-balance sheet events

No events liable to have a material effect on the 2016 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 2016 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 2016.

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

(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

New IFRS 9

The Commission adopted the New IFRS 9 "Financial instruments" on 22 November 2016 and it will be retrospectively applicable to financial statements from 1 January 2018, except for provisions relating to the financial liabilities designated at fair value through profit or loss, applied in anticipation in the financial statements of Groupe BPCE as from 1 January 2016.

IFRS 9 defines the new rules for classifying and assessing financial assets and liabilities, the new impairment methods for the financial assets credit risk as well as the processing of hedging transactions, except for macro-hedging transactions for which a project for a separate standard is being studied by the IASB.

The following processing procedures will apply to the financial years started as from 1 January 2018, as replacement for the accounting principles currently applied for recognition of the financial instruments.

Classification and assessment:

The financial assets will be classified in three categories (amortised cost, fair value through profit or loss and fair value through equity) according to the characteristics of their contractual flows and the way in which the entity manages its financial instruments ("business model).

By default, the financial assets will be classified at fair value through profit or loss.

The liabilities instruments (loans, receivables or debt securities) may be recognised as amortised cost provided that they are held for the purpose of receiving contractual cash flows and that the latter only represent repayments of the principal and interest on the principal. The debt instruments may be recognised at fair value through equity with later reclassification in income provided they are managed both with the aim of collecting contractual cash and resale flows and that these contractual cash flows only represent repayments of the principal and interest on the principal.

The equity instruments will be recognised at fair value through profit or loss except in the case of an irrevocable option for an assessment of the fair value through equity (provided that these instruments are not held for trading and as such are classified as financial assets at fair value through income) without reclassification later in income.

The incorporated derivatives will not be recognised separately from the host contract when the latter are financial assets so that all the hybrid instruments should be recognised at fair value through profit or loss.

The rules for classifying and assessing financial liabilities given in IAS 39 are adopted without change in IFRS 9, apart from the financial liabilities that the entity decides to assess at fair value through profit or loss (fair value option) for which the revaluation differences in connection with the changes in the entity's own credit risk will be recognised among the gains and losses recognised directly in equity without reclassification at a later stage as income.

The provisions of IAS 39 relating to the derecognition of financial assets and liabilities are adopted without change in IFRS 9.

Impairments:

The debt instruments classified as financial assets at the amortised cost or as financial assets at fair value through equity, the rents receivable, as well as the financing commitments and financial guarantees given are systematically subject to impairment or a provision for expected loss of credit.

Hence, the financial assets concerned will be divided into three categories according to the gradual deterioration of the credit risk observed since their initial recognition and an impairment should be recognised on the outstandings for each of these categories as follows:

- Stage 1

An impairment for credit risk will be recognised for the amount of the losses expected at one year.

Interest income will be recognised in income according to the effective interest method applied to the gross carrying amount of the asset before impairment.

- Stage 2

In the case of a material increase in the credit risk since the financial assets were recorded in the balance sheet, the latter will be transferred to this category.

Impairment for credit risk will then be increased to the level of the expected losses over the residual useful life of the instrument (losses expected on termination).

Interest income will be recognised in income according to the effective interest method applied to the gross carrying amount of the asset before impairment.

- Stage 3

Impairment for credit risk will still be calculated as the amount of the losses expected over the useful life of the instrument (losses expected at termination) and its amount will be adjusted, if appropriate, to take account of an additional deterioration of the credit risk.

Interest income will then be recognised as income according to the effective interest method applied to the net carrying amount of the asset after impairment.

Hedge accounting:

IFRS 9 introduces a modified accounting model for hedging, more suitable for risk management activities.

In view of the far-reaching changes made by IFRS 9, Groupe BPCE conducts its implementation work within the framework of a project organisation involving the participation of all the business lines and support functions concerned.

Started during the first half-year of 2015, the analysis, design and IT development work continued during 2016 and will continue during the first half-year of 2017. The second half-year will be primarily devoted to earnings, to finalising the calibration of the models, to completing the documentation and adapting the processes as part of conducting the change.

Classification and Assessment:

The work carried out at this stage on the "Classification and Assessment" element suggests that most of the financial assets which were assessed at amortised cost under IAS 39, will continue to meet the conditions to be assessed at amortised cost in accordance with IFRS 9. Similarly, most of the financial assets assessed at fair value in accordance with IAS 39 (assets classified among the financial assets held for sale or among the financial assets at fair value through profit or loss), will continue to be assessed at fair value in accordance with IFRS 9.

The following are the reclassifications identified, taking into account the work carried out at this stage:

- for the commercial banking loan portfolios, the impacts should remain limited and primarily concern certain instruments which were assessed at amortised cost and classified as loans and advances in accordance with IAS 39 and which will be assessed in accordance with IFRS 9 at fair value through the net income because their contractual cash flows do not represent only repayments of the principal and interest on the principal;
- for the other financing portfolios:
  - repurchase agreements classified as financial assets designated at fair value through profit or loss in accordance with IAS 39 on the basis of comprehensive management fair value and under an economic trading model in accordance with IFRS 9, will be reclassified as held-for-trading financial assets and assessed at fair value through profit or loss,
  - repurchase agreements classified as loans and advances and assessed at amortised cost in accordance with IAS 39 and under an economic trading model in accordance with IFRS 9 will be reclassified as held-for-trading financial assets and assessed at fair value through profit or loss.

  The vast majority of financing operations and rental receivables will still be classified and valued at amortised cost. Nevertheless, Groupe BPCE holds a portfolio of some fixed-rate loans with symmetrical repayment clauses, subject to the market and submitted in December to the IASB board, which should take a decision during 2017 on the possibility of recognising these instruments at amortised cost;
- for the securities portfolios:
  - in accordance with IAS 39, the liquidity reserve securities are assessed at amortised cost as they were classified among the loans and advances or among the held-to-maturity financial assets, *i.e.* assessed at fair value as they were classified among the assets available for sale according to their characteristics, the way they were managed and whether or not they were hedged against the rate risk. The allocation of these debt securities may be different under IFRS 9 with a choice of either at amortised cost or at fair value through other elements of the comprehensive income according to whether they will be managed in an economic collection model or in an economic cash flow and sale collection model,
  - UCIT or VCT shares qualified as equity instruments and classified among the available-for-sale financial assets in accordance with IAS 39, will be assessed in accordance with IFRS 9 at fair value through net profit or loss due to their debt instrument nature and the characteristics of their contractual cash flows which do not only represent repayments of the principle and interest on the principal,
  - investments in unconsolidated subsidiaries classified among the available-for-sale financial assets in accordance with IAS 39, will be assessed by default at fair value through the profit or loss in accordance with IFRS 9. When the companies in Groupe BPCE have each made their irrevocable choice, the future changes in the fair value of the securities may however be presented in the other items of the comprehensive income,
  - the securitisation shares, assessed at amortised cost and classified among the loans and advances in accordance with IAS 39, will be assessed at fair value through net income in accordance with IFRS 9 if their contractual flows do not only represent repayments of the principal and interest on the principal, will be assessed at fair value through other lines of comprehensive income if they are managed in an economic cash flow and sale collection model and are maintained at amortised cost in other cases.

The reclassifications between categories of financial assets assessed at amortised cost and fair value will have a net impact on Groupe BPCE's consolidated equity owing to the difference in the method for assessing these assets. Nevertheless, as there are not many of these reclassifications, a significant impact on the amount is not expected in the Groupe BPCE's opening equity on 1 January 2018.

As the liabilities are processed in a similar way to under IAS 39, there is little impact on the liabilities.

Impairment:

The Group will use the internal risk management system, underlying the regulatory calculation of the equity requirements when constituting portfolios and the calculation of the impairments. An *ad hoc* system for calculating and recognising impairments on healthy outstandings is being set up requiring substantial IT developments.

The models which will be implemented for calculating impairment are produced in compliance with the governance of the model so as to ensure that the methods within the Group are consistent according to the nature of the assets and the intended use of the models. As a priority, they will use existing internal models to measure the risks and external information if internal measurements are not available. These models will be adapted to enable the financial assets receivables default probability to be measured on maturity of the outstandings. The impairment calculated will take account of current conditions and the expected economic and financial projections. The measurement may therefore, in certain cases, be significantly different from that used when calculating the regulatory requirements of equity, in view of the latter's cautious nature.

The impairment calculation models will be implemented in a centralised way to ensure that the methods within Groupe BPCE are consistent, according to the nature of the assets.

The significant deterioration will be measured through the combination of quantitative and qualitative indicators during calibration. The quantitative criteria will use the rating systems, endeavouring to compare the risk relating to the current rating with the risk measured at the time of granting. The qualitative criteria include indicators additional to the rating system giving priority to measuring the current risk with its comparison to past values, such as the risk of arrears outstanding for more than 30 days or the status of a Watch List counterparty (incorporating the forbearance status).

Simulations of a calculated impact, made this day, consist at this stage of simplifying options which do not provide a reasonable possibility that the estimation is sufficiently reliable for publication.

Hedge accounting:

Groupe BPCE, has chosen the option offered by IFRS 9 not to apply the provisions of the standard relating to hedge accounting and to entirely continue under IAS 39 for recognising these transactions. In view of the limited volume of assets reclassified, the majority of the transactions documented in hedge accounting in accordance with IAS 39 will still be documented in the same way in hedging as from 1 January 2018.

Conversely, the appended information will comply with the provisions of IFRS 7 amended by IFRS 9.

Temporary provisions:

In accordance with the option offered by the provisions of IFRS 9, the Group does not anticipate providing any comparative information on its financial statements.

New IFRS 15

IFRS 15 "Revenue recognition" will replace the current standards and interpretations relating to the recognition of income. IFRS 15 was adopted by the European Union and published in the Official Journal (OJEU) of the European Union on 29 October 2016. It will be retrospectively applicable at 1 January 2018.

According to IFRS 15, the recognition of income from current activities must reflect the transfer of goods and services the customers were promised for an amount corresponding to the counterparty that the entity expects to receive in exchange for these goods and services.

IFRS 15 applies to agreements that an entity enters into with its customers, apart from leases (covered by IAS 17), insurance contracts (covered by IFRS 4), and financial instruments (covered by IFRS 9), in particular. If the provisions specific to revenues or to contract costs are provided for in another standard, they will be applied as a priority.

The Group started the work of analysing the impacts of the application of this new standard during the second half of 2016 and it will be completed during the financial year 2017.

New IFRS 16

IFRS 16 "Leases" will replace IAS 17 "Leasing agreements" and the interpretations relating to the recognition of such agreements. It will be retrospectively applicable at 1 January 2019, subject to its adoption by the European Union.

According to IFRS 16, the definition of the leases involves, on the one hand, identifying an asset and, on the other hand, the lessee's right to use this asset.

From the lessor's point of view, the expected impact should be limited, the arrangements remaining substantially unchanged compared with the current standard IAS 17.

For the lessee, the standard will enforce recognition of all the leases in the balance sheet in the form of a right to use the leased assets, recorded in the fixed assets and in the liabilities recognised as a financial debt on the basis of the rents and other payments to be made during the term of the lease. The right of use will be amortised using the straight-line method and the financial debt actuarially over the term of the leasing agreement. The interest expense relating to the debt and the right of use amortisation expense will be recognised separately in the income statement.

Conversely, in accordance with the current IAS 17, contracts called simple or operating leases are not recognised in the balance sheet and only the related rental income is recognised in income.

The Group started the work of analysing the impacts of the application of this new standard after it was published at the beginning of 2016. The estimation of the amount of rights of use to be recognised in the balance sheet is being assessed. It is therefore expected that there will be a significant impact on the fixed asset line items and on the financial liabilities line items in the balance sheet.

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 2016, 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 2016. The Palatine Group’s consolidated financial statements for the period ended 31 December 2016 were approved by the Board of Directors on 8 February 2017. They will be presented to the annual general meeting on 16 May 2017.

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 resorting to 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 directly in other comprehensive income) 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 an 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 assessment are applied to determine if an impairment test should be carried out on its participation in an associate or a joint venture. 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.

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

In application of 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.

Companies combined subsequent to the revision of IFRS 3 and IAS 27 are recognised in accordance with the method by which they were acquired, however with the exception of combinations involving mutual guarantee entities and entities under common control which were explicitly excluded from the field of application.

3.3.4 Reporting date

The reporting date for entities in the scope of consolidation is 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 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.

Securities lending transactions are also recognised on the settlement date. For securities' reverse repurchase agreements or repurchase agreements, a financing commitment respectively given or received is recognised between the transaction date and the settlement date when these transactions are recognised respectively in "Loans and advances" and "Debts". When the securities' reverse repurchase agreements are recognised in "Assets and liabilities at fair value through profit or loss", the commitment to repurchase is recognised as a fixed-rate derivative instrument.

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 relating to these instruments are recognised in the line item "Net gains or losses on financial instruments at fair value through profit or loss" apart from changes in fair value attributable to the development of the entity's own credit risk which are recognised, since 1 January 2016 (see Note 2.2), in the line item "Reassessment of the entity's own financial liabilities credit risk at fair value through profit or loss" within the "Gains and losses recognised directly in equity".

Issues of debt securities

Issues of debt securities (which are neither classified as financial liabilities at fair value through profit or loss nor as equity) are initially recognised at fair value less any transaction costs. They are subsequently measured at amortised cost at each reporting date using the effective interest method.

These instruments are recognised under “Amounts due to credit institutions”, “Amounts due to customers” or “Debt securities”.

Subordinated debt

Subordinated debt differs from other debt, receivables and bonds in that it is repaid only after all the senior and unsecured creditors, but before the repayment of participating loans and securities and deeply subordinated notes.

The subordinated debt that the issuer is obliged to repay is classified as debt and initially recognised at fair value less transaction costs and thereafter at amortised cost at the reporting date.

4.1.4 Derivatives and hedge accounting

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specific interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, this variable may not be specific to one of the parties to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- 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

The trading derivatives are entered in the balance sheet in "Financial assets at fair value through profit or loss" and in "Financial liabilities at fair value through profit or loss". The gains and losses realised and unrealised are recognised in the income statement in the line item "Net gains or losses on financial instruments at fair value through profit or loss".

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 hedge

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 recognised 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, the re-assessment of the hedged component is recognised comprehensively in the line item "Remeasurement gains and losses on interest rate risk-hedged portfolios": in the balance sheet assets in the case of hedging a financial assets portfolio and in the balance sheet liabilities in the case of hedging a financial liabilities portfolio.

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*). These valuation adjustments are measured using market inputs.

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 cash flows 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 the debts: 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 specific impairment or on the basis of portfolios: these are "trigger events" or "loss events" which identify a counterparty risk and which occur after the initial recognition of the loans concerned. 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 impairments;
- collective impairments;
- 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.

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 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: the change of issuer (even within a same group) or a change in currency.

4.1.9 Offsetting of financial assets and liabilities

In accordance with IAS 32, the Group offsets a net financial asset and a financial liability and a net balance is shown in the balance sheet with the two-fold condition of having a legally enforceable right to offset the amounts recognised and the intention either to settle the net amount, or to simultaneously realise the asset and to settle the liability.

The derivatives and repurchase transactions processed with the clearing houses, of which the operating principles meet the two aforementioned criteria, are offset in the balance sheet (see Note 5.23).

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 post-employment benefits are classified as defined-contribution plans or as defined-benefit plans.

Defined-contribution plans

The employer alone is committed to paying the pre-defined contributions to an insurer or to an entity outside the company. The resulting benefits for the employees depend on the contributions paid and the return on the investments made with these contributions. The employer has no obligation to finance the supplements if the funds are insufficient to pay the benefits the employees expect. The actuarial risk – risk that the benefits will be less than expected – and the investment risk – risk that the assets invested are not sufficient to provide the benefits expected – is the responsibility of the member of the personnel.

The defined-contributions plans are recognised as short-term benefits. The expense is equal to the contribution to be paid for the year. There is no obligation to assess.

Defined-benefit plans

In the defined-benefit plans, the company is responsible for the actuarial risk and the investment risk. The company's obligation is not limited to the amount of the contribution it is committed to paying. This is particularly the case when the amount of the benefits that the personnel will receive is defined by a calculation formula and not by the amount of the funds available for these benefits. This is also the case when the company guarantees directly or indirectly a specified return on the contributions, or when it has an explicit or implicit commitment to revalue the benefits paid.

The resulting cost and the obligation for the company must be assessed on a discounted basis as the benefits may be paid several years after the members of the personnel have provided the corresponding services.

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).

The actuarial gains and losses (e.g. those relating to the change in the financial interest rate assumptions) and the costs of services are immediately recognised in income and included in the provision.

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.

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

The procedures for feeding the deposit guarantee and resolution fund were amended by an order of 27 October 2015. In 2016, the Prudential Control and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR), in its decision No. 2016-C-51 of 10 October 2016, ordered a method of calculation by stock of buildings for the deposit mechanism. For the deposit guarantee fund, the cumulative amount of contributions paid and available to the fund for deposit, guarantee and security mechanisms represents €3.4 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €9.8 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 €2.2 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 the resolution available to the resolution authority (Single Resolution Board). This system could call upon this fund as part of the implementation of resolution procedures.

In 2016, in compliance with the 2015/63 delegated regulation and implementing regulation 2015/81 supplementing the BRRD directive on ex-ante contributions to the systems for financing the resolution, the Single Resolution Board determined the contributions to the single resolution fund. For 2016, the amount of contributions paid and available to the fund represents €3.5 million, including €3 million recognised as an expense and €0.5 million in the form of cash deposit guarantees that are recognised as assets in the balance sheet (15% in the form of cash deposit guarantees). The total contributions that are entered in the balance sheet assets amount to €1.1 million.

NOTE 5 Notes to the balance sheet

5.1 Cash and net balance of accounts with central banks

in millions of euros	31 Dec. 2016	31 Dec. 2015
Cash	4.2	5.7
Cash placed with central banks	321.4	601.6
TOTAL CASH AND NET BALANCE OF ACCOUNTS WITH CENTRAL BANKS	**325.6**	**607.3**

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. 2016	31 Dec. 2015
in millions of euros	Trading	Trading
Trading derivatives	178.6	171.1
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**178.6**	**171.1**

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. 2016	31 Dec. 2015
Trading derivatives	161.9	157.9
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**161.9**	**157.9**

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. 2016			31 Dec. 2015		
in millions of euros	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Interest rate instruments	3,945.0	54.3	48.4	3,847.8	44.8	39.2
Currency instruments	2,854.3	100.5	91.7	2,363.3	81.6	75.3
Futures and forwards	**6,799.3**	**154.8**	**140.1**	**6,211.1**	**126.4**	**114.5**
Interest rate instruments	3,756.9	6.6	4.6	2,855.2	4.7	3.4
Currency instruments	1,314.4	17.2	17.2	1,962.1	40.0	40.0
Options	**5,071.3**	**23.8**	**21.8**	**4,847.3**	**44.7**	**43.4**
TOTAL TRADING DERIVATIVES	**11,870.6**	**178.6**	**161.9**	**11,058.4**	**171.1**	**157.9**

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. Cash flow hedging is also used to manage the global interest rate risk position.

	31 Dec. 2016			31 Dec. 2015		
in millions of euros	**Notional**	**Positive fair value**	**Negative fair value**	**Notional**	**Positive fair value**	**Negative fair value**
Interest rate instruments	2,752.4	5.4	98.3	2,459.6	7.8	130.7
Futures and forwards	**2,752.4**	**5.4**	**98.3**	**2,459.6**	**7.8**	**130.7**
Fair value hedge	**2,752.4**	**5.4**	**98.3**	**2,459.6**	**7.8**	**130.7**
Interest rate instruments				216.2	0.4	0.8
Futures and forwards				**216.2**	**0.4**	**0.8**
Cash flow hedge				**216.2**	**0.4**	**0.8**
TOTAL HEDGING DERIVATIVES	**2,752.4**	**5.4**	**98.3**	**2,675.8**	**8.2**	**131.5**

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. 2016**	**31 Dec. 2015**
Treasury bills and similar securities	1,258.7	821.5
Bonds and other fixed-income securities	415.2	497.1
Impaired securities	0.0	0.0
Fixed-income securities	**1,673.9**	**1,318.6**
Equities and other variable-income securities	**28.6**	**28.9**
Loans to customers	0.1	0.1
Loans	**0.1**	**0.1**
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS, GROSS	**1,702.6**	**1,347.6**
Impairment of fixed-income securities and loans	0.0	0.0
Prolonged impairment of equities and other variable-income securities	0.0	0.0
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET	**1,702.6**	**1,347.6**
Gains and losses recognised directly in equity on available-for-sale financial assets (before tax)	**9.9**	**(0.3)**

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 acquisition of sovereign securities acquired for €457 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. 2016				31 Dec. 2015			
(in millions of euros)	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using observable inputs (Level 3)	Total	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using observable inputs (Level 3)	Total
FINANCIAL ASSETS								
Derivatives	0.0	178.6	0.0	178.6	0.0	171.1	0.0	171.1
Interest-rate derivatives	*0.0*	*60.8*	*0.0*	*60.8*	*0.0*	*49.5*	*0.0*	*49.5*
Currency derivatives	*0.0*	*117.7*	*0.0*	*117.7*	*0.0*	*121.7*	*0.0*	*121.6*
Financial assets held for trading	**0.0**	**178.6**	**0.0**	**178.6**	**0.0**	**171.1**	**0.0**	**171.1**
Interest-rate derivatives	*0.0*	*5.4*	*0.0*	*5.4*	*0.0*	*8.2*	*0.0*	*8.2*
Derivative equities	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other derivatives	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Hedging derivatives	**0.0**	**5.4**	**0.0**	**5.4**	**0.0**	**8.2**	**0.0**	**8.2**
Investments in unconsolidated subsidiaries	0.0	0.0	4.3	4.3	0.0	0.0	3.8	3.8
Other securities	1,676.5	20.7	1.0	1,698.2	1,320.6	0.0	0.5	1,321.2
Fixed-income securities	*1,674.0*	*0.0*	*0.0*	*1,674.0*	*1,318.6*	*0.0*	*0.0*	*1,318.6*
Variable-income securities	*2.6*	*20.7*	*1.0*	*24.2*	*2.1*	*0.0*	*0.5*	*2.6*
Other financial assets	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.1
Available-for-sale financial assets	**1,676.5**	**20.7**	**5.4**	**1,702.6**	**1,320.7**	**0.0**	**4.3**	**1,325.0**
FINANCIAL LIABILITIES								
Derivatives	0.0	161.9	0.0	161.9	0.0	157.9	0.0	157.9
Interest-rate derivatives	*0.0*	*53.0*	*0.0*	*53.0*	*0.0*	*42.6*	*0.0*	*42.6*
Currency derivatives	*0.0*	*108.9*	*0.0*	*108.9*	*0.0*	*115.3*	*0.0*	*115.3*
Financial liabilities held for trading	**0.0**	**161.9**	**0.0**	**161.9**	**0.0**	**157.9**	**0.0**	**157.9**
Interest-rate derivatives	*0.0*	*98.3*	*0.0*	*98.3*	*0.0*	*131.5*	*0.0*	*131.5*
Derivative equities	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other derivatives	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Hedging derivatives	**0.0**	**98.3**	**0.0**	**98.3**	**0.0**	**131.5**	**0.0**	**131.5**

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

(in millions of euros)	31 Dec. 2015	Gains and losses recognised in income during the period on transactions still outstanding at the reporting date	Management events during the period		31 Dec. 2016
			Purchases/ Issues	Sales/ Repayments	
FINANCIAL ASSETS					
Investments in unconsolidated subsidiaries	3.8		0.6		4.3
Other securities	0.5		0.4		1.0
Variable-income securities	*0.5*		*0.4*		*1.0*
Available-for-sale financial assets	**4.3**		**1.0**		**5.4**

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. 2016	31 Dec. 2015
Loans and advances due from credit institutions	4,149.5	6,472.3
TOTAL LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS	**4,149.5**	**6,472.3**

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. 2016	31 Dec. 2015
Current accounts with overdrafts	45.3	53.0
Accounts and loans	4,097.7	6,412.6
Securities classified as loans and advances	4.0	4.1
Subordinated and participating loans	2.5	2.5
Impaired loans and advances	0.0	0.1
TOTAL GROSS LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS	**4,149.5**	**6,472.3**

Livret A and LDD savings accounts centralised with Caisse des dépôts et consignations and recorded under “Loans and advances” amounted to €253.1 million at 31 December 2016 (€245.2 million at 31 December 2015).

5.6.2 Loans and advances due from customers

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Loans and advances due from customers	8,849.8	8,595.3
Specific impairments	(285.0)	(262.8)
Collective impairments	(13.0)	(14.9)
TOTAL LOANS AND ADVANCES DUE FROM CUSTOMERS	**8,551.8**	**8,317.6**

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. 2016	31 Dec. 2015
Current accounts with overdrafts	**489.0**	**436.2**
Loans to financial customers	0.0	0.0
Trade receivables	188.7	172.7
Short-term loans	1,303.2	1,387.0
Equipment loans	1,782.1	1,751.6
Home loans	1,875.8	1,789.4
Export loans	72.6	75.0
Other loans	2,150.7	1,981.5
Subordinated loans	3.4	4.7
Other facilities granted to customers	**7,578.6**	**7,161.9**
Other loans and advances due from customers	**0.0**	**0.0**
Securities classified as loans and advances	**416.8**	**411.5**
Securities classified as doubtful loans and advances	**6.5**	**4.0**
Impaired loans and advances	**561.0**	**581.7**
TOTAL GROSS LOANS AND ADVANCES DUE FROM CUSTOMERS	**8,849.8**	**8,595.3**

5.6.3 Remeasurement gains and losses on interest rate risk-hedged portfolios

After a change in the accounting presentation, henceforth this line item recognises the changes in fair value of the amount of assets or liabilities with total hedging of the interest rate.

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. 2016	31 Dec. 2015
Treasury bills and similar securities	10.2	10.1
Bonds and other fixed-income securities	40.8	41.3
Gross amount of the held-to-maturity investments	**51.0**	**51.4**
TOTAL HELD-TO-MATURITY INVESTMENTS	**51.0**	**51.4**

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 2016.

■ Portfolio of reclassified financial assets

(in millions of euros)	Carrying amount at the reclassification date	Carrying amount at 31 December 2015	Carrying amount at 31 December 2016	Change in 2016	Fair value at 31 December 2015	Fair value at 31 December 2016	Change in 2016
Assets reclassified in 2009							
Available-for-sale financial assets reclassified as loans and receivables	22.8	4.6	4.7	0.1	5.7	4.7	(1.0)
TOTAL SECURITIES RECLASSIFIED IN 2009	**22.8**	**4.6**	**4.7**	**0.1**	**5.7**	**4.7**	**(1.0)**
Assets reclassified between 2010 and 2016							
TOTAL SECURITIES RECLASSIFIED BETWEEN 2010 AND 2016	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL FINANCIAL ASSETS RECLASSIFIED	**22.8**	**4.6**	**4.7**	**0.1**	**5.7**	**4.7**	**(1.0)**

■ Results and changes in equity in 2016 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	0.0	0.0
TOTAL RESULTS RELATED TO RECLASSIFIED FINANCIAL ASSETS	**0.0**	**0.0**

Gains and losses recognised directly in equity on transferred financial assets amounted to a net loss of €2.8 million at 31 December 2016.

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

(in millions of euros)	2016	2015
Available-for-sale financial assets reclassified as loans and receivables	0.0	0.0
TOTAL CHANGE IN FAIR VALUE THAT WOULD HAVE BEEN RECOGNISED HAD THE FINANCIAL ASSETS NOT BEEN RECLASSIFIED	**0.0**	**0.0**

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. 2016	31 Dec. 2015
Provisions for employee benefit obligations	4.5	4.5
Provisions for regulated home savings products	1.1	1.3
Other non-deductible provisions	6.9	7.6
Fair value of financial instruments with changes recognised in other comprehensive income	(2.4)	1.2
Other temporary differences	5.5	5.4
Deferred tax assets and liabilities related to temporary differences	**15.6**	**20.0**
Deferred taxes arising from the IFRS valuation model	**(5.1)**	**(4.8)**
Deferred tax assets and liabilities on consolidation adjustments and eliminations	**0.5**	**0.5**
NET DEFERRED TAXES	**11.0**	**15.8**
Recognised		
As an asset	13.6	16.1
As a liability	(2.6)	(0.3)

At 31 December 2016, €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. 2016	31 Dec. 2015
Collection accounts	28.7	51.1
Prepaid expenses	4.1	2.5
Accrued income	18.0	20.0
Other accrual accounts	45.8	52.5
ACCRUAL ACCOUNTS – ASSETS	**96.6**	**126.1**
Security deposits paid	3.4	8.1
Miscellaneous debtors	194.2	184.1
SUNDRY ASSETS	**197.6**	**192.3**
TOTAL ACCRUAL ACCOUNTS AND SUNDRY ASSETS	**294.2**	**318.4**

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 2016, the line item "Other accrual accounts" for Banque Palatine mainly concerns syndicated loans due at the closing date which are waiting to allocate the funds from the partners.

At 31 December 2016, sundry creditors chiefly include margin calls on financial instruments for €183.5 million against €176.5 million at 31 December 2015.

5.11 Non-current assets held for sale and related liabilities

None.

5.12 Investment property

	31 Dec. 2016			31 Dec. 2015		
(in millions of euros)	**Gross**	**Accumulated depreciation and impairment**	**Net**	**Gross**	**Accumulated depreciation and impairment**	**Net**
Property recognised at historical cost	0.4	(0.1)	0.3	0.1	(0.1)	0.0
TOTAL INVESTMENT PROPERTY	**0.4**	**(0.1)**	**0.3**	**0.1**	**(0.1)**	**0.0**

5.13 Non-current assets

	31 Dec. 2016			31 Dec. 2015		
(in millions of euros)	**Gross**	**Accumulated depreciation and impairment**	**Net**	**Gross**	**Accumulated depreciation and impairment**	**Net**
PROPERTY, PLANT AND EQUIPMENT						
Land and buildings	21.0	(16.6)	4.4	20.3	(15.6)	4.7
Equipment, furniture and other property, plant and equipment	47.3	(33.3)	14.0	43.8	(30.0)	13.8
TOTAL PROPERTY, PLANT AND EQUIPMENT	**68.3**	**(49.9)**	**18.4**	**64.1**	**(45.6)**	**18.5**
INTANGIBLE ASSETS						
Leasehold rights	11.8	(1.1)	10.7	11.8	(1.1)	10.7
Software	34.8	(24.7)	10.1	31.0	(20.8)	10.2
Other intangible assets	4.3	0.0	4.3	2.4	0.0	2.4
TOTAL INTANGIBLE ASSETS	**50.9**	**(25.8)**	**25.1**	**45.2**	**(21.9)**	**23.3**

5.14 Goodwill

This item reflects goodwill on fully-consolidated entities.

(in millions of euros)	**31 Dec. 2016**	**31 Dec. 2015**
Goodwill at beginning of period, net	**3.1**	**3.8**
Impairment losses	0.0	(0.7)
Goodwill at end of period, net	**3.1**	**3.1**

	Carrying amount	
(in millions of euros)	**31 Dec. 2016**	**31 Dec. 2015**
Ariès Assurances	3.1	3.1
TOTAL GOODWILL	**3.1**	**3.1**

Impairment tests

Goodwill was tested for impairment in accordance with the regulations based on the assessment of the value in use of the cash generating units (CGU) to which they are attached.

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%.

Sensitivity of the recoverable amounts

Analyses of the sensitivity are given in the statement below:

	Perpetual growth rate			
Discount rate	**1%**	**2%**	**3%**	**4%**
8.30%	3.26	3.69	4.29	5.16
9.30%	2.85	3.17	3.59	4.17
10.30%	2.54	2.78	3.09	3.50

In view of the key assumptions used, these tests did not result in the Group recognising an impairment for financial year 2016.

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. 2016	31 Dec. 2015
Demand accounts	364.4	413.1
Accrued interest	0.1	0.0
AMOUNTS DUE TO CREDIT INSTITUTIONS – REPAYABLE ON DEMAND	**364.5**	**413.1**
Term deposits and loans	2,318.6	3,535.5
Accrued interest	4.3	5.5
AMOUNTS DUE TO CREDIT INSTITUTIONS – REPAYABLE AT AGREED MATURITY DATES	**2,322.9**	**3,541.0**
TOTAL AMOUNTS DUE TO CREDIT INSTITUTIONS	**2,687.4**	**3,954.1**

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. 2016	31 Dec. 2015
Current accounts in credit	**6,930.1**	**7,762.7**
Livret A savings accounts	175.4	177.3
Regulated home savings products	263.8	276.7
Other regulated savings accounts	556.2	561.5
Regulated savings accounts	**995.4**	**1,015.5**
Demand accounts and loans	3.3	15.4
Term accounts and loans	1,061.5	1,138.8
Accrued interest	1.4	2.0
Other customer accounts	**1,066.2**	**1,156.2**
TOTAL AMOUNTS DUE TO CUSTOMERS	**8,991.7**	**9,934.4**

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. 2016	31 Dec. 2015
Interbank market instruments and negotiable debt securities	2,249.8	1,942.2
Accrued interest	0.8	1.6
TOTAL DEBT SECURITIES	**2,250.6**	**1,944.3**

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. 2016	31 Dec. 2015
Collection accounts	40.1	67.2
Prepaid income	2.6	2.6
Accrued expenses	36.8	34.0
Other accrual accounts	38.7	28.7
ACCRUAL ACCOUNTS - LIABILITIES	**118.2**	**132.5**
Settlement accounts in credit on securities transactions	0.6	0.4
Guarantee deposits received	0.3	0.3
Sundry creditors	28.5	25.1
OTHER LIABILITIES	**29.4**	**25.8**
TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES	**147.6**	**158.3**

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

At 31 December 2016, sundry creditors chiefly include:

- €7.2 million in tax and social security liabilities (€9.6 million at 31 December 2015);
- €4.7 million in employee incentives and profit-sharing (€6 million at 31 December 2015);
- €12.3 million in margin calls on financial instruments (€7.5 million at 31 December 2015).

5.18 Provisions

(in millions of euros)	31 Dec. 2015	Increase	Use	Reversal	Other movements	31 Dec. 2016
Provisions for employee benefit obligations	**23.2**	**0.2**	**0.0**	**(0.2)**	**(0.3)**	**22.9**
Provisions for regulated home savings products	3.8	0.0	0.0	(0.5)	0.0	3.3
Provisions for off-balance sheet commitments	15.0	6.5	0.0	(5.9)	0.0	15.6
Provisions for litigation	2.9	0.8	(2.0)	(0.8)	2.2	3.1
Other	6.0	0.4	(0.4)	(0.6)	(2.2)	3.2
Other provisions	**27.7**	**7.7**	**(2.4)**	**(7.8)**	**0.0**	**25.2**
TOTAL PROVISIONS	**50.9**	**7.9**	**(2.4)**	**(8.0)**	**(0.3)**	**48.1**

The column "other movements" corresponds to a reduction in the flow of termination benefits recognised in OCI for €0.3 million at 31 December 2016 (against an increase of €1.9 million at 31 December 2015).

5.18.1 Deposits collected *via* regulated home savings products

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Deposits collected *via* PEL regulated home savings plans		
plans in place for less than four years	97.5	97.9
plans in place for more than four, but less than ten years	29.0	38.6
plans in place for more than ten years	123.0	126.7
Deposits held in PEL regulated home savings plans	**249.5**	**263.2**
Deposits collected *via* CEL regulated home savings accounts	**18.2**	**18.7**
TOTAL SAVINGS DEPOSITS COLLECTED *VIA* HOME SAVINGS PRODUCTS	**267.7**	**281.9**

5.18.2 Loans granted *via* home savings products

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Loans granted for PEL regulated home savings plans	0.1	0.1
Loans granted under CEL regulated home savings accounts	0.2	0.5
TOTAL LOANS GRANTED IN RESPECT OF REGULATED HOME SAVINGS PRODUCTS	**0.3**	**0.6**

5.18.3 Provisions set aside for regulated home savings products

(in millions of euros)	31 Dec. 2016	Charges/ Net reversals	31 Dec. 2015
Provisions for PEL regulated home savings plans			
plans in place for less than four years	0.9	(0.1)	1.0
plans in place for more than four, but less than ten years	0.1	(0.1)	0.2
plans in place for more than ten years	2.2	(0.2)	2.4
Provisions for PEL regulated home savings plans	**3.2**	**(0.4)**	**3.6**
Provisions for CEL regulated home savings accounts	**0.1**	**(0.1)**	**0.2**
TOTAL PROVISIONS ON REGULATED HOME SAVINGS PRODUCTS	**3.3**	**(0.5)**	**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. 2016	31 Dec. 2015
Term subordinated debt	165.0	190.0
Accrued interest	0.7	0.7
TOTAL SUBORDINATED DEBT	**165.7**	**190.7**

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 31 Dec. 2016
BPCE	EUR	29/06/2005	18/02/2017	3.9%	15.5
BPCE	EUR	07/12/2015	08/12/2025	3-month Euribor + 2.29%	150.2
TOTAL TERM SUBORDINATED DEBT					**165.7**

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. 2016			31 Dec. 2015		
(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. 2016**	**Amount 31 Dec. 2015**
BPCE	EUR	28/12/2016	3-month Euribor + 1.0%	0.0	15.0
BPCE	EUR	29/12/2005	3-month Euribor + 0.92%	0.0	65.0
TOTAL PERPETUAL DEEPLY SUBORDINATED DEBT				**0.0**	**80.0**

The perpetual deeply subordinated notes were fully redeemed at 31 December 2016.

5.21 Non-controlling interests

Fully-consolidated investments are wholly owned by the consolidating entity. As a result, no share is attributable to non-controlling interests.

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

(in millions of euros)	**2016**	**2015**
Remeasurement gains and losses on defined-benefit plans	0.3	(1.9)
Tax impact of remeasurement gains and losses on defined-benefit plans	(0.2)	0.6
Items that cannot be reclassified in income	**0.1**	**(1.3)**
Translation differences	**0.0**	**0.0**
Change in the value of available-for-sale financial assets	**10.2**	**(5.3)**
Change in value over the period affecting equity	*10.4*	*(4.3)*
Change in value over the period affecting income	*(0.2)*	*(1.1)*
Changes in the value of hedging derivatives	**0.4**	**0.0**
Change in value over the period affecting equity	*0.4*	*0.0*
Income taxes	**(3.2)**	**1.9**
Items that can be reclassified in income	**7.4**	**(3.5)**
GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER LINES OF COMPREHENSIVE INCOME (NET OF TAXES)	**7.5**	**(4.8)**

(in thousands of euros)	2016 Gross	2016 Income tax	2016 Net	2015 Gross	2015 Income tax	2015 Net
Remeasurement gains and losses on defined-benefit plans	0.3	(0.2)	0.1	(1.9)	0.6	(1.3)
Items that cannot be reclassified in income	**0.3**	**(0.2)**	**0.1**	**(1.9)**	**0.6**	**(1.3)**
Change in the value of available-for-sale financial assets(1)	10.2	(3.0)	7.2	(5.4)	1.9	(3.5)
Changes in the value of hedging derivatives	0.4	(0.1)	0.3	0.0	0.0	0.0
Items that can be reclassified in income	**10.6**	**(3.2)**	**7.4**	**(5.4)**	**1.9**	**(3.5)**
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER LINES OF COMPREHENSIVE INCOME (NET OF TAXES)	**10.9**	**(3.4)**	**7.5**	**(7.3)**	**2.5**	**(4.8)**
Attributable to equity holders of the parent	10.9	(3.4)	7.5	(7.3)	2.5	(4.8)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0

(1) Of which €1.4 million reclassified as expenses at 31 December 2016 against €1.1 million reclassified as income at 31 December 2015.

5.23 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)”.*

As from 31 December 2016, the amounts carried over to other assets and other liabilities include only those which are in fact under netting arrangements.

5.23.1 Financial assets

■ **Financial assets under netting arrangements not offset on the balance sheet**

(in millions of euros)	31 Dec. 2016				31 Dec. 2015			
	Net amount of financial assets presented on the balance sheet	Associated financial liabilities and financial instruments received as collateral	Margin calls received (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 received (cash collateral)	Net exposure
Derivatives	34.4	29.5	1.8	3.1	58.7	47.8	7.1	3.8
TOTAL FINANCIAL ASSETS UNDER NETTING ARRANGEMENTS NOT OFFSET ON THE BALANCE SHEET	**34.4**	**29.5**	**1.8**	**3.1**	**58.7**	**47.8**	**7.1**	**3.8**

5.23.2 Financial liabilities

■ **Financial liabilities under netting agreements not offset on the balance sheet**

(in millions of euros)	31 Dec. 2016				31 Dec. 2015			
	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	145.7	29.5	112.0	4.3	244.3	47.8	160.7	35.8
TOTAL FINANCIAL LIABILITIES UNDER NETTING ARRANGEMENTS NOT OFFSET ON THE BALANCE SHEET	**145.7**	**29.5**	**112.0**	**4.3**	**244.3**	**47.8**	**160.7**	**35.8**

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.

	2016			2015		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Loans and advances due from/to customers	215.8	(24.4)	191.4	226.1	(41.9)	184.2
Transactions with customers (excl. regulated savings accounts)	*215.3*	*(13.0)*	*202.3*	*226.0*	*(28.6)*	*197.4*
Term deposits and loans in regulated savings accounts	*0.5*	*(11.4)*	*(10.9)*	*0.1*	*(13.3)*	*(13.2)*
Loans and advances due from/to credit institutions	39.9	(14.2)	25.7	55.1	(14.6)	40.5
Debt securities and subordinated debt		(5.8)	(5.8)		(13.6)	(13.6)
Hedging derivatives	11.2	(53.8)	(42.6)	(12.9)	(53.8)	(40.9)
Available-for-sale financial assets	36.0		36.0	39.0		39.0
Held-to-maturity investments	0.9		0.9	1.3		1.3
Impaired financial assets	5.6		5.6	4.9		4.9
TOTAL INTEREST INCOME AND EXPENSE	**309.4**	**(98.2)**	**211.2**	**339.3**	**(123.9)**	**215.4**

Interest income on loans and advances to credit institutions consisted of €2.6 million in income in 2016 (€3.5 million in 2015) collected on the Livret A, LDD and LEP passbook savings accounts, which are deposited centrally with Caisse des Dépôts et Consignations.

Provisions for regulated home savings products decreased by €0.5 million at 31 December 2016, while they remained stable in 2015.

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".

	2016			2015		
(in millions of euros)	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Cash and interbank transactions	0.1	(0.1)	0.0	0.1	(0.1)	0.0
Transactions with customers	36.0	0.0	36.0	34.7	0.0	34.7
Financial services	4.4	(6.6)	(2.2)	3.8	(7.3)	(3.5)
Sales of life insurance products	12.7		12.7	12.3		12.3
Payment services	11.1	(6.3)	4.8	10.9	(5.3)	5.6
Securities transactions	1.8	(0.1)	1.7	2.5	(0.1)	2.4
Fiduciary and trust activities	37.4	0.0	37.4	40.1	0.0	40.1
Foreign exchange and arbitrage transactions	0.3	0.0	0.3	0.3	0.0	0.3
Other fee and commission income	4.4	(0.2)	4.2	4.0	(0.3)	3.7
TOTAL FEES AND COMMISSION	**108.2**	**(13.3)**	**94.9**	**108.7**	**(13.1)**	**95.6**

6.3 Net gains or losses on financial instruments at fair value through profit or loss

This item includes gains and losses, including the related interest, on financial assets and liabilities classified as held for trading or designated at fair value through profit or loss.

“Gains and losses on hedging transactions” include gains and losses arising from the remeasurement of derivatives used as fair value hedges, as well as gains and losses from remeasurement of the hedged item in the same manner, remeasurement at fair value of the macro-hedged portfolio and the ineffective portion of cash flow hedges.

(in millions of euros)	**2016**	**2015**
Gains and losses on financial instruments held for trading	25.8	12.7
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	*32.6*	*16.0*
Change in fair value of hedged items attributable to hedged risks	*(32.6)*	*(16.0)*
Gains and losses on foreign exchange transactions	(12.8)	0.6
TOTAL NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**13.0**	**13.3**

The line "Gains and losses on financial instruments held for trading" included for 2016:

- economic hedging derivatives which do not meet the restrictive hedging criteria required by IAS 39;
- the change in the fair value of the derivatives affected:
  - of which a negative €0.3 million was attributable to counterparty risk adjustments (*Credit Valuation Adjustment* – CVA),
  - of which a positive €0.1 million was attributable to the risk of non-performance of the valuation of the liability derivatives (*Debit Valuation Adjustment* – DVA).

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)	**2016**	**2015**
Net gain/(loss) on disposal	1.1	0.9
Dividends received	0.1	0.1
TOTAL NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**1.2**	**1.0**

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).

(in millions of euros)	2016 Income	2016 Expense	2016 Net	2015 Income	2015 Expense	2015 Net
Income/(loss) on disposal of investment property	0.0	0.0	0.0	2.4	0.0	2.4
Additions and reversals of depreciation and impairment on investment property	0.0	0.0	0.0	0.0	(0.2)	(0.2)
Income and expense on investment property	**0.0**	**0.0**	**0.0**	**2.4**	**(0.2)**	**2.2**
Transfers of expenses and income	0.2	(1.3)	(1.1)	0.6	(1.2)	(0.6)
Other miscellaneous operating income and expense	0.4	(2.2)	(1.8)	0.9	(1.1)	(0.2)
Additions to and reversals from provisions to other operating income and expense	0.0	0.7	0.7	0.0	(1.2)	(1.2)
Other banking income and expense	**0.6**	**(2.8)**	**(2.2)**	**1.5**	**(3.5)**	**(2.0)**
TOTAL INCOME AND EXPENSE FROM OTHER ACTIVITIES	**0.6**	**(2.8)**	**(2.2)**	**3.9**	**(3.7)**	**0.2**

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)	2016	2015
PAYROLL COSTS	**(122.5)**	**(120.3)**
Taxes other than on income	(10.7)	(9.6)
External services	(55.1)	(52.7)
OTHER ADMINISTRATIVE EXPENSES	**(65.8)**	**(62.3)**
TOTAL OPERATING EXPENSES	**(188.3)**	**(182.6)**

Taxes other than on income particularly include contributions enforced by the regulators: the SFR (Single Resolution Fund) in an annual amount of €3 million (against €1.3 million in 2015) and the tax on systemic bank risks (TSB) in an annual amount of €1.9 million (against €2.3 million in 2015).

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.

■ Cost of risk for the period

(in millions of euros)	2016	2015
Net impairment losses and provisions	(47.3)	(42.4)
Recoveries of bad debts written off	1.9	1.6
Unrecoverable loans and receivables not covered by impairment losses	(0.6)	(0.7)
TOTAL COST OF RISK	**(46.0)**	**(41.5)**

■ Cost of risk by type of asset

(in millions of euros)	2016	2015
Interbank transactions	0.2	0.0
Transactions with customers	(46.2)	(41.9)
Other financial assets	0.0	0.4
TOTAL COST OF RISK	**(46.0)**	**(41.5)**

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 2016.

6.9 Changes in the value of goodwill

(in millions of euros)	2016	2015
Ariès Assurances	0.0	(0.7)
TOTAL CHANGE IN THE VALUE OF GOODWILL	**0.0**	**(0.7)**

6.10 Income tax

6.10.1 Analysis of income tax

(in millions of euros)	2016	2015
Current income tax	(25.6)	(32.3)
Deferred income tax	(1.7)	(2.4)
INCOME TAX	**(27.3)**	**(34.7)**

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

	2016		2015	
	in millions of euros	tax rate	in millions of euros	tax rate
Net income attributable to equity holders of the parent	46.3		55.5	
Change in value of goodwill	0.0		0.7	
Share in net income of associates	(0.7)		(0.5)	
Income taxes	(27.3)		34.7	
Income before tax and changes in the value of goodwill (A)	**72.9**		**90.4**	
Standard income tax rate in France (B)		**34.43%**		**34.43%**
Theoretical income tax expense/(benefit) at the tax rate applicable in France (A x B)	**(25.1)**		**(31.1)**	
Impact of permanent differences	(0.6)	0.82%	(1.0)	1.11%
Temporary step-up in corporate tax	0.0	0.0%	(2.3)	2.54%
Tax on prior periods, tax credits and other taxes	(0.2)	0.26%	(0.4)	0.44%
Other items	(1.4)	1.95%	0.1	-0.11%
Income tax expense/(benefit) recognised	**(27.3)**		**(34.7)**	
EFFECTIVE TAX RATE (INCOME TAX EXPENSE DIVIDED BY TAXABLE INCOME)		**37.45%**		**38.38%**

NOTE 7 Exposure to risks

Disclosures relating to capital management and regulatory ratios are presented in the Risk management section.

Disclosures relating to forbearance adjustments are henceforth presented in the Risk Management part - Credit and counterparty risk.

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. These include:

- the breakdown of gross exposure by category and by approach (credit risks including counterparty risk);
- the breakdown of the gross exposures by geographic zone;
- the concentration of the credit risk by borrower;
- the breakdown of the exposures by loan quality;
- 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 and counterparty 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. 2016**	**Net outstandings at 31 Dec. 2015**
Financial assets at fair value through profit or loss (excluding variable-income securities)	178.6	171.1
Hedging derivatives	5.4	8.2
Available-for-sale financial assets (excluding variable-income securities)	1,673.9	1,318.6
Loans and advances due from credit institutions	4,149.5	6,472.3
Loans and advances due from customers	8,551.8	8,317.6
Held-to-maturity investments	51.0	51.4
EXPOSURE TO BALANCE SHEET COMMITMENTS	**14,610.2**	**16,339.2**
Financial guarantees given	1,072.8	1,087.5
Off-balance sheet commitments	1,863.2	1,692.4
EXPOSURE TO OFF-BALANCE SHEET COMMITMENTS	**2,936.0**	**2,779.9**
GLOBAL EXPOSURE TO CREDIT RISK AND COUNTERPARTY RISK	**17,546.2**	**19,119.1**

7.1.3 Impairments and provisions for credit risk

(in millions of euros)	31 Dec. 2015	Charges	Reversals	Other changes	31 Dec. 2016
Available-for-sale financial assets	0.0	0.0	0.0	0.0	0.0
Transactions with customers	277.7	92.4	(73.7)	1.6	298.0
Other financial assets	0.4	0.0	0.0	0.0	0.4
IMPAIRMENT LOSSES RECOGNISED IN ASSETS	**278.1**	**92.4**	**(73.7)**	**1.6**	**298.4**
PROVISIONS FOR OFF-BALANCE SHEET COMMITMENTS	**15.0**	**6.5**	**(5.9)**	**0.0**	**15.6**
TOTAL IMPAIRMENT LOSSES AND PROVISIONS FOR CREDIT RISK	**293.1**	**98.9**	**(79.6)**	**1.6**	**314.0**

The item "Other changes" includes a reclassification of interest provisions to capital provisions resulting from the capitalisation of interest due for €1.5 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	60.3	282.5	342.8
TOTAL AT 31/12/2016	**60.3**	**282.5**	**342.8**

7.1.5 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 2016.

7.3 Global interest rate risk and exchange rate risk

Interest rate risk is the risk that unfavourable changes in interest rates will adversely impact the Group's annual results and net asset value. Exchange rate risk is the risk of losses resulting from changes in exchange rates.

The management of the overall interest rate risk and the management of the exchange risk are provided in the risk management report.

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, balance sheet risk management.

■ 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	Indeter-minate	Total
Cash, central banks		325.6	0.0					325.6
Financial assets at fair value through profit or loss - trading	178.6							178.6
Hedging derivatives	5.4							5.4
Available-for-sale financial assets	3.6	84.7	100.0	298.0	1,199.5	12.5	4.4	1,702.6
Loans and advances due from credit institutions	0.0	1,659.5	126.4	312.5	1,838.3	212.8	0.0	4,149.5
Loans and advances due from customers	280.3	1,141.3	462.0	802.2	3,427.2	2,438.8	0.0	8,551.8
Remeasurement gains and losses on interest rate risk-hedged portfolios	15.2							15.2
Held-to-maturity investments	0.0	0.9	0.0	0.0	50.1	0.0	0.0	51.0
TOTAL FINANCIAL ASSETS BY MATURITY	**483.0**	**3,212.0**	**688.3**	**1,412.7**	**6,515.1**	**2,664.1**	**4.4**	**14,979.6**
Financial liabilities at fair value through profit or loss – trading	161.9							161.9
Hedging derivatives	98.3							98.3
Amounts due to credit institutions	15.2	450.9	242.5	211.7	1,717.2	50.0	0.0	2,687.4
Amounts due to customers	0.0	7,891.0	231.5	518.5	350.6	0.2	0.0	8,991.7
Subordinated debt	0.0	0.7	15.0	0.0	0.0	150.0	0.0	165.7
Debt securities	0.0	235.1	727.8	1,180.4	2.9	104.4	0.0	2,250.6
TOTAL FINANCIAL LIABILITIES BY MATURITY	**280.5**	**8,577.6**	**1,216.8**	**1,910.6**	**2,070.7**	**304.5**	**0.0**	**14,360.7**
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		363.2	120.3	46.3	1,331.4	1.3	14.5	1,876.9
TOTAL FINANCING COMMITMENTS GIVEN BY MATURITY		**363.2**	**120.3**	**46.3**	**1,331.4**	**1.3**	**14.5**	**1,876.9**
Guarantee commitments given to credit institutions		21.0	11.6	14.8	0.7	0.8	0.0	48.9
Guarantee commitments given to customers		11.6	42.8	136.1	185.9	576.3	71.5	1,024.0
TOTAL GUARANTEE COMMITMENTS GIVEN BY MATURITY		**32.6**	**54.4**	**150.8**	**186.5**	**577.1**	**71.5**	**1,072.9**

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. 2016	31 Dec. 2015
Conservateur Finance	3.3	4.4
Financial companies	**3.3**	**4.4**
TOTAL INVESTMENTS IN ASSOCIATES	**3.3**	**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 as follows:

	Associates Conservateur Finance	
(in millions of euros)	**31 Dec. 2016**	**31 Dec. 2015**
Valuation method	Equity method	Equity method
Dividends received	0.5	0.5
MAIN AGGREGATES		
Total assets	22.4	27.4
Total debt	5.6	5.2
Income statement		
• Net banking income	22.5	22.1
• Income tax expense	(1.7)	(1.7)
• Net income	3.4	2.5
RECONCILIATION WITH THE BALANCE SHEET VALUE OF ASSOCIATES EQUITY METHODS		
Equity of associates	16.7	22.1
Percentage interest	20.0%	20.0%
Share in equity of associates	3.3	4.4
Value of the investment in associates	3.3	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)	2016	2015
Conservateur Finance	0.7	0.5
Financial companies	**0.7**	**0.5**
TOTAL SHARE IN NET INCOME OF ASSOCIATES	**0.7**	**0.5**

NOTE 9 Employee benefits

9.1 Payroll costs

(in millions of euros)	2016	2015
Wages and salaries	(71.6)	(68.9)
Costs of defined-contribution and benefit plans	(6.8)	(6.7)
Other tax and social security charges	(39.0)	(39.1)
Profit-sharing and incentive plans	(5.1)	(5.6)
TOTAL PAYROLL COSTS	**(122.5)**	**(120.3)**

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1.1 million in 2016.

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	Other long-term benefits	2016	2015
Actuarial liabilities	0.6	14.9	2.6	4.7	22.8	23.2
Net amount reported on the balance sheet	**0.6**	**14.9**	**2.6**	**4.7**	**22.8**	**23.2**
Employee benefits, liabilities	0.6	14.9	2.6	4.7	22.8	23.2
Employee benefits, assets	0.0	0.0	0.0	0.0	0.0	0.0

9.2.2 Change in amounts recognised on the balance sheet

(in millions of euros)	Post-employment benefits under defined-benefit plans		Other long-term benefits			
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Other long-term benefits	2016	2015
Actuarial liabilities at start of year	**0.6**	**15.1**	**2.8**	**0.0**	**18.5**	**16.7**
Service cost	0.0	1.0	0.3	0.0	1.3	1.1
Interest cost	0.0	0.2	0.0	0.0	0.2	0.2
Benefits paid	0.0	(1.1)	(0.2)	0.0	(1.3)	(1.6)
Other	0.0	0.0	(0.3)	0.0	(0.3)	0.2
Changes recognised in income	**0.0**	**0.1**	**(0.2)**	**0.0**	**(0.1)**	**(0.1)**
Remeasurement gains and losses - Demographic assumptions	0.0	(0.3)			(0.3)	0.0
Remeasurement gains and losses - Financial assumptions	0.0	0.0			0.0	0.1
Remeasurement gains and losses - Experience adjustments	0.0	0.0			0.0	1.8
Changes recognised directly in equity that cannot be reclassified	**0.0**	**(0.3)**			**(0.3)**	**1.9**
Other	**0.0**	**0.0**	**0.0**	**4.7**	**4.7**	**4.7**
ACTUARIAL LIABILITIES AT END OF PERIOD	**0.6**	**14.9**	**2.6**	**4.7**	**22.8**	**23.2**

■ Remeasurement gains and losses on post-employment benefits

(in millions of euros)	Post-employment benefits under defined-benefit plans			
	Supplementary pension benefits and other	Termination benefits	2016	2015
Cumulative remeasurement gains and losses at start of period	**(0.5)**	**3.8**	**3.3**	**1.4**
Remeasurement gains and losses in reporting period	0.0	(0.3)	(0.3)	1.9
CUMULATIVE REMEASUREMENT GAINS AND LOSSES AT END OF PERIOD	**(0.5)**	**3.5**	**3.0**	**3.3**

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".

(in millions of euros)	Post-employment benefits under defined-benefit plans		Other long-term benefits			
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Other long-term benefits	2016	2015
Service cost	0.0	(1.0)	(0.3)	0.0	(1.3)	(1.1)
Interest cost	0.0	(0.2)	0.0	0.0	(0.2)	(0.2)
Benefits paid	0.0	1.1	0.2	0.0	1.3	1.6
Other	0.0	0.0	0.3	0.0	0.3	(0.2)
TOTAL EXPENSE (INCOME) FOR THE PERIOD	**0.0**	**(0.1)**	**0.2**	**0.0**	**0.1**	**0.1**

9.2.4 Main actuarial assumptions

	31 Dec. 2016			31 Dec. 2015		
	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%	1.4%	1.4%	1.4%
Inflation/Wage growth rate	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Life tables used	INSEE (TH00-02 and TF 00-02)			INSEE (TH00-02 and TF 00-02)		

The 1.41% rate corresponds to that taken from the composite AA Bloomberg EUR curve for ten-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 the BPCE Group, 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)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Net banking income	291.6	297.3	26.0	27.7	0.5	0.4	318.1	325.4
Operating expenses	(190.6)	(184.8)	(8.4)	(8.6)	(0.2)	(0.1)	(199.2)	(193.5)
Gross operating income	**101.0**	**112.5**	**17.6**	**19.1**	**0.3**	**0.3**	**118.9**	**131.9**
Cost/income ratio	*65.4%*	*62.2%*	*32.4%*	*31.0%*	*34.2%*	*25.0%*	*62.6%*	*59.5%*
Cost of risk	(46.0)	(41.5)					(46.0)	(41.5)
Share in net income of associates					0.7	0.5	0.7	0.5
Change in value of goodwill						(0.7)	0.0	(0.7)
Income before tax	**55.0**	**71.0**	**17.6**	**19.1**	**1.0**	**0.1**	**73.6**	**90.2**
Income tax expense	(21.1)	(28.1)	(6.1)	(6.5)	(0.1)	(0.1)	(27.3)	(34.7)
Non-controlling interests (minority interests)							0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**33.9**	**42.9**	**11.5**	**12.6**	**0.9**	**0.0**	**46.3**	**55.5**
TOTAL ASSETS	**15,316.6**	**17,333.2**	**19.5**	**23.4**	**1.6**	**2.7**	**15,337.7**	**17,359.3**

NOTE 11 Commitments

The amounts disclosed represent the nominal value of commitments given.

11.1 Financing commitments

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Financing commitments given to:		
• credit institutions	0.0	0.0
• from customers	1,876.9	1,705.3
Confirmed credit lines	1,801.8	1,650.8
Other commitments	75.2	54.5
TOTAL FINANCING COMMITMENTS GIVEN	**1,876.9**	**1,705.3**
Financing commitments received:		
• from credit institutions	583.2	351.1
TOTAL FINANCING COMMITMENTS RECEIVED	**583.2**	**351.1**

11.2 Guarantee commitments

(in millions of euros)	31 Dec. 2016	31 Dec. 2015
Guarantee commitments given to:		
• credit institutions	48.9	75.1
• customers	1,023.9	1,012.4
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,072.8**	**1,087.4**
Guarantee commitments received:		
• from credit institutions	279.0	301.4
• from customers	642.4	630.1
TOTAL GUARANTEE COMMITMENTS RECEIVED	**921.4**	**931.4**

Guarantee commitments are primarily off-balance sheet commitments.

The "securities pledged as collateral" are given in note 13 – Financial assets transferred but not fully derecognised and other assets pledged as collateral.

The "securities received as collateral" are given in note 13 – Financial assets received as collateral and which the entity may sell or repledge.

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. 2016		31 Dec. 2015	
(in millions of euros)	**BPCE**	**Associates**	**BPCE**	**Associates**
Loans	3,802.8	0.0	6,122.0	0.0
TOTAL ASSETS WITH RELATED ENTITIES	**3,802.8**	**0.0**	**6,122.0**	**0.0**
Liabilities	2,398.6	2.6	3,567.8	5.6
Other liabilities	1.6	0.0	0.0	0.0
TOTAL LIABILITIES WITH RELATED ENTITIES	**2,400.2**	**2.6**	**3,567.8**	**5.6**
Interest and similar income and expense	20.5	0.0	35.8	0.0
TOTAL NET BANKING INCOME WITH RELATED ENTITIES	**20.5**	**0.0**	**35.8**	**0.0**
Commitments received	45.2	0.0	45.2	0.0
TOTAL COMMITMENTS WITH RELATED ENTITIES	**45.2**	**0.0**	**45.2**	**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 €1.9 million in 2016 (€1.7 million in 2015).

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).

Other transactions with executive directors

(in millions of euros)	**2016**	**2015**
Overall amount of the loans granted	0.0	0.2
Overall amount of the pledges granted	0.0	0.0

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 assets

	Repos	Assets transferred or pledged as collateral	31 Dec. 2016	Repos	Assets transferred or pledged as collateral	31 Dec. 2015
(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	340.4	340.4	0.0	0.0	0.0
Available-for-sale financial assets	**0.0**	**340.4**	**340.4**	**0.0**	**0.0**	**0.0**
Loans and advances due from credit institutions	0.0	0.0	0.0	0.0	351.1	351.1
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	0.0	0.0	0.0
Loans and advances	**0.0**	**0.0**	**0.0**	**0.0**	**351.1**	**351.1**
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**0.0**	**340.4**	**340.4**	**0.0**	**351.1**	**351.1**
o/w financial assets transferred but not fully derecognised	***0.0***	***0.0***	***0.0***	***0.0***	***351.1***	***351.1***
TOTAL LIABILITIES ASSOCIATED WITH FINANCIAL ASSETS NOT FULLY DERECOGNISED	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Repurchase agreements

The Palatine Group does not enter into securities repurchase transactions.

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 2016, amounts pledged as collateral under funding arrangements only concerned securities provided to Banque de France under the TRICP system for €340.4 million, compared to €351.1 million at 31 December 2015.

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 Information on the lease financing operations and operating leases

14.1 Leasing transactions as lessor

The Palatine Group does not enter into leasing transactions as lessor.

14.2 Leasing transactions as lessee

■ Minimum future payments

	31 Dec. 2016			
	Residual maturity			
(in millions of euros)	**< 1 year**	**> or equal to 1 year up to 5 years**	**Over 5 years**	**Total**
Operating leases				
Minimum future payments to be paid under non-terminable agreements	(6.6)	(22.3)	(5.1)	**34.0**
Minimum future payments to be received under non-terminable sub-leases				0.0

■ Amounts recognised as net income

€ millions	**2016**	**2015**
Operating leases		
Minimum payments	(11.0)	(10.6)
Conditional rents included in the expenses for the period	0.0	0.0
Income from sub-leasing	0.0	0.0

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.

(in millions of euros)	31 Dec. 2016 Fair value	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using observable inputs (Level 3)	31 Dec. 2015 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	4,149.5	0.0	1,351.4	2,798.0	6,472.3	0.0	2,325.0	4,147.3
Loans and advances due from customers	8,551.8	0.0	489.0	8,062.8	8,317.6	0.0	436.2	7,881.5
Held-to-maturity investments	51.2	51.2	0.0	0.0	53.2	53.2	0.0	0.0
FINANCIAL LIABILITIES AT AMORTISED COST								
Amounts due to credit institutions	2,687.4	0.0	364.5	2,322.9	3,954.1	0.0	415.3	3.538.9
Amounts due to customers	8,991.7	0.0	6,930.1	2,061.6	9,935.1	0.0	7,763.4	2,171.7
Debt securities	2,250.6	0.0	0.0	2,250.6	1,943.8	0.0	0.0	1,943.8
Subordinated debt	165.7	0.0	0.0	165.7	190.7	0.0	0.0	190.7

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 and not 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 (for example, award of financing, guarantees or structuring derivatives, tax investor, major investor).

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 may be 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. 2016
Available-for-sale financial assets	23.2	23.2
TOTAL ASSETS	**23.2**	**23.2**
Maximum exposure to the risk of loss	**(23.2)**	**(23.2)**
Size of the structured entity	**6,690.6**	**6,690.6**

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. 2016
Income from entities	**27.3**	**27.3**
Net fee and commission income	27.3	27.3

NOTE 17 Scope of consolidation

	31 Dec. 2016				
	Country of	Consolidation	Changes in scope	Percentage	Percentage

	incorporation or domicile	method	compared with 31 December 2015	control	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**			
	2016		**2015**		**2016**		**2015**	
(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	78.0%	0.2	100.0%
Other procedures and services directly linked to the Statutory Auditors’ duties	0.0	0.0%	0.0	0.0%	0.1	22.0 %	0.0	0.0%
TOTAL FEES PAID TO STATUTORY AUDITORS	**0.2**	**100.0%**	**0.2**	**100.0%**	**0.3**	**100.0%**	**0.2**	**100.0%**

3

REPORTS BY THE STATUTORY AUDITORS

1 Statutory Auditors' report on the annual financial statements

Year ended 31 December 2016

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 2016, on:

- the audit of the accompanying 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 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 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.

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 2.3.2, 3.2, 3.10.2 and 5.9 in the Appendix to the annual financial statements, your Company set aside impairments and provisions to cover 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 monitoring 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.

We examined the methods for determining these provisions and we checked that the information provided in notes 2.3.8 and 3.10.4 of the Appendix was appropriate.

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

Investments in unconsolidated subsidiaries, investments in associates and other long-term equity investments by your Company are assessed at their value in use according to the methods described in note 2.3.4 in the Appendix.

As part of our assessment of these estimates, 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 in the Appendix sets out the rules rand accounting methods relating to the securities and financial instruments.

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 (in particular note 3.3), and ensured that they were correctly applied.

Provisioning for employee benefits

Your Company sets up provisions to cover its employee benefit obligations. We examined the method used to measure these obligations along with the assumptions and parameters used, and we checked whether the information provided in notes 2.3.8, 3.10.1 and 3.10.3 of the Appendix 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, 14 April 2017

KPMG Audit FS I	PricewaterhouseCoopers Audit	
Fabrice Odent *Partner*	Lionel Lepetit *Partner*	Anik Chaumartin *Partner*

2 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 2016)

To the Shareholders

Banque Palatine S.A.

42, rue d'Anjou

75382 Paris Cedex 08

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.

Agreements and commitments subject to shareholder approval

Agreements and commitments approved since the end of the year

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 Agreement entered into with Natixis S.A.: Amendment of 22 February 2017 to the compensation agreement entered into on 16 February 2016 as part of the transfer of the custodian activity to Natixis Titres and Caceis

- **Persons concerned:**
  - BPCE S.A. (Director and Shareholder of Banque Palatine S.A. and Natixis S.A.),
  - Sylvie Garcelon (Director of Banque Palatine S.A. as from 5 October 2016 and Natixis S.A. as from 10 February 2016).
- **Nature and purpose:**

  This agreement, approved by the Board of Directors on 9 February 2016, was signed on 16 February 2016. An amendment to this agreement, approved by the Board of Directors, was signed on 8 February 2017. This amendment changed the amount of the compensation to be received in 2017 by Banque Palatine S.A.

  Banque Palatine S.A. relies on a third-party service provider outside Groupe BPCE, and also its competitor, to keep 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:**

  After withdrawing from its previous service providers, Banque Palatine S.A. was obliged to bear the additional costs of the new IT developments, required for the IT migration of the Banque Palatine S.A. retail customers' account custodial service to Natixis S.A. (Eurotitres department) amounting to €800,000 (incl. VAT). They correspond to the additional costs in connection with (i) the technical changes to be made to the Banque Palatine S.A. information system to link up to the Natixis Eurotitres information system, and (ii) to the specific developments necessary to make the migration secure. 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 S.A. 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,
  - €800,000 to be paid in June 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 amendment to the agreement did not have any financial effect on the year ended 31 December 2016 (see foregoing paragraph Agreements and commitments approved during previous financial years - 2. Agreement entered into with other companies owing to common senior executives).

Agreements and commitments already approved by the shareholders

Agreements and commitments approved during the previous financial year

We have been informed by the special report of the Statutory Auditors of 15 April 2016 that the following agreements and commitments, already approved by the general meeting of 24 May 2016, continued to be performed during the past year.

1 Agreement entered into with other companies owing to common senior executives

Compensation agreement entered into with Natixis S.A. 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. until 12 September 2016, and of Natixis S.A.),
  - Sylvie Garcelon (Director of Banque Palatine S.A. as from 5 October 2016 and of Natixis S.A. as from 10 February 2016).

2 Agreements with shareholders and their subsidiaries

Invoicing agreement formed with BPCE S.A., majority shareholder of Banque Palatine S.A.

- **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). This agreement continued to produce its effects up to 30 June 2010 and was replaced by the invoicing agreement signed on 21 December 2010 with BPCE S.A. The purpose of this was to set the amount of the payment remunerating the assignments carried out by BPCE S.A. as part of the affiliation of Banque Palatine S.A.:

  - 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.

- **Quantity of supplies delivered / Amounts paid:**

  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 on the financial year ended on 31 December 2016 was an expense of €1,850 thousand, excluding tax.

- **Nature and purpose:**

This agreement, approved by the Board of Directors on 9 February 2016, was signed on 16 February 2016.

Banque Palatine S.A. relies on a third-party service provider outside Groupe BPCE, and also its competitor, to keep 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.

- **Quantity of supplies delivered / Amounts paid:**

  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 S.A. 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 financial effect on the financial year 2016 is an income of €433.5 thousand inclusive of tax.

- **Agreements and commitments approved during previous financial years**

  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.

3 Agreements with executives

Commitments maturing or likely to mature because of the termination or change of position of the Chief Executive Officer or Executive Vice-Presidents

The meeting of the Board of Directors of 14 February 2014 (for Pierre-Yves Dréan and Thierry Zaragoza) and of 13 February 2015 (for Bertrand Dubus) approved the continuation of the agreements initially approved by the Supervisory Board on 28 November 2012 concerning the commitments matured or likely to mature in the event of the termination or change of position of Banque Palatine S.A. executives.

a 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) other than for 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.

- **Quantity of supplies delivered / Amounts paid:**

  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 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.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 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 must not be followed by retirement or by a redeployment within Groupe BPCE.

  This commitment did not have any financial effect on the financial statements of Banque Palatine S.A. closed on 31 December 2016.

b Retirement benefits

i 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.

- **Quantity of supplies delivered / Amounts paid:**

  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 did not have any financial effect on the financial statements of Banque Palatine S.A. closed on 31 December 2016.

ii 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.

- **Quantity of supplies delivered / Amounts paid:**

  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 did not have any financial effect on the financial statements of Banque Palatine S.A. closed on 31 December 2016.

c 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.

- **Quantity of supplies delivered / Amounts paid:**

  In 2016, the amount of the annual expense is €12,164.04.

d Arrangements under which remuneration is maintained for 12 months in the event of temporary inability to work for the Chief Executive Officer

- **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.

- **Quantity of supplies delivered / Amounts paid:**

  This agreement had no impact on Banque Palatine S.A.'s financial statements in 2016.

e Supplementary pension plans for the Chief Executive Officer and the Executive Vice-Presidents

- **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. €154,164 in 2016.

- **Quantity of supplies delivered / Amounts paid:**

  For 2016, 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 2016: €15,446,
  - Thierry Zaragoza, from 1 January to 31 December 2016: €15,446,
  - Bertrand Dubus, from 1 January to 31 December 2016: €15,446.

Neuilly-sur-Seine and Paris La Défense, 14 April 2017

The Statutory Auditors

PricewaterhouseCoopers Audit — **KPMG Audit FSI**

Lionel Lepetit
Partner

Anik Chaumartin
Partner

Fabrice Odent
Partner

3 Statutory Auditors' report on the consolidated financial statements

Year ended 31 December 2016

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 2016, 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 your 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.

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 impairments 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 framework 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.

Valuation of other securities and financial instruments

Your Company holds positions in securities and financial instruments. Notes 4.1, 5.2, 5.3, 5.4 and 5.5 in the Appendix to the consolidated financial statements set out the rules and accounting methods relating to the securities and financial instruments.

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 the Group and the information provided in the notes in the Appendix, and ensured that they were correctly applied.

Deferred income tax

Your Group recognises deferred taxes (notes 4.10, 5.9 and 6.10 in the Appendix).

We examined the main estimates and assumptions which led to the recognition of these deferred taxes.

Provisioning for employee benefits

Your Group sets aside provisions to cover its employee benefit obligations.

We examined the method used to measure these obligations along with the assumptions and parameters used, and we checked whether the information provided in notes 4.9, 5.18 and 9.2 of the Appendix was appropriate.

Provisioning for regulated home savings products

Your Group sets aside a provision to cover the risk relating to the potentially adverse consequences of commitments given under home purchase savings plans and accounts.

We examined the methods for determining these provisions and we checked that the information provided in notes 4.5 and 5.18 in the Appendix to the consolidated financial statements 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 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, 14 April 2017

KPMG Audit FS I	**PricewaterhouseCoopers Audit**	
Fabrice Odent *Partner*	Anik Chaumartin *Partner*	Lionel Lepetit *Partner*

4 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 S.A.'s Board of Directors

Year ended 31 December 2016

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 2016.

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, 14 April 2017

KPMG Audit FS I	**PricewaterhouseCoopers Audit**	
Fabrice Odent *Partner*	Lionel Lepetit *Partner*	Anik Chaumartin *Partner*

5 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 2016

To the Shareholders,

In our capacity as a third-party organisation independent of Banque Palatine, accredited by COFRAC under number 3-1049[(1)], we hereby present to you our report on the consolidated workforce-related, environmental and social information relating to the financial year ended 31 December 2016 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. 822-11-3 of the French Commercial Code. Furthermore, we have also implemented a quality control system which includes documented policies and procedures aiming at ensuring compliance with the ethical rules 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 four members of staff between November 2016 and April 2017 over a total period of around four weeks. Our CSR specialises assisted us in conducting our work.

We performed the work outlined below in accordance with the Order of 13 May 2013 establishing the terms under which independent third-party bodies must carry out their responsibilities and, with the professional doctrine of the Compagnie nationale des Commisaires au Comptes with respect to this work and, with regard to the reasoned opinion on accuracy, with the ISAE 3000 international standard [(2)].

(1) *Of which the scope is available on the site www.cofrac.fr.*

(2) *ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.*

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 scope, 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.

Conclusion

Based on our audit, 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 are appropriate with respect to their 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;
- we conducted interviews at the head office 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 data selected represents 99% of the workforce considered as the characteristic dimension of the workforce-related element, 100% of the environmental data considered as characteristic dimensions [(4)] of the environmental element and 100% of the quantitative social information.

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(1) *Workforce-related indicators: Total workforce and breakdown by gender, contract, status and age, number of hires, number of terminations, average basic salary, breakdown of permanent staff by working hours, absenteeism rate, average number of hours of training by employee.*
Environmental indicators: Energy consumption, fuel consumption, greenhouse gas emissions related to energy consumption (buildings and transport), paper consumption.
Social indicators: Percentage of employees having received training in anti-money laundering policies and procedures, total SRI (Socially Responsible Investing) funds.
Qualitative information: Recruitments and dismissals, measures taken in favour of gender equality, energy consumption and the measures taken to improve energy efficiency and the use of renewable energies, significant items of greenhouse gas emissions generated by the Company's business, particularly through the use of the goods and services it produces, adapting to the consequences of climate change, taking the social and environmental issues into account in the purchasing policy.

(2) *See environmental indicators listed in the footnotes.*

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 this 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, 14 April 2017

KPMG S.A.

Anne Garans *Partner* *Sustainability Services*	Fabrice Odent *Partner*

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RISK MANAGEMENT FY 2016

The risk management and compliance system

The Groupe BPCE system

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

The risk management and compliance 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, compliance and permanent controls division (Group RCPCD) 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 Group RCPCD is carried out independently from operational divisions. Its methods of operation, in particular for the functions, are specified, among others, in the Group’s Risk and Compliance Charters approved by the BPCE Management Board on 7 December 2009 and most recently updated in January 2016, in conjunction with the order of 3 November 2014 on internal control.

Our institution's risk management division and compliance and permanent controls division have a strong functional link to it.

The risk management division and the compliance and permanent controls division of Banque Palatine

The risk management division and the compliance and permanent controls division of Banque Palatine are hierarchically linked to Banque Palatine's Chief Executive Officer and functionally linked to the Group's risk management, compliance and permanent controls division.

Together, these two divisions cover every risk: credit risks, financial risks, operational risks, non-compliance risks as well as cross-cutting steering and risk control activities. In accordance with Article 75 of the order of 3 November 2014 regarding internal control, these divisions provide measurement, supervision and control of risks.

To ensure their independence, the risk division and the compliance division, separate from other internal control functions, are 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 are all applied within the institution. The risk management division and the compliance and permanent controls division independently control the proper application of standards and risk measurement methods, in particular limits systems and delegation of authority schemes. They ensure that the risk policy principles are respected within the framework of their 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 435 1 e) of EU regulation no. 575/2013 regarding prudential requirements applicable to credit institutions and investment companies (CRR).

The scope covered by the risk management division and the compliance and permanent controls division includes the subsidiary Palatine Asset Management. They participate in the signing committees and the Audit Committees of this subsidiary and include operational and non-compliance risks in their mapping and tools.

Principal duties of our institution's 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 the executive bodies (the effective managers and the Board of Directors), contributes to the legal or regulatory reports and alerts the effective managers and the Board of Directors in the event of a significant incident (Article 98 of the order of 3 November 2014 regarding internal control).

Organisation and dedicated resources

The risk management division includes 19 employees spread across four departments. In organisational terms it is broken down into three separate functions specialised by type of risk: credit risks, financial risks and operational risks, as well as steering of projects and reporting in relation to risks.

The structuring decisions in respect of risk are presented to the Audit and Internal Control Committee and validated by the Executive Management Committee, which is responsible for defining the institution's general guidelines with regard to risk (limits, risk policies, charters, delegations, etc.). The Audit and Internal Control Committee regularly examines the principal credit, operational and financial risks of our institution.

Changes in 2016

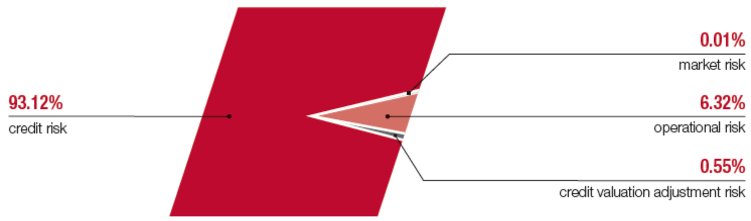
Significant events over the year mainly involved:

- the establishment the Bank's risk appetite system in coordination with that of Groupe BPCE;
- the roll-out of the Groupe BPCE rating tool for companies, within Banque Palatine, which makes it possible to obtain a more pertinent rating and thus improve risk analysis;
- the update of the Bank's credit risk policy for certain business segments;
- the establishment of the EMIR European regulation and the corresponding controls, for market transactions.

Main risks in 2016

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

The distribution of the risk-weighted assets of Banque Palatine at 31 December 2016 is the following:



Risk and compliance culture

To successfully conduct their work, the Groupe BPCE institutions are notably supported by the Group's Internal Control and Permanent Control Charters. These charters specify in particular that the supervisory body and the managers of each institution promote the risk and compliance culture at all levels of their organisation, and that the risk management and compliance divisions coordinate the dissemination of the risk and compliance culture among all employees, in coordination with all the other functions and/or divisions of Banque Palatine.

Broadly speaking, the risk management division and the compliance and permanent controls division:

- participate in days to promote the risk management functions, which are valuable moments to exchange ideas on risk issues, to present the work conducted by the different functions, to build capacities and to exchange good practices among the institutions which are also broken down by field: credit, financial, operational, non-compliance, which bring together all the institutions of the Group. Specific working groups complete this system;
- enhance their regulatory expertise, notably *via* receipt and circulation of pedagogical regulatory documents and through their participation in regular interventions in the various functions of the institution (commercial functions, support functions, etc.);
- are represented by their head of risk management and their head of compliance and permanent controls during audio-conferences or at regional meetings gathering the heads of risk and the heads of compliance and permanent controls of the Groupe BPCE networks and subsidiaries to discuss topical matters;
- contribute, via their senior executives or their head of risk management or the head of compliance and permanent controls, to the decisions made in the committees dedicated to the risk management function at Group level: Group Credit Committee, Group Watch List and Provisions Committee;
- benefit, on behalf of their employees, from an annual training programme disseminated by Groupe BPCE’s human resources department and which they complete with in-house training;
- disseminate the risk and compliance culture and share best practices with the other Groupe BPCE institutions.

More specifically, to coordinate cross-cutting work, our institution's risk management division and compliance and permanent controls division are supported by the Group's risk management, compliance and permanent controls division, which contributes to the due coordination of risk management and compliance and steers the overall monitoring of risks, including those inherent to compliance within the Group.

Risk appetite system

Context background

Groupe BPCE's risk appetite is defined by the level of risk that the Group finds acceptable, in a given context, to generate a recurrent and resilient income, by offering the best service to its customers and by preserving its solvency, liquidity and reputation.

The system is based on:

- the definition of the Group's risk profile, which ensures the coherence of the Group's DNA, its cost and income model, its risk profile and its capacity to absorb losses, as well as its risk management system;
- the indicators covering all the main risks to which the Group is exposed and completed by the limits or thresholds triggering the specific measures and governance in the event of overruns;
- a governance integrated into the Group's governance bodies for constitution and review, as well as in the event of a major incident but equally through applying all the principles to each Group institution;
- a full operational inclusion with cross-cutting systems for financial planning.

Risk appetite profile

Risk appetite is defined according to five Groupe BPCE-specific criteria:

- its DNA;
- its business model;
- its risk profile;
- its capacity to absorb losses;
- and its risk management system.

Groupe BPCE's DNA

A decentralised and interrelated cooperative group, Groupe BPCE bases its business on a capital that is principally located in its regional entities and on centralised market refinancing. Because of its mutual nature, the Group's goal is to provide the best service to its customers, while delivering sustainable income.

Groupe BPCE:

- is made up of legally independent entities and fully fledged banks based at a local level, holding ownership of the Group and its subsidiaries. Beyond its day-to-day management, in the event of a crisis, mechanisms of solidarity among the entities and the Group ensure the circulation of capital and make it possible to avoid the default of an entity or of the central body;
- is a cooperative group in which members can play the role of loss-absorption instruments;
- stems from a rapprochement in 2009 of several old entities with different risk profiles. Since then, the Group has been reducing its exposure to now non-strategic activities and to undesirable risks;
- ensures centralised market refinancing, thus making it possible to allocate it to the entities according to their needs in relation to their commercial activities. The preservation of the Group's image among investors and of their trust is therefore crucial.

Banque Palatine's DNA

A fully-owned subsidiary of Groupe BPCE, Banque Palatine enjoys the solidity and financial backing of the second largest banking group in France. The synergies of resources and the complementarity of expertises are daily vectors of overlapping partnerships, forged between Banque Palatine and all the Groupe BPCE entities.

A national bank on a human scale at the service of mid-sized companies (and of their senior executives) and private customers, it is structured to globally address the professional and personal challenges of its customers.

Business model

Groupe BPCE focuses on the structuring risks of its business model as a bank-insurer ("bancassureur") with a predominant component as a retail bank in France, while integrating other business lines needed to serve the Group's customers.

It is fundamentally a universal bank, on all segments and markets and present across the country through two competing networks, of which the regional entities have a territorial competence defined by their region of business. In order to reinforce this franchise and to offer a full range of services to its customers, Groupe BPCE conducts an economy-financing business, in particular targeting SMEs and professionals, as well as individual customers.

Certain activities (notably specialised financial services, wholesale banking, asset management, insurance) are based in the specialised subsidiaries.

Lastly, in view of the context of changing rates in which Groupe BPCE operates, on the one hand, and of its commitment to generate resilient and recurrent income, on the other, the Group maintains a balance between the pursuit of profitability and the risks in relation to its activities.

Banque Palatine continues to develop successfully in its two core target markets: mid-sized companies and private customers, to continually improve the way it responds to the expectations of executives on a professional and personal level.

Mid-sized companies offer the main growth potential for the French economy. Promoting their development and the emergence of new exporting companies is one of the priorities of Banque Palatine, which facilitates their development and supports them on a day-to-day basis.

Because each company has its own particular needs, it mobilises all the fields of expertise needed to respond to all the specific demands of its customers:

- financing of the operational cycle and of investments;
- corporate finance;
- dealing room;
- international support;
- real estate engineering;
- insurance brokerage;
- media and audiovisual;
- large accounts;
- regulated real estate professions;
- renewable energies.

Banque Palatine responds to the expectations of demanding customers by providing high added-value services in wealth, legal and fiscal engineering and investment consulting, as well as by adopting a global approach to the private and professional wealth of company executives.

Risk profile

Banque Palatine addresses, in particular, the following risks:

- credit risk, induced by our preponderant activity as a credit provider to individuals and companies, which is managed through risk policies applied to all the Group entities and through concentration limits by counterparty, by country and by sector;
- structural interest rate risk, which corresponds to the risk, current or future, to which the Bank's equity or income are exposed as a result of unfavourable interest rate changes affecting the positions of the banking portfolio. It is managed through common standards and limits by entity;
- liquidity risk, which covers the risk that a counterparty does not fully settle a commitment when it is due. Liquidity risk does not imply a counterparty's or participant's insolvency, because the required settlement can take place at a subsequent, non-specified moment. It is managed through static and dynamic limits, as well as by regulatory short-term liquidity coverage ratios (LCR);
- market risk, which corresponds to a potential loss on the trading portfolios as a result of market price changes. It is managed through Value at Risk and income stress test limits.
- non-financial risks, which are managed through common Group standards; these standards cover non-compliance risks, fraud risks, information systems security risks, conduct risks, as well as other operational risks.

The development of Banque Palatine's business model extends its exposure to other types of risk, notably risks in relation to asset management and the development of activities at an international level.

The Bank does not allow itself to undertake commitments in respect of activities it does not control or to trade on its own behalf. Activities with high risk and profitability profiles are strictly managed.

Whatever the activity, Banque Palatine operates according to the highest ethical and conduct standards, and according to the best operational implementation and security standards.

Capacity to absorb losses

Groupe BPCE has a high liquidity and solvency level which translates into a capacity to absorb, where necessary, the manifestation of risk at entity or Group level.

Thus, in terms of solvency: the 2013-2017 strategic plan foresees a Common Equity Tier 1 (CET1) target ratio over 12%. Moreover, the Group is able to absorb risk, in the long term, through its capital structure.

As regards liquidity, the Group has a significant reserve, comprising cash and securities, which makes it possible to address regulatory requirements, to satisfy stress test exercises and equally to access alternative financing mechanisms from central banks as well as high quality assets eligible for market refinancing mechanisms and those offered by the European Central Bank.

The Group ensures the solidity of this system by implementing global stress tests which are conducted regularly. They are carried out with a view to checking the Group's capacity to resist a serious crisis.

Banque Palatine has a high liquidity level and is in line with regulatory ratios and limits, both static and dynamic, which are standardised by Groupe BPCE. It has set up an emergency plan in the event of a liquidity crisis.

Risk management system

The implementation of the risk appetite system is based on four essential components: (i) the definition of common standards, (ii) the existence of a set of limits which are adapted to those defined by regulations, (iii) the distribution of fields of expertise and responsibilities locally and centrally, and (iv) the functioning of governance within the Group and the different entities, making it possible to apply an effective and resilient Risk Appetite Framework (RAF).

Banque Palatine:

- is responsible for the first-level management of the risks within its scope and, with this in mind, has a dedicated group of persons responsible for permanent control;
- breaks down the management of the risk appetite components through a set of standards and benchmarks stemming from charters dedicated to internal control which are conceived at Group level.

Lastly, Banque Palatine has adopted a set of limits which are applicable to the different risks and broken down at Group level.

The Group's and Banque Palatine's RAF are regularly updated. Any overrun of the quantitative limits set in the RAF is the object of an alert and an appropriate remedial plan, which may be established by the Executive Management Committee and communicated to the Board of Directors where necessary.

Capital investments or asset disposals could change the level and nature of the risks undertaken by the Group or its entities (including Banque Palatine). This is why risks are analysed centrally by the Group Investment Committee and decisions are validated by the Group Executive Management Committee.

Risk factors

The risk factors presented below concern Groupe BPCE as a whole, including Banque Palatine; they are addressed in detail in Groupe BPCE's annual report.

The banking and financial environment in which Banque Palatine, and more generally Groupe BPCE, operate exposes them to a number of risks and obliges them to implement a policy to control and manage said risks which is increasingly stringent and rigorous.

Some of the risks to which Banque Palatine is exposed are identified below. It is not an exhaustive list of all the risks undertaken by Banque Palatine or by Groupe BPCE (for such a list please refer to the annual registration document) in the course of its business or in view of its environment.

The risks presented below, as well as other risks, not identified at this time, or currently considered as non-material by Groupe BPCE, could have a significant unfavourable impact on its business, financial position and/or results.

Risks in relation to macroeconomic conditions, the financial crisis and the reinforcement of regulatory requirements

In Europe, the recent economic and financial context has had an impact on Groupe BPCE and the markets where it is present; this trend should continue.

European markets can experience disruptions that affect economic growth and impact financial markets, both in Europe and the rest of the world.

If the economic climate or the market conditions in France or elsewhere in Europe were to degrade, the markets where Groupe BPCE operates could suffer even greater disruptions, and its business, results and financial position could be negatively affected.

The legal texts and the regulatory measures presented in response to the global financial crisis could have a significant impact on Groupe BPCE and on the financial and economic environment in which it operates.

Legal and regulatory texts have been recently passed or presented with a view to introducing several changes, some of which are permanent, to the global financial framework. Even if these new measures are meant to prevent a new global financial crisis, they could radically change the environment in which Groupe BPCE and other financial institutions operate. Some of these measures could also increase the Group's financing costs.

Groupe BPCE is subject to considerable regulation in France and in a number of other countries where it operates; regulatory measures and their development could harm Groupe BPCE's business and results.

Several supervisory and regulatory systems are applicable to Groupe BPCE entities in each country where they operate. If these measures were not to be respected, it could lead to interventions by the regulatory authorities, to fines, to public warnings, to a degradation of the image of the banks, to the obligatory suspension of operations or, in the worst of cases, to the cancellation of authorisations.

Over the last few years, the financial services sector has been the object of increased monitoring from the different regulators, and has been subject to more severe penalties and fines, a trend which could accelerate in the current financial context.

The business and results of the Group's entities could be significantly affected by the policies and measures undertaken by the regulatory authorities in France, other European Union States and other States outside the eurozone, as well as by international organisations. These constraints could limit the capacity of the Group's entities, including Banque Palatine, to develop their business or in certain cases to operate. The nature and the impact of future changes in these policies and regulatory measures are unpredictable, and beyond the control of the Group and our institution.

These changes could include, but are not limited to, the following:

- monetary and interest rate policies and other measures undertaken by central banks and regulatory authorities;
- a general change in government policies or in the policies of the regulatory authorities which could significantly influence the decisions made by investors, in particular on the markets where Groupe BPCE operates;
- a general change in regulatory requirements, notably in prudential rules regarding the capital adequacy framework, such as the changes currently being made to the regulations that implement the Basel III requirements;
- a change in the rules and procedures regarding internal control;
- a change in the competitive and price environment;
- a change in the financial reporting rules;
- expropriation, nationalisation, price controls, exchange rate controls, the confiscation of assets or legislative changes in respect of rights regarding foreign investments; and
- any negative change in the political, military or diplomatic situation leading to social instability or an uncertain legal context, which could affect the demand for the products and services offered by Groupe BPCE.

Risks in relation to the Groupe BPCE 2014-2017 strategic plan

Made up of several initiatives, the Groupe BPCE 2014-2017 strategic plan notably comprises four investment priorities: (i) create local banks that enjoy leading positions to consolidate physical and digital relations with customers; (ii) finance the needs of customers, ensure that the Group becomes a major savings player, and move away from an approach based on lending to one based on "financing"; (iii) become a fully-fledged bank-insurer ("bancassurance") specialist; and (iv) accelerate the Group's rate of development internationally.

In the framework of the 2014-2017 strategic plan, Groupe BPCE has announced several financial targets, notably for the rate of growth of revenue and cost reductions, as well as targets for the regulatory liquidity and equity ratios. Essentially established with a view to planning and allocating resources, the financial targets are based on various assumptions and do not represent projections or forecasts of future results. Actual Groupe BPCE results might differ from these targets for a number of reasons, including the materialisation of one or several of the risk factors described in this document.

Risk factors in relation to Groupe BPCE business and to the banking sector

Groupe BPCE, including Banque Palatine, is exposed to several categories of risk inherent to banking activities.

The principal categories of risk inherent to Groupe BPCE activities are:

- credit risks;
- market risks;
- interest rate risks;
- liquidity risks;
- operational risks;
- insurance risks.

Groupe BPCE must maintain high credit ratings in order to avoid affecting its profitability and business.

Credit ratings have a significant impact on BPCE's liquidity and that of its affiliates, parent companies and subsidiaries, including Banque Palatine, which operate in the financial markets. A downgraded rating could affect the liquidity and competitive position of Groupe BPCE, increase its refinancing costs, limit access to capital markets and trigger clauses in certain bilateral contracts on trading, derivatives and collateralised refinancing transactions. Increased credit spreads can significantly increase the Group's refinancing cost.

A substantial increase in expenses, for the impairment of assets, recognised under the Groupe BPCE loans and receivables portfolio could weigh on its results and financial position.

In the framework of its lending activities, Groupe BPCE, including Banque Palatine, regularly impairs assets to reflect, if necessary, real or potential losses under its loans and receivables portfolio, which are recognised in the "Cost of risk" item in its income statement. The overall level of impairment of Groupe BPCE assets is based on a Group analysis of historical losses on loans, the volumes and types of loans granted, the sector standards, lending arrears, the economic situation and other factors linked to the degree of recovery of different types of loan.

While the Group entities, including Banque Palatine, work to establish a sufficient level of provisions for assets, their lending activities could in future be forced to increase their expenses for losses on loans due to an increase in the number of non-performing assets or to other reasons, such as a degradation of market conditions or factors affecting certain countries or indeed changes of an accounting nature. Any substantial increase of allocations to provisions for losses on loans, or any significant change in the Groupe BPCE estimates of the risk of loss inherent to its unimpaired loans portfolio, or any loss on loans greater than provisions made in this respect, would have an unfavourable impact on Groupe BPCE's results and financial position.

Banque Palatine's and more generally Groupe BPCE's capacity to attract and retain qualified employees is crucial to the success of its business and any failure in this respect could affect its performance.

Future events could differ from the assumptions used by senior executives to prepare the Groupe BPCE financial statements, which could expose it to unforeseen losses.

Pursuant to the IFRS standards and interpretations currently in force, Groupe BPCE, including Banque Palatine, must use certain estimates when preparing its financial statements, notably accounting estimates regarding the calculation of provisions for doubtful loans and advances, of provisions for potential litigation, and of the fair value of certain assets and liabilities, among others. If the values selected for these Groupe BPCE estimates were shown to be significantly inaccurate, notably in the event of significant and/or unexpected market trends, or if the methods used to determine them were to be modified in the framework of future IFRS standards or interpretations, Groupe BPCE would be exposed, where applicable, to unanticipated losses.

Sustained market downturns can reduce market liquidity and make it difficult to sell certain assets and, in turn, lead to losses.

Significant interest rate variations could have a negative impact on Groupe BPCE's net banking income and profitability.

The amount of net interest income made by Groupe BPCE, over a given period, has a significant impact on net banking income and profitability over the same period. Equally, significant changes to credit spreads can affect Groupe BPCE's results. Interest rates are very responsive to a number of factors that might fall beyond Groupe BPCE's control. Any unfavourable change of the yield curve could lead to a fall in net interest income from lending activities. Equally, a rise in the interest rates at which short term financing is available and the asymmetry of maturity rates could harm the profitability of Groupe BPCE. A rise in interest rates or a high level thereof, a low interest rate level and/or a rise in credit spreads can create a less favourable environment for certain banking activities, especially if these changes occur rapidly and/or continue over time.

Exchange rate changes could have a material impact on Groupe BPCE's results.

Groupe BPCE entities conduct a significant amount of their activities in currencies other than the euro and could see their net banking income and results affected by exchange rate changes.

For the most, Banque Palatine conducts its business on the French territory and does not have significant exchange rate positions, which are all hedged. Monitoring is conducted at the end of each day as well as on an intraday basis.

Any interruption or failure of Groupe BPCE's IT systems or those of a third party could lead to losses, notably commercial.

Like most of its competitors, Groupe BPCE is heavily reliant on communication and information systems, as its activities require processing a large number of increasingly complex transactions. Any malfunction, interruption or failure of these systems could lead to errors or interruptions at the level of the customer management, general accounting, deposits, transactions and/or loan processing systems. If, for example, Groupe BPCE suffered from a failure of its information systems, even over a short period of time, the entities affected would be unable to duly respond to their customers' needs in time and might thus lose opportunities to conduct transactions. Equally, a temporary malfunction of Groupe BPCE's information systems, notwithstanding the backup systems and emergency plans, could as a consequence entail considerable costs in terms of the recovery and verification of information, or a reduction of its business on its own behalf if, for example, such malfunction occurred during the implementation of hedging transactions. The incapacity of Groupe BPCE systems to adapt to an increasing number of transactions could also limit its capacity to develop its activities.

Groupe BPCE is also exposed to the risk of the operational failure or interruption of one of its clearing agents, exchange rate markets, clearing houses, custodians or other financial intermediaries or external service providers used by it to conduct or facilitate financial securities transactions. To the extent that its interconnectivity with customers is increasing, Groupe BPCE can also be increasingly exposed to the risk of an operational failure of its customers' information systems. Groupe BPCE's communication and information systems and those of its customers, service providers and counterparties can also suffer malfunctions or interruptions resulting from acts of cyber crime or cyber terrorism. Groupe BPCE cannot guarantee that such malfunctions or interruptions of its information systems or those of other parties will not occur or, if they do, that they will be adequately resolved.

Unforeseen events can cause an interruption of Groupe BPCE's activities and lead to substantial losses as well as additional expenses.

Groupe BPCE could be vulnerable to the political, macroeconomic and financial contexts or the specific circumstances of the countries where it conducts its business.

Certain Groupe BPCE entities are exposed to country risk, which is the risk that the economic, financial, political or social conditions of a foreign country affect their financial interests. Groupe BPCE activities and the income drawn from operations and transactions carried out outside the European Union and the United States, while limited, are exposed to a risk of loss resulting from unfavourable political, economic and legal changes, notably currency fluctuations, social instability, changes of government policy or central bank policy, expropriations, nationalisations, the confiscation of assets or legislative changes in respect of local property.

As a result of its business, Banque Palatine is particularly sensitive to the national economic climate.

The failure or inadequacy of Groupe BPCE's risk management policies, procedures and strategies could expose the Group to unidentified or unanticipated risks and lead to losses.

Groupe BPCE's risk management policies and strategies might not be able to effectively limit its exposure to every type of market environment or every type of risk, including the risks that the Group was unable to identify or anticipate. Equally, the risk management techniques and strategies used by the Group do not make it possible to guarantee an effective reduction of risk in all market configurations.

Groupe BPCE's hedging strategies do not remove all risk of loss.

Groupe BPCE could suffer losses if one of the various hedging instruments or strategies that it uses to hedge the different types of risk to which it is exposed proves ineffective. A number of these strategies are based on the historical trends and correlations of markets. Any unforeseen trend in the markets could reduce the efficacy of the Group's hedging strategies. Moreover, the way in which the gains and losses from certain ineffective hedges are recognised can increase the volatility of the Group's results.

Intense competition, both in France, its largest market, and internationally, could weigh on Groupe BPCE's net income and profitability.

The main Groupe BPCE business lines are all confronted by lively competition, whether in France or other parts of the world where it exercises significant activities. Consolidation, whether in the form of mergers and acquisitions or of alliances and cooperation, reinforces this competition. If Groupe BPCE, including Banque Palatine, were unable to remain competitive in France or its other principal markets by offering a range of products and services that were both attractive and profitable, it could lose market shares in certain important business lines, or suffer losses in all or some of its activities. Furthermore, any downturn of the world economy or of the economies where Groupe BPCE's principal markets are located could increase competitive pressure, notably through an intensification of price pressure and a contraction of the volume of business for Groupe BPCE and its competitors. Equally, new and more competitive players could enter the market, subject to distinct or softer regulation, or to other requirements in terms of prudential ratios. These new entrants would thus be in a position to offer more competitive products and services. Technological advances and the growth of electronic business have allowed institutions, other than custodian institutions, to offer products and services that traditionally were banking products, and financial institutions and other companies to provide electronic and internet-based financial solutions, including electronic securities trading. These new entrants could exert a downward pressure on the price of Groupe BPCE products and services or affect its market share. Technological advances could lead to rapid and unforeseen changes in the markets where Groupe BPCE is present.

The financial solidity and behaviour of other financial institutions and market players could have a negative impact on Groupe BPCE.

Groupe BPCE's capacity to carry out transactions could be affected by the financial solidity of other financial institutions and market players. Financial institutions are highly interrelated, due notably to their trading, netting, counterparty and financing activities. The default of a sector player, indeed even simple rumours or doubts concerning one or several financial institutions or the financial industry more generally, can lead to a general contraction of liquidity on the market and lead in turn to additional losses or failures. Groupe BPCE is exposed to various financial counterparties such as investment services providers, commercial or investment banks, clearing houses and centralised counterparties, mutual funds, hedge funds, as well as other institutional customers, with whom it regularly concludes transactions, thus exposing Groupe BPCE if one or several Groupe BPCE counterparties or customers were not to meet their commitments. This risk is exacerbated if the assets held as guarantee by Groupe BPCE cannot be sold, or if their price made it impossible to hedge all Groupe BPCE's exposure to the non-performing loans and derivatives. Moreover, frauds and embezzlement committed by financial sector participants can have a significant negative effect on financial institutions due notably to the interconnections between the institutions operating in the financial markets.

Tax legislation and its application in France and the countries where Groupe BPCE conducts its business could have an impact on Groupe BPCE's results.

As an international banking group carrying out complex and significant operations, Groupe BPCE is subject to the tax legislation of a large number of countries throughout the world. Changes to tax systems by the competent authorities in these countries could have a significant impact on Groupe BPCE's results. Groupe BPCE manages its business with a view to creating value from the synergies and commercial capacities of its different entities. It also looks to structure the financial products sold to its customers in a fiscally advantageous manner. It cannot be excluded that the tax authorities, in future, call into question certain interpretations made by the Group, which could lead to a tax audit.

The risks in relation to reputation, misconduct and legal affairs could weigh on the profitability and business outlook of Groupe BPCE.

Groupe BPCE's reputation is essential to attracting and retaining customers. The use of unsuitable means to promote and market its products and services, an inadequate management of potential conflicts of interest, legal and regulatory requirements, ethical issues, laws governing money laundering, the requirements stemming from economic sanctions, policies on information security and practices in relation to sales and transactions, or any other form of bad conduct, could tarnish Groupe BPCE's reputation. Equally, its reputation could be harmed by any inappropriate conduct by an employee, any fraud, embezzlement or other form of misappropriation of funds committed by financial sector actors to which Groupe BPCE is exposed, any reduction, restatement or correction of financial statements or any legal or regulatory proceedings which could lead to an unfavourable decision. Any harm done to the reputation of Groupe BPCE could be accompanied by a loss of business, which could have a negative impact on its results and financial position. An inadequate management of these issues could also increase Groupe BPCE's legal risks, the number of legal proceedings in which it is involved and the damages sought from it, as well as exposing it to sanctions by a given authority.

The holders of BPCE securities could also suffer losses if BPCE was subject to resolution proceedings.

Resolution proceedings could be initiated against Groupe BPCE if (i) the Group's default was proven or predictable, (ii) there was no reasonable way that another measure could be taken to avoid this failure within a reasonable time-frame and (iii) a resolution measure was required to attain the resolution objectives: (a) guarantee the continuity of critical functions, (b) prevent a significant negative effect on the financial system, (c) protect the State's resources by reducing as far as possible recourse to exceptional public-sector financial support and (d) protect the funds and assets of customers, notably those of depositors. An institution is considered as defaulting when it does not meet the requirements associated with its authorisation, it is unable to pay its debts or other commitments when they are due, it requests exceptional public-sector financial support, or the value of its liabilities is greater than the value of its assets.

Other than the power to conduct an internal bail-out, the resolution authorities – currently the *Autorité de contrôle prudentiel et de résolution* (ACPR) and the Single Resolution Council – have extended powers to implement other resolution measures which can include, among others: the sale of all or some of the institution's business to a third party or a bridging institution, the separation of assets, the replacement or substitution of the institution as debt instrument debtor, the amendment of the terms of the debt instruments (including the amendment of the maturity and/or of the amount of interest payable and/or the provisional suspension of payments), the suspension of the admission to trading or to the official financial instruments listing, the dismissal of executive officers or the appointment of a provisional director (special director) and the issuance of capital or equity.

The use of powers by the resolution authorities could lead to an impairment or integral or partial conversion of the equity instruments or debt obligations issued by BPCE, or could significantly impact the resources available to BPCE to pay for such instruments. Moreover, if Groupe BPCE's financial position worsens or if the market deems it has worsened, the existence of these powers could lead to a reduction in the market value of the equity instruments and the debt obligations issued by BPCE at a faster rate than if said powers did not exist.

Internal capital adequacy and capital requirements

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)	**31/12/2016**	**31 Dec. 2015**
Consolidated equity	777	832
Perpetual deeply subordinated notes classified as equity	0	80
Consolidated equity excluding perpetual deeply subordinated notes classified as equity	777	752
Non-controlling interests		
Common Equity Tier 1 (CET1) capital before deductions	751	728
Deductions from common equity		
• Goodwill		
• Other intangible assets	(25)	(23)
Other prudential adjustments	(4)	(10)
Common Equity Tier 1 (CET1) capital	722	695
Deeply subordinated notes		
Other Additional Tier 1 (AT1) capital		
Tier 1 capital (A)	**722**	**695**
Tier 2 capital	150	154
Tier Two capital (B)	**150**	**154**
TOTAL REGULATORY CAPITAL (A+B)	**872**	**849**
Credit risk-weighted assets	8,563	8,152
Market risk-weighted assets	0,6	3
Operational risk-weighted assets	581	572
CVA risk-weighted assets	51	48
TOTAL BASEL III RISK-WEIGHTED ASSETS	**9,195**	**8,776**
Capital adequacy ratios		
Core Tier One ratio	7.85 %	7.92 %
Tier One ratio	7.85 %	7.92 %
Total capital adequacy ratio	9.49 %	9.67 %

Composition of capital

Regulatory capital is determined in accordance with EU regulation No. 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, subject to adjustments and regulatory deductions (e.g. elimination of minority interests, deductions of goodwill and intangible assets).

The CET1 capital of €722 million includes the following elements:

- share capital, reserves, and undistributed profits: €774 million;
- the OCIs on securities classified in the available-for-sale category and the social liabilities: €3 million;
- prudential adjustments (including goodwill and intangible assets): -€55 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 2016.

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.

Tier 2 capital of Banque Palatine is composed of an eligible fixed term subordinated note in the amount of €150 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

(in millions of euros)	Exposure Weighted 31 Dec. 2016	Exposure Weighted 31 Dec. 2015
Central governments and central banks	34	39
Public sector entities	1	0
Institutions	111	68
Corporates	6,565	6,223
Retail customers	254	288
Gross exposures guaranteed by a mortgage on real estate asset	978	919
Exposures in default	471	471
Collective investment undertakings	20	23
Exposures in the form of equities	15	17
Other items	112	105
Credit risk exposures	8,563	8,153
Market risk exposures	0,6	3
Operational risk exposures	581	573
CVA risk exposures	50	48
TOTAL AMOUNT OF RISK EXPOSURES	**9,195**	**8,776**
CET1 capital	722	695
CET1 RATIO	**7.85 %**	**7.92 %**
T1 capital	722	695
AT1 RATIO	**7.85 %**	**7.92 %**
Total capital	872	849
TOTAL RATIO	**9.49 %**	**9.67 %**

At 31 December 2016, risk-weighted assets calculated in accordance with Basel III amounted to €9,195 million.

Since 1 January 2014, the Basel III capital adequacy ratio has been defined – in accordance with EU Directive 2013/36/EU and EU regulation No. 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 2016:

- the Common Equity Tier 1 ratio was **7.85%**;
- the Tier 1 equity ratio was **7.85%;**
- the total equity ratio was **9.49%.**

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 customers 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

Our institution's Audit and Internal Control Committee, in line with the definition of its risk appetite, proposes to the Executive Management Committee for validation the institution's policy on credit risk, the internal ceilings and the credit limits, and the institution's framework for the delegation of powers, and analyses the significant exposures and the results of risk measurements.

At the BPCE level, the Group risk management, compliance and permanent controls division (Group RCPCD) conducts, for the Group's Risk Management Committee, the control of the respect of regulatory ceilings. The internal ceiling system of the different Group 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, real estate holdings, 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 competent committee the registration in the watch list (list of counterparties, funds, securities, etc. under surveillance) of the loans whose quality is a concern or has deteriorated. This mission falls within the purview of the risk management function of our institution within its own scope and the purview of the Group RCPCD at the consolidated level.

Beyond the aforementioned systems, the control of credit risks is based on:

- an evaluation of risks by rating;
- 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 customer or transaction; the risk management division monitors the performance of these systems.

Rating is a fundamental element of risk assessment.

The Bank uses the retail rating tools of the former Caisse d'Epargne group in their V5 version and the Groupe BPCE rating tool for corporates. It calculates capital requirements according to the standard method.

As part of the permanent control process, the Group RCPCD has, notably, implemented a centralised monitoring procedure to verify the quality of data and the due application of the Group's standards in terms of segmentation, ratings, guarantees, defaults and losses.

Commitment procedures and monitoring of transactions

The institution’s credit risk management function, in the framework of its risk appetite system:

- proposes delegation systems to undertake transactions to the effective managers, taking into account the levels of risk as well as the competences and experiences 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, segment 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 watch list;
- 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.

Our institution's credit risk management function implements the credit risk framework, which is regularly updated and disseminated by BPCE's Group RCPCD. 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. 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's risk management division has strong functional ties with the Group RCPCD, which is in charge of:

- defining customer 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 may be 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. 2016	Gross exposures 31 Dec. 2015	Weighted exposures 31 Dec. 2016	Weighted exposures 31 Dec. 2015	Weighting rates (as a %) 31 Dec. 2016	Weighting rates (as a %) 31 Dec. 2015
Central governments	1,861	1,348	33	39	2%	3 %
Public sector entities	34	382	1	0	3%	0 %
Institutions	4,187	6,470	110	68	3%	1 %
Corporates	8,841	8,548	6,566	6,223	74%	73 %
Balance sheet	*6,186*	*6,078*	*5,359*	*5,150*	*87%*	*85%*
Off-balance sheet items	*2,655*	*2,471*	*1,206*	*1,073*	*45%*	*43%*
Retail customers	430	522	253	288	59%	55%
Balance sheet	*346*	*387*	*225*	*241*	*65%*	*62%*
Off-balance sheet items	*83*	*135*	*27*	*47*	*33%*	*35%*
Exposures guaranteed by a mortgage on a real estate asset	2,348	2,202	978	919	42%	42%
Exposures in default	712	404	471	471	66%	117%
Collective investment undertakings	20	23	20	23	100%	100%
Equities	10	11	15	17	149%	155%
Other items	288	292	112	105	39%	3%
TOTAL	**18,733**	**20,201**	**8,563**	**8,153**	**46%**	**40%**

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 weighted exposure).

The change in commitments derives principally from an increase in financing to corporates, which is a good reflection of the Bank's strategy: this segment, the Bank's biggest, corresponds to its core target.

Individual customers 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 of concentration risk by counterparty

■ **Breakdown of Group exposures > €10 million according to internal classification**

The concentration of risks is stable while maintaining a good quality of risks.

Concentration of exposures by segment

■ **Breakdown of commercial banking risks**

	31 Dec. 2016		31 Dec. 2015	
	Top 10	**Top 50**	**Top 10**	**Top 50**
Individual customers	3%	10%	3%	10%
Corporates	6%	18%	7%	20%
Real estate professionals	16%	38%	14%	35%
Large counterparties	67%	100%	65%	100%

"Disclosure in accordance with IFRS 7."

Geographic exposure

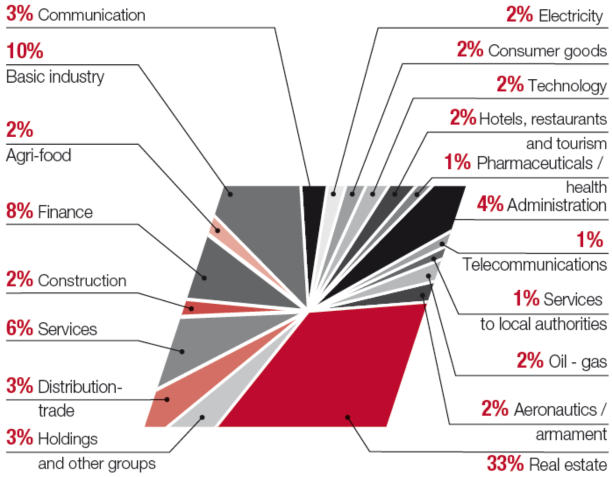
The geographic exposure of outstanding loans primarily concerns the eurozone, and in particular France (93% as at 31 December 2016).

Total country risk exposure was €2,145 million, up from €1,647 million at 31 December 2015.

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 31/12/2016**



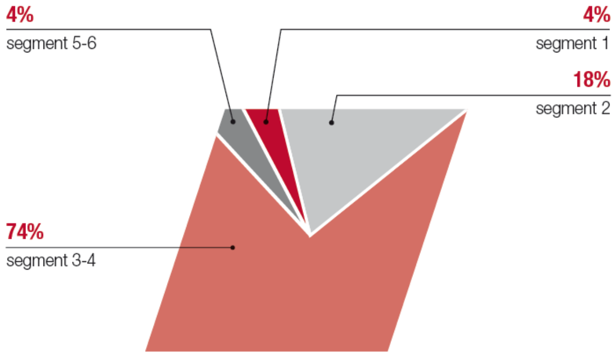
Scope:

- the exposures presented relate only to the commercial banking business;
- these exposures only concern customers with a NAF/APE code (i.e. excluding individuals and customers without a NAF code).

The breakdown of exposures by business segment corresponds to the standard defined by BPCE (Group Standards and Methods Committee of 19 October 2010). Real estate exposures amount to €3.8 billion, and the "property rental" and "property" segments have been combined into one category: real estate. Real estate financing, excluding non-trading property companies that own operating premises, accounts for around 21% of the Bank's total exposures.

Breakdown by credit segment

The breakdown of credit risk exposures by credit segment is as follows (corporates only):



"Disclosure in accordance with IFRS 7."

Only the Banque de France's external ratings are used to calculate the breakdown of exposures by credit segment, as defined in the capital adequacy ratio calculation and reporting arrangements of 21 September 2007. Segment 1 is the least risky, with ratings of 3++.. Thus, the quality of healthy risks is 96% composed of good quality risks. This new breakdown of risks by credit segment corresponds to a market decision and not to a downgrading of the portfolio.

Risk mitigation techniques

Providers of sureties

Taking guarantees (or risk mitigation techniques) into account represents one of the important factors in reducing capital requirements.

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 Caisse d'Epargne banks, 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 Caisse 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.

Our institution is responsible for the system to oversee the undertaking of guarantees, their validity, their registration and their valuation. The registration of guarantees follows the procedures in force, which are shared by our network. We are in charge of the safe-keeping and archiving of our guarantees, pursuant to the procedures 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.

Effect of credit risk mitigation techniques

In 2016, 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.

Simulation of a crisis relating to credit risk

Groupe BPCE's RCPCD performs crisis simulations relating to the credit risk of Groupe BPCE 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 performed 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). They are carried out on the basis of detailed information framed by the information that feeds into COREP (common solvency ratio reporting) 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 (RWA) using the standard approach or internal rating and expected losses 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.

Work done in 2016

Banque Palatine rolled out the Groupe BPCE rating tool for companies, which makes it possible to obtain a more pertinent rating and thus improve risk analysis. In addition, the update of the Bank's credit risk policy for certain business segments was continued, in line with the Groupe BPCE risk policy.

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: the risk incurred by the bearer of a receivable or a debt security when there is an interest rate change; 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 expressed in national currency;
- 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 organisation

The scope covered by market risk monitoring includes all market activities, i.e. 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.

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.

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 together with the Group's risk management, compliance and internal controls 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;
- the examination of matters brought to the Group's Risk Committee.

Law on the separation and regulation of banking activities

The map of Groupe BPCE's market activities was updated as at 31 December 2016.

On this basis, Groupe BPCE calculates, every quarter, the indicators required pursuant to Article 6 of the order of 9 September 2015.

At the same time as the work in relation to the banking regulation and separation law took place, the reinforced programme on compliance with the *Volcker Rule* (sub-section of the American *Dodd-Frank Act*) was certified on 31 March 2016 for the first time on BPCE's and its subsidiaries' scope (considered as a small group[(1)]). Banque Palatine, as part of the scope of the small group, established systems related to these regulations.

An approach that goes beyond the French law, this programme aims to map all the financial and commercial activities of the small group, notably in order to ensure that they are in line with the two main proscriptions laid out in the *Volcker* regulations, which are a ban on *Proprietary Trading* activities, and a ban on certain activities in relation to covered entities as defined by the American law, the so-called *Covered Funds*.

At 31 December 2016, 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.

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 managers and, as applicable, by the Board of Directors, taking into account the company’s equity and, as applicable, the consolidated equity and its distribution within the Group adapted to the risks incurred. For Banque Palatine they were reviewed in February 2016.

The limits monitoring system is composed of three types of limits:

- regulatory limits defined for credit institutions 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 to the financial product monitored.

The qualitative indicators are notably composed of the list of authorised products and the *watch list*.

To complete this qualitative monitoring, market risk monitoring is conducted through the calculation of complementary quantitative indicators.

In the framework of market risk monitoring, the BPCE's RCPCD calculates on a daily basis:

- a 99% 1-day parametric VaR to steer business and a 99% 1-day Monte Carlo VaR to frame business on our trading book (closing of the trading books of the networks at 31 December 2014);
- sensitivities, by risk axis on the trading scope of the BRED and Banque Palatine institutions.

■ Daily VaR calculation according to the "Monte Carlo" method

(in euros)

Segment	Sub-segment	VaR at 31/12/2014	VaR at 31/12/2015	Change in VaR between 31/12/2014 and 31/12/2015	VaR at 31/12/2016	Change in VaR between 31/12/2015 and 31/12/2016
Capital markets	Change, rate	32,978	44,627	35%	49,436	11%

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.

(1) *Small Groupe BPCE: BPCE and its subsidiaries, Natixis and its subsidiaries as well as 25%-held companies.*

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 RCPCD 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 BPCE's Group RCPCD 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.

Banque Palatine is included in the Group exercises.

Work done in 2016

The risk management function carries out specific checks, notably addressing the good practices of the Lagarde report. The monitoring of the points recommended in said report is presented quarterly to the Group's Market Risk Committee after action plans are consolidated and followed-up on by the Group RCPCD.

The financial risks department contributed to the finalisation of the work on the automated reconciliation of the financial transactions management results.

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 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.

Our institution formalises these controls in a second-level risk control report. 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 RCPCD, 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 monitoring 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 our institution 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 individually, 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 customer activities (credits):

- customer savings in non-centralised regulated savings accounts, other savings plans and accounts and term accounts;
- customer 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 our institution.

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 given period is equal to the difference between the assets and liabilities for said period. It is calculated using average assets for the period.

Our institution 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 ten-year basis.

These static ratios are subject to limits. During the 2016 financial year, these limits were respected.

Dynamic liquidity risk is measured by a stressed gap indicator calculated on the basis of one, two and three month periods, and is subject to limits. Over the last financial year, our institution respected its limits.

Monitoring interest rate risk

Our institution 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 the interest margin is measured over a rolling future two-year period.

  Over a management horizon (a rolling two-year period), we measure the sensitivity of our results to possible movements in interest rates, business forecasts (new business and changes in customer behaviour) and sales margins.

Following the reporting date of 31 December 2016, new static fixed interest rate gap and interest margin sensitivity measures will come into force. At that time, the level of the corresponding limits was modified. For the network institutions, the interest margin sensitivity limit will be monitored over four years.

Following this same reporting date, an information threshold, measured over four years, will be linked to the inflation gap. A limit will be linked to the inflation gap as of the reporting date of 31 December 2017.

During the 2016 financial year, the static ALM limits for the rates set for years seven to nine were breached. Overruns in future and distant years cannot be the object of manageable hedges based on the current interest rate curve.

Work done in 2016

During 2016, Banque Palatine worked on the reinforcement of the controls and analyses in relation to the preparatory work on financial matters for the Asset-Liability Management Committee.

Operational risk

Definition

The definition of operational risk is given in point 52 of Article 4 of EU Regulation No. 575/2013-1. It concerns 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 EU Regulation No. 575/2013, and risks linked to the model.

Operational risk monitoring organisation

The system of operational 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 Article 10 q) of the order of 3 November 2014 regarding internal control (external or in-house Group service providers).

The operational risk department of our institution 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 risk 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 of our institution, by its action and organisation, contributes to financial performance and to the reduction of losses, ensuring that the system for controlling operational risk within our institution 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 risk 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, for example).

The Bank currently uses the Group's operational risk analysis system (PARO) to apply the methodology adopted by the Group RCPCD 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 Palatine'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.

Banque Palatine also draws up, using this tool, the reporting items, and a dashboard of operational risks generated quarterly on the basis of the data collected.

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 2016, capital requirements for covering operational risk were €46.5 million.

The duties of the operational risk department of our institution are carried out with the Group RCPCD, 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 meetings.

Operational risk measurement system

In accordance with the Group's Risk Charter, Banque Palatine's operational risk 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 - in conjunction with the map used by the permanent and periodic control functions;
- 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 2016

During 2016, in order to ensure that an increasingly pertinent approach was being applied, the procedure regarding the mapping exercise was improved, notably by participating in the information systems security mapping. Maps are always drawn up through a processes approach.

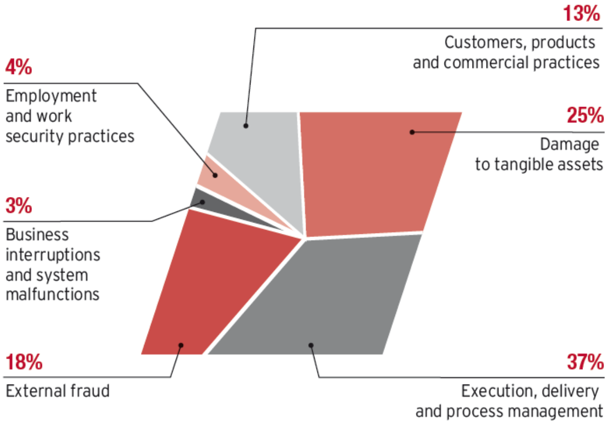
The IT Fraud and Incidents Committees met regularly over the year and developed in order to improve their risk approach.

A half-yearly review with the legal and non-performing-loans teams, taking note of the decisions of the Provisions Committee and carrying out checks - particularly those relating to claims and accounting coherence - make it possible to ensure that significant incidents are recorded efficiently.

Within this framework, more than 2,490 incidents were recorded during 2016 (incidents created in 2016).

Certain incidents (created prior to 2016 and re-evaluated in 2016) are still being processed.

■ **Breakdown of the number of "un-finalised" incidents by Basel category**



Exposure to operational risks

In 2016, Banque Palatine's total annual gross losses and Corep provisions amounted to €6,415,576 while the total annual gross losses and Corep provisions for the Group (Banque Palatine and its subsidiary Palatine Asset Management) amounted to €6,442,103.

Legal risks

The inventory of loans being processed by the non-performing loans division at the end of 2016 was 517 loans subject to recovery in the gross amount of €101.8 million. New loans in 2016 represented 177 loans totalling €33 million, broken down as follows: 38 loans to private individuals for a total of €5.9 million and 139 loans to companies for a total of €27.1 million.

Within the Banque, the inventory of loans in dispute at the end of 2016 was 110 loans broken down between 79 subpoenas, one of which for €13.2 million, issued jointly and severally to seven banks and a fund for undue de facto management ("*gestion de fait*" and inappropriate loans ("*crédits inappropriés*"). The banks and their lawyers are confident, as the liquidators submitted no evidence supporting their subpoena - and 31 complaints for a total amount of €35 million, provisioned in the amount of €3,260 million.

New loans in dispute in 2016 include 33 subpoenas amounting to €14.3 million (including the file mentioned above under inventories) and 22 complaints amounting to €2.3 million.

The supervisory and special affairs department managed 861 loans at the end of 2016 totalling €501.3 million including 116 new loans in 2016 amounting to total outstandings of €143.9 million.

Non-compliance risks

The compliance function participates in Groupe BPCE's permanent control process. It brings together all the compliance functions as defined in the Groupe BPCE Compliance Charter and has a set of dedicated resources, which the Group companies are provided with. The compliance function is part of the Group's risk management, compliance and permanent controls division (Group RCPCD).

As regards the organisation of the Groupe BPCE internal controls, Article L. 512-107 of the French Monetary and Financial Code makes BPCE responsible for "7° *Defining the principles and terms of the internal control system of the group and each of the networks as well as of controlling the organisation, management and quality of the financial position of the affiliated institutions and companies, notably through on-site checks within the scope of intervention defined in the fourth sub-section of Article L. 511-31".*

In this context, the Groupe BPCE scope requires the identification of several complimentary levels of action and responsibility, within the compliance function, with specific principles of organisation:

- BPCE as the central body for its own activities;
- its affiliates and their direct and indirect subsidiaries;
- its direct and indirect subsidiaries.

The compliance function carries out the second-level permanent control which, pursuant to Article 11 a) of the order of 3 November 2014 regarding the internal control of companies in the banking, payment services and investment services sector subject to the supervision of the *Autorité de contrôle prudentiel et de résolution* (ACPR), is in charge of verifying the compliance of the operations, organisation and internal procedures of the Groupe BPCE companies with the legal, regulatory, professional or internal standards applicable to banking, finance and insurance activities, in order to:

- prevent the risk of non-compliance as defined by article 10-p of the order of 3 November 2014: "... *risk of legal, administrative or disciplinary sanction, of significant financial losses or of harm to reputation, which stems from non-compliance with directly applicable national or European provisions specific to banking and financial activities, whether of a legal or regulatory nature, or whether in respect of professional or ethical standards, or of instructions from the effective managers issued notably in application of the supervisory body's guidelines"*;
- safeguard Groupe BPCE's image and reputation among its customers, employees and partners.

Against this backdrop, the compliance function applies any measures likely to reinforce the compliance of operations conducted within the Groupe BPCE companies, their affiliates and their subsidiaries, while at all times working in the interest of its customers, employees and partners.

The compliance function is in charge of ensuring the coherence of the compliance system as a whole, in the knowledge that each operational or control function remains responsible for the compliance of its own activities and operations.

It is the preferred interlocutor of the *Autorité des marchés financiers* (AMF - financial markets authority), of the joint AMF-ACPR coordination unit for marketing control, of the *Commission nationale de l'informatique et des libertés* (CNIL - national commission for data protection and liberties) and of the general directorate for competition, consumption and fraud control (DGCCRF - *direction générale de la concurrence, de la consommation et de la répression des fraudes*). The compliance function is involved in exchanges with the ACPR with regard to the subjects under its responsibility. Lastly, in its capacity as the second-level permanent control function, it has close links to all the functions contributing to the implementation of the Groupe BPCE internal controls, such as the general inspection division and the other entities of the RCPCD.

Emergency and business continuity plan – EBCP

Organisation and steering of business continuity

Groupe BPCE's EBCP management is organised as a function, and steered by the Group's Security and Business Continuity (SBC) unit.

The Group's head of Security and Business Continuity (SBC) and Head of business continuity (HBC) are responsible for steering the business continuity function, which brings together the Heads of the business continuity plan (HBCP) and of the security and business continuity plan (HBCP/HEBCP) of the Banque Populaire, the Caisse d'Epargne, the IT EIGs, BPCE, Natixis, and the other subsidiaries, including Banque Palatine.

The HBCP/HEBCP of the Group's institutions report functionally to the Group's HBC.

The Group's security and business continuity unit draws up, implements and develops, as needed, the Group's business continuity policy.

The Groupe BPCE Safety, Security and Business Continuity Charter, reviewed in 2015 and published in 2016, aims to reinforce the links between the two security and business continuity functions; two functions dedicated to the management of emergency situations and business continuity.

The governance of the EBCP function is undertaken by bodies at three levels, which are called upon according to the nature of the measures to be taken or the validations to be made:

- the Group EBCP Steering Committee, whose duties are to inform and coordinate EBCP work and the Group's processes, and to validate the scope to be covered by the EBCP mechanisms and the continuity strategy;
- the Business Continuity Function Committee, an operational coordination body;
- the Group business continuity plenary, a national plenary body to exchange information and collect issues.

The reference framework, the Group's Business Continuity Charter (G-BCC) and the Group's Best Practices for Business Continuity (G-BPBC) were validated within our institution by the Operational Risks and Security Committee (ORSC) of 18 July 2016. The development of the new Groupe BPCE Safety, Security and Business Continuity Charter was presented to the Group's Security and Business Continuity Division (GSBCD), to the managers responsible for business continuity (BC) as well as to the members of executive management.

Description of the organisation set up to ensure business continuity

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;
- following the publication of the Group's new Safety and Business Continuity Charter, including notably a change in the governance framework in relation to the duties of the Head of the security of goods and people (HSGP) and the Head of the emergency and business continuity plan (HEBCP - formerly HBCP), the Head of the emergency and business continuity plan now reports to the Head of resources and work environment, who is a member of the Executive Management Committee;
- for the current year, Banque Palatine's business continuity planning and the action plan are prepared and approved by the BCP Steering Committees in line with the best practices guide drawn up by the Group;
- the BCP Steering Committees, which are part of the ORSC, are held on a half-yearly basis. In the event of an urgent decision, an exceptional committee meeting may be held in connection with a quarterly Operational Risks and Security Committee;
- the ORSC is chaired by the member of the Executive Management Committee who the Banque Palatine emergency and business continuity plan Head reports to.

Organisation of the business continuity framework

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

- CMP: the crisis management plan covering continuity of service and resumption of normal service;
- COMP: internal and external communication plans under which crisis communications tools are launched;
- HP/RP: hosting and re-population plans ensuring that backup sites are properly equipped and organised;
- RP: the IT recovery plan to get IT hardware started up again;
- ACP: 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 ORSC.

- 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 level 2 business continuity permanent controls campaign, organised by the G-SBCD, is conducted by the HBCP and registered in the Group's permanent controls steering tool (PILCOP).

Work done in 2016

In 2016, the improvement and reinforcement of the BCP system continued by embracing the best possible practices, in accordance with Groupe BPCE's guide to best business continuity practices.

The highlights included:

- the active participation of Banque Palatine's EBCP function in the national "Seine Flooding" exercise of 8 March 2016, with the G-SBCD and the other Group institutions, demonstrating the operational nature of Banque Palatine's crisis management system. 28 people from the operational crisis unit participated actively in this exercise;
- the successful implementation of the BCP exercise "withdrawal of head office users", which took place on 5 April 2016, moving users and re-initiating their production activities on the IT equipment at the contingency sites of Noisy-le-Grand and Val de Fontenay (for the Anjou head office employees). On this occasion, three new activities were included in the exercise: the commitments division, the market risk management division and HR. 71 people took part, including 54 at the Noisy-le-Grand site;
- the development and implementation of a human resources framework in relation to the EBCP function. The purpose of this framework is two-fold: on the one hand, to support the system to manage the movements of the BCP correspondents and, on the other, to make it possible to manage scenario 3 regarding the unavailability of employees by integrating the key competences mapping implemented in 2015. The framework was rolled out in June 2016;
- roll-out of the alerts management tool (CRISISCARE);
- development, with the human resources and work environment division, of the human impact management plan;
- continuation of the work to add new activities to the framework;
- review of the business line impact analyses (BIA) for 37 of the Bank's critical activities;
- triggering of the crisis management plan (CMP) on six occasions. Incidents were of different kinds (local branch incidents, IT incidents, etc.). The BCP was triggered for one branch; employees were pulled out and the activities of the branch were continued at the back-up site;
- another BCP was triggered as a result of the bad weather in June 2016. A technical site of the company Orange was flooded, which led to a telecoms failure at the Val de Fontenay head office. This incident meant that voice and fax communication resources were unavailable. The telephone and fax lines were restored the next day. As a precautionary measure, the users of PRI middle-office activities and of Palatine Direct at Val de Fontenay were directed, for one day, to the back-up site of the Saint-Lazare branch;
- the IT activity recovery plan exercise could not be conducted as planned. The Bank decided to entrust its IT operations to Groupe BPCE's BPCE-IT, a migration that took place over the last quarter. Conflicting dates between the two projects led to its deferral until 2017.

Information systems security (ISS)

Organisation and steering of the ISS function

Groupe BPCE's information systems security is organised as a function, and steered by the Group's information systems security division. The division defines, implements and develops the Group's ISS policies. It reports functionally to the Group's risk management, compliance and permanent controls division (RCPCD).

Within this framework, the Group's information systems security division (G-ISSD):

- fosters the ISS function bringing together: the HISS of parent company affiliates, subsidiaries and IT EIGs;
- carries out the level 2 permanent control and the consolidated control of the ISS function, as well as technical and regulatory monitoring, with the other RCPCD departments;
- initiates and coordinates Group projects to reduce risks in its field;
- represents the Group when dealing with the competent interbank or public authorities in its field.

Banque Palatine's Head of information systems security (HISS) and more generally the HISS of all the parent company affiliates, direct subsidiaries and IT EIGs report functionally to the Group HISS. This functional link notably implies that:

- any HISS appointment is notified to the Group HISS;
- the Group's information systems security policy is adopted by the institutions and each local ISS policy is submitted to the opinion of the Group HISS, prior to its implementation in the institution;
- reporting in relation to the level of compliance of the institutions with the Group's ISS policy, the permanent ISS control, the level of ISS risks, the main ISS incidents and the actions undertaken are communicated to the Group HISS.

At Banque Palatine, the ISS team is part of the compliance and permanent controls division (CPCD) whose Head reports to the Chief Executive Officer.

The ISS team comprises two people, one of whom is the HISS, and has its own budget which allows it, where necessary, to resort to experts (to carry out intrusion tests, for example).

Risk monitoring in relation to information systems security

Groupe BPCE has drawn up a Group Information Systems Security Policy (G-ISSP). This policy defines the guiding principles for the protection of the information systems (IS) and specifies the provisions to be respected, on the one hand, by all the Group's institutions in France and abroad and, on the other, by any third-party entity as of the moment it accesses the information systems of one or various Group institutions.

The G-ISSP materialises the Group's security requirements. It includes an ISS Charter, with 430 rules classified under 19 themes[(1)]. and three organisational instruction documents[(2)]. It is subject to an annual review as part of a continuous improvement process. These documents and their reviews are regularly approved by the BPCE management board or Executive Management Committee, then circulated among all the Group institutions. The reviews carried out over 2016 did not result in any changes.

The G-ISSP represents the minimal standards that each institution must be in line with. To this end, in 2007, Banque Palatine set up a local ISS Charter implementing the Group ISS Charter.

This ISS Charter applies to Banque Palatine and Palatine Asset Management, its fully-owned subsidiary, as well as any third-party entity, by way of the agreements, from the moment they connect to Banque Palatine's information systems. This ISS Charter includes the 430 security rules of the G-ISSP.

Banque Palatine's ISSP is also subject to an annual review as part of a continuous improvement process.

Moreover, a new framework of 133 permanent ISS controls, accessible *via* the PILCOP tool, was rolled out in 2016 across the institutions. It represents the base ISS level 2 permanent controls for the Group and relates to the 322 high-stake or very high-stake rules of the G-ISSP.

Each institution carries out the framework's controls applicable to the scope of their information system.

Furthermore, the methodology of the operational risk map, which articulates the ISS approaches with those of the business lines, was integrated in the Group's operational risk mapping mechanism. It was rolled out across the institutions in 2015. 16 operational risks with a security component, presented in 27 risk scenarios, were identified. These risks were reviewed in 2016.

Lastly, in order to address the sophistication of cyber security attacks, in a context where the Group's information systems are increasingly open to the outside world, the Group set up, at the end of 2014, a cyber security vigilance system, called VIGIE.

In 2016, VIGIE ensured permanent monitoring and communicated incidents encountered in the Group and the corresponding action plans. VIGIE encompasses 17 entities[(3)], two members of the team to fight against payment services fraud and three members of the ISS team of BPCE. VIGIE also liaises with the central criminal police department (ANSSI) and the main institutions of the banking authorities.

This exchange of information among Group institutions and their peers makes it possible to anticipate, as early as possible, potential incidents and avoid their dissemination.

In the event of an ISS incident classified as major, the alerts and crisis management process is activated, as defined by the Head of the emergency and business continuity plan.

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(1) Authentication of customers for Remote Banking and Online Payment transactions; Internet access security; Email security; Logical access controls; IT networks security; Fight against malware; Telephone security; Workstation security; IT development security; Management of IT traces; Human resources ISS awareness-raising and training; Systems and equipment security; Security of sub-contracted or outsourced services; Management of backups, archives and movable storage; IT operations and production security; Wireless IT networks security; Nomad IT security; Security of confidential digital information; Authentication of customers for Remote Banking and Online Payment transactions; Security of IT facilities.

(2) Operation of the Groupe BPCE ISS function, ISS Permanent Control, classification of IS-sensitive assets.

(3) i-BP, BRED-BP, Crédit Coopératif, CASDEN-BP, Natixis, Banque Palatine, IT-CE, BPCE, BTK, BMOI, Banque des Mascareignes, BCP Luxembourg, Banque de Madagascar, BICEC, BNC, BDSPM, S-money.

Emerging risks

Groupe BPCE, like other European and French players, must face the risks induced by its environment. It pays particular attention to new emerging risks.

The international situation is a source of concern, marked by notable economic downturns in emerging countries which are reinforced in certain regions by political and budgetary instability, notably as a consequence of the price of commodities which are still low. In Europe, Brexit, as well as the security and migration context, are weighing on the stability of the European Union and its currency, which is a source of potential risk for banking institutions.

The current context of particularly low interest rates, negative for certain maturities, generates a potential risk for commercial banking activities, notably in France with the preponderance of fixed-rate loans, and for life insurance activities.

The increasing digitisation of the economy as a whole and of banking activities in particular comes with increased risks for customers and for the security of information systems; cyber security has become an area of potential risk that requires increasingly strong vigilance.

Misconduct risk is monitored in the framework of operational risk monitoring and is addressed by the Code of Conduct and Management of Conflicts of Interest Charters at the different levels of Groupe BPCE.

The regulatory climate is another area being monitored, as banking institutions conduct their business under increasingly stringent requirements.

Climate risks

The risk in relation to climate change is included in risk management in multiple ways:

Groupe BPCE participates, like all the other French banking groups, in the work of the ACPR in the framework of provision V of Article 173 of the law on energy transition for green growth.

Since 2016, the general credit risk policy includes risk in relation to climate change and integrates social and environmental responsibility as a significant topic in respect of the evolution of risks. Climate risk was also included in the work carried out in 2016 to prepare the institutions' risk maps.

Moreover, Groupe BPCE has formalised a Group CSR approach, validated by the Executive Management Committee, which includes the reduction of direct and indirect environmental impacts. Steps were therefore taken by BPCE to reduce these risks in all the components of its business, such as:

- the introduction, for the most sensitive sectors at Natixis, of CSR policies for internal use, integrated in the risk management policies of the business lines working in the sectors concerned (defence, nuclear, energy/mining and palm oil). On 15 October 2015, Natixis also committed to no longer financing coal-fired power stations or thermal coal mines worldwide, with the technologies currently available;
- financing of renewable energies and of thermal renovation, through all the Group's principal commercial networks;
- an offering including green savings products and loans for these customers.

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 2016 or at any time in 2016 to risks relating to CDOs, monoline exposures, CMBSs, RMBSs or special purpose entities.

Leveraged buyouts

At 31 December 2016, Banque Palatine had 143 files amounting to €494 million.

LBO outstandings equalled 5% of Banque Palatine’s corporate loans outstanding at 31 December 2016.

LBOs are monitored by a dedicated department.

The rate of doubtful loans decreased to 18.3% for a coverage rate of doubtful loans by provisions of 72%, compared to 22.8% and 51% respectively at end-2015.

The cost of risk on LBO exposures remained low in 2016 at €5.8 million.

5

APPENDICES TO THE BOARD OF DIRECTORS' REPORT

1 Report on employee-related, environmental and social information

Introduction

Groupe BPCE's sustainable development strategy

The BPCE Group has implemented as part of its 2014-2017 "Growing Differently" strategic plan, a CSR process addressing four key areas of policy: economic, employee-related, environmental and social.

This process demands strong commitment from senior executives and employees and requires robust management tools to track progress.

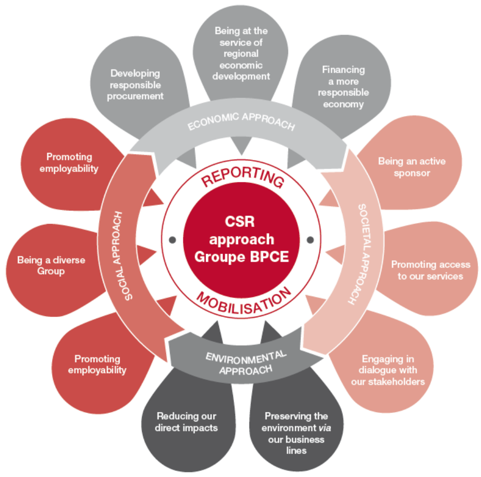
The BPCE Group's sustainable development department has put in place a steering system involving ten working groups, designated senior executive sponsors to drive and sign off the key guidelines for each area and a steering committee to monitor the process as a whole.

The Group's CSR process is also monitored by the BPCE Group CSR Committee, a sub-committee of the Supervisory Board.

Reporting to BPCE's commercial banking and insurance division, the sustainable development department is notably invested in positioning the Group as a leader in financial inclusion, green and responsible growth and the reduction of its carbon footprint in line with the targets set by the strategic plan.

To do this, it is supported by a sustainable development business line function shared between the central body 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.

Finally, a dedicated Group extranet site for the sustainable development correspondents has been active since 2015.



Banque Palatine's sustainable development strategy

Banque Palatine's sustainable development strategy reflects the overhaul of its commitments in 2008 and the BPCE Group's sustainable development policy.

Banque Palatine's key priorities are laid out in the 2014-2017 strategic plan as follows:

- pursuing the gender equality and diversity initiatives of its human resources policy;
- 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 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 bespoke relationship with its corporate market and private banking customers. On a daily basis, this means being a bank that is not only a financier, but a true partner, rooted in the values that make it a genuinely responsible bank.

Workforce-related information

Managerial and human issues are at the heart of the BPCE Group's "Growing differently" strategic plan which has three watchwords: *Ambition, Mobilisation and Customers*. Success depends on both the efficiency of the chain of management, from top management to local branch managers, and commitment by all the women and men of the Group's companies.

For "Growing differently", the management represents a powerful differentiating factor which encourages employees' commitment to customer service, pace of change and a collective drive for performance and innovation. Each of the companies has its own management and human resources processes that emphasise its values and identity. The BPCE Group as a whole benefits from this differentiating factor and from the cohesiveness of the management chain around shared, simple and strong principles and building up employees' commitment.

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

- Reskilling the sales force around a focus on customer satisfaction, with training structures on business technical skills and approach, to better embody our slogan "The Art of Being a Banker".
- Optimising management skills with specific training processes introduced in February 2015 and staged over three years to support managers in their managerial role and transform individual efficiency into collective efficiency in an environment undergoing numerous changes.

Securing support

- Bringing staff together through a managerial charter in which the Bank asserts its aim of developing the new practices that each manager must follow in order to deliver the Bank's strategy in the service of its customers and staff.
- Encouraging participation by implementing in 2016 the ideas that came out of the Imag'in suggestion box on each theme (collective efficiency, change management, customer relations, etc.).

Modernising

- Modernisation of the Val de Fontenay office. The quest for well-being, development of informal cooperation or adaptation to new technologies are the main planks of this big project for the Bank.
- Supporting change in teams, with a special focus on transformative IT projects. The first half of 2016 was devoted to supporting employees with training in the use of NIE, the new corporate market scoring software.

Workforce

Banque Palatine's workforce was stable in 2016. The Bank had 1,244 employees at 31 December 2016, of whom 92.0% were on permanent contracts. This compares with 1,245 employees at 31 December 2015.

Women continue to represent the majority at 52.9% of total headcount, a 0.6% increase. The proportion of managers also rose slightly, to 64.4%, from 63.1% in 2015.

Work-study contracts continued with 39 young employees on apprenticeships or professional development contracts, two more than at 31 December 2015.

Breakdown of workforce by contract type, status and gender

nr = not relevant/ na = non available/nm = not material

Due to Banque Palatine being present only in France, the breakdown by geographical area is not indicated.

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Total permanent and fixed-term staff including those on work-study programmes	1,244	27	1	1,245	29	1
Total permanent and fixed-term staff (not including work-study and internship programmes)	1,205	26	1	1,208	28	1
Number of permanent employees	1,145	26	1	1,156	27	1
Permanent employees as a % of the total workforce	92.04	96.30	100	92.85	93.10	100
Fixed-term employees, including those on work-study programmes	99	1	0	89	2	0
Fixed-term employees as a % of the total workforce	7.96	3.70	0	7.15	6.90	0
Total managers	801	26	0	786	27	0
Managers as a % of the total workforce	64.39	96.30	0	63.13	93.10	0
Total non-managerial employees	443	1	1	459	2	1
Non-managerial employees as a % of the total workforce	35.61	3.70	100	36.87	6.90	100
TOTAL FEMALE EMPLOYEES/BREAKDOWN BY AGE CATEGORY:	**658**	**9**	**1**	**655**	**9**	**1**
18 to 25	49	1	0	51	0	0
26 to 30	97	0	0	87	0	0
31 to 35	92	1	1	83	1	1
36 to 40	86	2	0	86	3	0
41 to 45	69	1	0	66	1	0
46 to 50	57	1	0	70	2	0
51 to 55	110	2	0	112	2	0
56 to 60	85	1	0	83	0	0
61 years and over	13	0	0	17	0	0
Women as a % of the total workforce	52.89	33.33	100	52.61	31.03	100
TOTAL MALE EMPLOYEES/BREAKDOWN BY AGE CATEGORY:	**586**	**18**	**NR**	**590**	**20**	**NR**
18 to 25	36	1	nr	33	2	nr
26 to 30	78	2	nr	70	1	nr
31 to 35	86	0	nr	86	1	nr
36 to 40	73	1	nr	76	0	nr
41 to 45	70	4	nr	83	4	nr
46 to 50	64	2	nr	53	2	nr
51 to 55	85	4	nr	91	5	nr
56 to 60	69	3	nr	76	2	nr
61 years and over	25	1	nr	22	3	nr
Men as a % of the total workforce	47.11	66.67	nr	47.39	68.97	nr

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 2016 financial year, the total number of people recruited on permanent contracts was 127, while the number of people recruited on fixed-term contracts was 105. This is an 8% increase in new permanent contracts compared to 2015.

In 2016, permanent contracts again made up more than half of new hirings at management level and more than 55% of all hirings. Recruitment on fixed-term contracts rose slightly in 2016 with a continuing increase in such contracts at management level: 20% in 2016 vs. 12% in 2015.

The proportion of women recruited on permanent contracts improved: from 40% in 2015 to 46.5% in 2016.

By age, the breakdown was unchanged on 2015. Most permanent contracts are still given to employees under 30 (56.7%). In contrast, hirings of employees over 40 fell slightly.

In 2016, 25 new jobs were created under the strategic business development plan, and 15 new permanent employees were taken on from Groupe BPCE, unchanged from 2015.

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 type approach:

- participation in four trade fairs across France, either alone or with the Group: one in Paris (Dauphine alternants) and three outside Paris (Néoma Rouen and Reims, Université Lumiière Lyon 2);
- job advertisements: Group website, but also on general recruitment websites (APEC, Cadremploi, etc.) or specialist financial sites (Efinancial, Jobanque, Likfinance, I-Questa).

LinkedIn is also increasingly monitored for positions that require business or finance expertise.

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Total number of managers hired on permanent contracts	72	2	0	65	0	0
Total number of managers hired on fixed-term contracts	21	0	0	12	2	0
Total number of non-managerial employees hired on permanent contracts	55	0	0	53	0	0
Total number of non-managerial employees hired on fixed-term contracts	84	1	0	91	0	0
Total number of women hired on permanent contracts	59	0	0	47	0	0
Total number of women hired on fixed-term contracts	71	0	0	65	0	0
Total number of men hired on permanent contracts	68	2	0	71	0	0
Total number of men hired on fixed-term contracts	34	1	0	38	2	0

Breakdown of departures by contract, reason and gender

The number of departures from Banque Palatine increased in 2016 in line with the rise in recruitment: 138 departures from permanent contracts compared to 108 in 2015.

People retiring accounted for 21% of total departures in 2016, 6 points fewer than in 2015.

Resignations fell sharply. There were more terminations.

Intra-group transfers continued to rise, from 17.6% to 25.4% of total departures, one of the advantages of belonging to a large Group.

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of employees on permanent contracts leaving Banque Palatine	138	3	0	108	2	0
of which number of people retiring	29	0	0	29	2	0
People retiring as a proportion of total permanent staff	2.53	0	0	2.51	7.41	0
of which redundancies	18	2	0	7	0	0
Redundancies as a proportion of total permanent staff	1.57	7.69	0	0.61	0	0
Average length of service of permanent employees leaving Banque Palatine	12.90	15.97	0	14.34	14.35	0
DEPARTURES OF PERMANENT FEMALE STAFF BY REASON	**60**	**1**	**0**	**51**	**0**	**0**
Resignation	10	0	0	16	0	0
Termination	9	0	0	4	0	0
Transfer within the Group	12	0	0	9	0	0
Retirement	16	0	0	16	0	0
Voluntary redundancy	9	1	0	4	0	0
End of probation period	3	0	0	2	0	0
Other reason	1	0	0	0	0	0
DEPARTURES OF PERMANENT MALE STAFF BY REASON	**78**	**2**	**NR**	**57**	**2**	**NR**
Resignation	14	0	nr	20	0	nr
Termination	9	2	nr	3	0	nr
Transfer within the Group	23	0	nr	10	0	nr
Retirement	13	0	nr	13	2	nr
Voluntary redundancy	8	0	nr	8	0	nr
End of probation period	11	0	nr	3	0	nr
Other reason	0	0	nr	0	0	nr

Remuneration

The average basic salary was broadly stable compared to 2015. Only the average salary of male managers fell slightly in 2016 (-1.1%). Median salaries were either stable or slightly higher. The stability of the basic salary, despite substantial staff turnover for the second year running, confirms that new hirings are being made at the right level and that existing employees are seeing their salaries rise thanks to the Bank's salary increases and support measures.

In 2016, employees working the full year received their individual employee statement. The statement lays out all direct or indirect components of remuneration received by each employee.

In addition to the information given in previous years, in 2016 the individual employee statement included the "apetiz" card digital lunch voucher system, benefits for employees from the staff agency and a reminder of useful contacts (mutual, personal protection, employee representative committee, 1% housing promotion scheme, etc.). The previous comparison of remuneration between 2013 and 2014 was extended to include 2015 giving a three-year trend.

The project for revamping the variable remuneration system, started in 2014, was deployed on 1 January 2015. Early results of the scheme, whose first payments were made in April 2016, were positive: 99% of those eligible earned some variable remuneration (32% of additional beneficiaries) and total payments under the scheme rose by 22% compared to 2015.

In 2015, a number of specialist business lines which were not covered in 2014 were brought into the variable remuneration system by a complementary scheme. They were brought fully into the system on 1 January 2016 and will receive their first payments in 2017.

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Average basic salary for men on permanent contracts, “managers” (in thousands of euros)	57	66	nr	58	77	nr
Average basic salary for men on permanent contracts, "non-managerial" (in thousands of euros)	33	0	nr	33	nr	nr
Average basic salary for women on permanent contracts, “managers” (in thousands of euros)	51	65	nr	51	68	nr
Average basic salary for women on permanent contracts, "non-managerial" (in thousands of euros)	32	0	42	32	32	41
Median basic salary of men on permanent contracts “managers” (in thousands of euros)	53	65	nr	53	68	nr
Median basic salary of men on permanent contracts "non-managerial" (in thousands of euros)	33	0	nr	32	0	nr
Median basic salary of women on permanent contracts “managers” (in thousands of euros)	47	60	nr	47	60	nr
Median basic salary of women on permanent contracts "non-managerial" (in thousands of euros)	32	0	42	31	32	41
Year-on-year change in median basic salary for male “managers” on permanent contracts, as %	1.00	0.96	nr	0.99	1	nr
Year-on-year change in median basic salary for male “non-managerial staff” on permanent contracts, as %	1.01	nr	nr	1.02	nr	nr
Year-on-year change in median basic salary for women "managers" on permanent contracts, as %	1.01	0.99	na	1.01	1.00	na
Year-on-year change in median basic salary of women "non-managerial staff" on permanent contracts, as %	1.01	0	1.02	1.01	1.01	1.08

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 2016, 76 employees on permanent contracts had adjusted working hours – 90.8% were women – making up 6.6% of all employees on permanent contracts. This is an increase of six employees or 8.6% on 2015

■ Structure of permanent employees working part-time by gender and status

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Breakdown of female permanent employees on the payroll at 31/12 by working hours (% of full time)	69	4	nr	64	4	nr
20%	0	0	nr	0	0	nr
30%	1	0	nr	1	0	nr
50%	14	0	nr	8	0	nr
60%	3	0	nr	4	0	nr
70%	0	1	nr	0	1	nr
80%	44	1	nr	39	1	nr
85%	1	0	nr	1	0	nr
90%	6	2	nr	11	2	nr
Breakdown of male permanent employees on the payroll at 31/12 by working hours (% of full time)	7	1	nr	6	1	nr
20%	0	0	nr	0	0	nr
30%	0	0	nr	0	0	nr
50%	3	0	nr	3	0	nr
60%	2	0	nr	1	0	nr
70%	1	0	nr	1	0	nr
80%	1	0	nr	1	0	nr
90%	0	1	nr	0	1	nr
Number of women on permanent contracts working part-time, non-managerial	38	0	nr	36	0	nr
Number of women on permanent contracts working part-time, managers	31	4	nr	28	4	nr
Number of men on permanent contracts working part-time, non-managerial	4	0	nr	4	0	nr
Number of men on permanent contracts working part-time, managers	3	1	nr	2	1	nr

■ Overtime (hours)

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Overtime (hours)	8,701	0	nr	13,245	3	nr
Number of persons concerned	204	0	nr	200	1	nr

Absenteeism

The overall rate of absenteeism at Banque Palatine was 4.93% in 2016, unchanged from 2015. This stability follows falls of 5.52% in 2014 and 6.38% in 2013.

Since 2014, this indicator has been the subject of specific monthly monitoring[(1)], with discussion in the Executive Management Committee led by the human resources department, which presents a breakdown of absences by reason, by department and, for the development division, by region.

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Absenteeism rate: days of absence/(days worked***** by employees on the payroll at 31/12)	4.93	1.75	nr	4.93	3.15	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 fast-changing and demanding banking environment, with a training budget equal to nearly 5% of payroll costs in 2016 and almost 26,765 hours of training delivered, Banque Palatine continues to invest in developing the skills of its employees.

The Bank's training efforts in 2016 were in line with the targets set for the 2014-2017 period, and factor in the GPEC (forward-looking jobs and skills management) agreement of 28 April 2016 and the agreement on equality at work of 19 May 2016.

They address the following issues:

- continue to roll out the strategic plan;
- respond to the targets set within the framework of the human resources management policy:
  - encourage professional development of employees and continued employment by taking account of their expressed needs and dialogue with employees;
  - contribute to the security of career paths and maintain the employability of employees;
  - allow each employee to develop their skills throughout their working life and to play an active part in their career;
  - support the later stages of careers.
- 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

- Introduction of an integration course consisting of a one-day seminar and supplemented by a Palatine Tour to encourage functional integration through professional immersion in the units with which the employee will interact most.
- Registration in dedicated business-line training courses.

Support for employees throughout their professional careers

- Two meetings to better inform employees and promote information about the personal training account, personal training leave, recognition of experience gained and competence statements.

(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 department 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:
  - continuation of the three-year management training plan launched in 2015, which seeks to develop management practice in line with the managerial values charter. The programme has three annual modules of two training days each, plus on-the-ground support led by a consultant;
  - "the art of being a manager" course: a development programme launched for the second year running in December 2016, which focuses on the identification, validation, and development of future managers. The course is offered to eight employees;
  - "the first 100 days of a manager taking up their post": support for new managers when taking up their post in the format of three four-hour coaching sessions, allowing them to better understand and prepare for the role of manager;
- development and maintenance of skills:
  - the corporate market:
    - continuation in 2016 of dedicated training programmes for employees joining the business line for the first time (business assistants and business relationship officers); financial analysis, telephone prospecting and sales interviews,
  - private banking market:
    - roll-out of wealth management technical training: life insurance, inheritance law, tax, property income and tax planning,
    - roll-out of an "everyday service excellence" training course for all sales staff in private banking and customer service staff,
    - continuation in 2016 of specialist training in deepening the sales interview (Horizon 360) and active negotiation/ recommendation for new private banking customer and wealth management advisers;
- development of Banque Palatine and employability:
  - launch of training programmes jointly certified with the professional banking training centre (CFPB) for customer service staff likely to become private banking customer advisers or corporate assistants;
- modernisation and handling of new tools:
  - training for employees dealing with NIE, the new corporate market scoring software;
- regulatory:
  - continuation of the external training programme in place since 2015 that allows employees to earn AMF certification recognised by any bank,
  - continuation of the general training programme to verify the AMF knowledge of employees with a "grandfathering" clause.

Summary of hours of training

	31 Dec. 2016*			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Average hours of training per employee, “managers”	26.2	9.5	nr	25.7	13.7	nr
Average hours of training, "non-managerial" staff	21.6	0	nr	23.4	4.0	nr
Average number of hours of training per employee	24.8	9.5	nr	24.9	12.0	nr
Average number of hours of training by gender						
Men	28	11.3	nr	26.4	14.3	nr
Women	21.7	5	nr	24.6	6.5	nr

* *Change in accounting method in 2016: professional development contracts were no longer included in training hours.*

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.

Banque Palatine and Palatine Asset Management earned CICE tax credits of €1,083,044 and €12,026, respectively, from remuneration paid in 2015, which were deducted from their corporate income tax.

The tax savings went to fund the following initiatives.

- Commercial development

Implementation of a qualitative content system on a digital platform, to calculate performance and promote closer communications with company managers as a way to bolster confidence and so accelerate commercial development.

- Training

The Group's GPEC agreement obliges Banque Palatine to introduce a system that matches the needs of the business lines with the development of employees' skills. This must serve the aims of access to and continuation in employment as well as career development. Training systems are an essential tool for matching needs and skills for the long-term.

Training to upskill employees is therefore a key way that employees and managers can promote security of employability, career development and the achievement of Banque Palatine's strategic targets.

In line with these ambitions, the following training actions have been rolled out:

  - Service Excellence training programme in the private banking business, to improve the quality of our service to senior executives, boost customer loyalty and differentiate ourselves as a leading bank for this target segment;
  - continued roll-out of courses co-certified by the CFPB.

- Recruitment

Development of our image as an employer and the career opportunities we offer to our target populations by increased use of the LinkedIn professional social network, buying three job application pages and accessing Cadre emploi's Aden CV application, which allows users to directly source candidates thereby enriching our catchment area.

- Career management

Forward-looking management of jobs and skills at Banque Palatine, covering the following points:

  - implementation of training paths specific to Banque Palatine and designed to meet our needs. Needs are updated each year to reflect changes within Banque Palatine;
  - continuation of the career development path for expert employees with managerial potential;
  - development of a human resources IT interface to follow up training needs identified in annual assessment interviews.

Employee relations

Organisation of employee-management dialogue

2016 was a good year for employee relations. Seven agreements were signed during the year:

- 2016 Annual Mandatory Negotiation (NAO) Agreement of 18 March 2016 by Banque Palatine's UES on salary increases

  The agreement included a review of minimum increases for the technician category and a scale of minimum increases for each employee grade based on the professional branch minimums (AFB minimums applying in June 2016) plus 9% for the lowest grades (A to E), 7.5% for F grade and 4% for grades G to K.

  The agreement also set aside a €50 thousand budget for the elimination of pay inequalities between men and women, more than doubling the 2015 budget (€20 thousand).

  Finally, the agreement also set a date for negotiation of a PERCO employee savings scheme.

- GPEC Agreement of 28 April 2016 UES Banque Palatine

  The agreement, a transformative step forward in the Bank's human resources policy, supports the careers of employees while maintaining and developing their skills and employability.

  In a banking environment of constantly evolving regulation, technology and customer expectations, it is critical that the Bank should have tools to anticipate changes in skills and competences.

  This agreement:

  - summarises the tools in place, both collective (risk mapping, business-line skills data base, transfer paths) and individual (annual review, career interviews);
  - promotes or creates systems to support geographical or functional transfers;
  - structures the integration systems with dedicated training schemes and milestones;

- sets out career paths in line with banking professional education through co-certified training schemes and courses leading to qualifications,
- strengthens managers' skills with two specific courses ("the art of being a manager" and "the manager's first 100 days");
- finally, identifies different types of career and their sensitivity in terms of changing content, as well as the associated training or support schemes.

Professions are divided into four categories: stable professions with no significant change, developing professions, professions under pressure with recruitment difficulties and sensitive professions which are changing fast in quantitative or qualitative terms. There are also plans to focus on support for older workers (interviews, training, part-time, early retirement).

- Equality at work agreement of 19 May 2016 UES Banque Palatine

This agreement carries over the 2015 arrangements incorporating lessons learnt. It makes actions undertaken permanent and reaffirms the bank's determination to promote equality at work as a way to improve performance and social justice.

It identified six areas for action: recruitment, vocational training, professional development and career path, effective remuneration and elimination of pay gaps, work-life balance and awareness raising. In each area, the agreement defines actions and progress targets.

On career development, the agreement reappointed the body for individual case reviews launched in 2015, which hears appeals by male/female employees who consider they are not in the right job or at the right grade and request a review of their situation. Files are presented by trade union organisations. The body met on 3 July and 18 November in 2016.

- PAM incentive plan of 30 May 2016 ratified by a two-thirds majority of staff

The aim of this agreement is to link employees to the company's performance through a simple and easily understandable scheme based on risk management and, specifically, the performance of funds managed by PAM.

- Rider to the Banque Palatine incentive plan of 31 May 2016

This rider seeks to link employees with the Bank's performance by introducing a qualitative criterion based on customer satisfaction as measured by two annual indicators.

- The PERCO agreement of 20 October 2016 UES Banque Palatine

In fulfilment of undertakings made in the March 2016 annual mandatory negotiation, this agreement takes into account longer working lives and life expectancy by giving employees the chance of a more comfortable retirement through a dedicated savings scheme. To support and encourage this scheme, the Bank contributes an initial €75 per beneficiary on the opening of the PERCO. In addition, employees can also convert up to 10 days each year of rights from their time savings account into additional payments at a rate of 20% of their cash value.

- CESU agreement of 25 November 2016 UES Banque Palatine

This agreement is an extension of actions launched to promote better work-life balance. It introduces, to replace the childcare premium, a CESU cheque scheme that is 80% pre-funded by the Company. This is an easy-to-use scheme in which employees can unlock the associated tax and social benefits.

Collective bargaining agreements

Each agreement includes as a minimum a review clause.

In addition, specific indicators are systematically identified and measured and summaries produced to monitor the actions.

- Equality at work agreement

The Group compiles 28 indicators covering broad families of actions (recruitment, training, professional and career development, effective remuneration and elimination of gender pay gaps, work-life balance).

An annual report is presented to the staff representatives in addition to the comparative report presented to the equality at work committee in June each year.

The same committee also carries out an annual review each November of the agreed mechanism for eliminating pay gaps.

- CESU agreement

Actions to improve time management, working conditions and reduce risk factors linked to stress at work. This is the background to the Bank's signing of the CESU agreement in November 2016.

This agreement includes arrangements for assessment and review.

- GPEC Agreement

37 indicators are measured to follow up the actions taken and assess the impact of the agreement.

An *ad-hoc* committee met in March to review the annual report on measures and agreed a review clause to take effect six months before its expiry.

These monitoring measures together ensure the effectiveness of the planned measures. Outcomes include greater transparency of career paths, anticipating changes in professions and providing corresponding training support to promote loyalty and commitment and contribute to the upskilling of the workforce. Banque Palatine had a turnover rate of 1.76% in 2016, a significant improvement compared to prior years (3.11% in 2015; 2.36% in 2014). The upskilling was also a source of increased customer satisfaction.

Incentive plan agreement

The incentive plan forms part of the overall remuneration policy and helps promote commitment by giving employees a share in the Company's value.

A dedicated committee monitors results and meets once a year.

An annual review is also conducted with staff representatives to study changes in investment behaviours. This review will be extended with the PERCO agreement, signed at the end of 2016.

Occupational health and safety

Improving quality of life in the workplace

Banque Palatine has had a psycho-social risks action plan in place since December 2013 and which ended in December 2016. It has been monitored each year by a dedicated committee meeting annually.

The plan includes the following actions:

- primary preventative action seeking to reduce psycho-social risks at source: appraisal meetings, HR meetings, the assessment of workloads in staff reviews, the work equipment environment and change management;
- secondary preventative actions to mitigate the impact of psycho-social risks: training and awareness raising, analysis of accidents and incidents;
- tertiary preventative measures: individual diagnosis and support.

All planned actions were put into effect. The Bank also sought to renew its psycho-social risk approach and extend it to include quality of life in the workplace. To do this, it held a call for tenders by external consultants specialising in such issues. The choice of service provider was made in consultation with staff representatives. Members of the health and safety committee (CHSCT) sit on the project's steering committee.

The aims of the process are:

- to improve working conditions for employees;
- to improve the long-term performance of the Bank and customer satisfaction; to strengthen feelings of belonging and commitment;
- to improve the quality of employee-management dialogue;
- to unearth related sources of concern and give them transparency and coherence (stress workshops, older worker policy, equality and improvement of working conditions).

The method proposed relies on an in-depth analysis of which factors impact on quality of life in the workplace using a questionnaire sent to all Bank employees in January 2017. The questionnaire will allow the Bank to identify areas of action to cross-reference with indicators of best practice already in place (HR policy, internal communications, prevention of professional risks, work organisation and work-life balance).

This process seeks to cross-reference feelings with practice to measure the gap between reality and the priorities expressed by employees as well as internal resources and levers to improve quality of life in the workplace.

The diagnostics exercise is due to report in the second quarter 2017 and the quality of working life negotiations and action plans are due to be completed for the third quarter 2017.

Workplace accidents, occupational illnesses

The number of accidents at work fell sharply over the year, from 12 in 2015 to 6 in 2016.

No occupational illness was reported or recognised in 2015.

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of accidents at work recorded during the year with and without lost time	6	0	0	12	0	0
Number of fatal accidents recorded during the year	0	0	0	0	0	0
Number of work days lost	37	0	0	27	0	0
Severity rate	0.020	0	0	0.012	0	0
Frequency rate	2.83	0	0	5.48	0	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 signed an equality at work agreement on 19 May 2016 (see above).

In addition, AFNOR awarded Bank Palatine a three-year **Gender Equality at Work Certification** on 20 October 2016.

This certification is a major step forward for our diversity policy, recognising the actions we have taken over recent years: management practices to encourage gender equality, narrowing of pay gaps, work-life balance.

The certification, based on a review of our practices, highlights our commitments and their results and so bolsters our promotion of diversity at work and our recruitment appeal.

15 criteria were considered in granting this award, covering three main areas:

- The priority given to equality at work in the Bank's employee relations, communications and culture.

  For instance: signature of a corporate agreement on equality in the workplace, communications and awareness-raising campaigns on diversity and equality with employees.

- Human resources and management practices.

  For instance: analysis of indicators on general conditions of work and training of women and men with a view to professional advancement, actions taken to eliminate pay gaps and strengthen equal access to continuous training, diversity as a factor in all decision-taking bodies.

- Parenting and working life: actions to support work-life balance that take better account of employees' career aims.

For instance: flexible working hours, organisation and conditions of work, procedures for taking and returning from maternity or parental leave.

This process, supported by the social partners, is an opportunity for Banque Palatine to embed a long-term culture and improve its current systems to promote equality in the workplace.

This certification is demanding in terms of results and will give a fresh impulse to our equality in the workplace policy.

It should allow us to activate additional drivers for action, particularly on diversity in the different professional careers, access to top management and awareness of gender stereotypes.

Actions in 2016 notably included:

- the organisation of a Speed Meet'in on 15 March 2016, which enabled around 40 female employees to discuss their career paths with department heads.
- changes to the diagnostics used to identify individual pay differentials. 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: level of job grade, age group and initial training - bearing in mind that this level must be correlated with the level of seniority in the job;
  - a detailed analysis of pay differentials, where these are equal to or greater than 3.7%. The aim of this study was to identify objective reasons for pay gaps and where these were absent to put in place corrective actions in terms of salary increases.

Under the mandatory annual negotiations for 2016, €50,000 have been earmarked for salary adjustments if no objective explanation is found to justify the observed wage gap. The use of this allocation is reviewed annually.

It was also decided to continue applying the provisions on salary catch-up following maternity or adoption leave. Recognising that parental leave is currently mostly taken by women, it was decided to extend these provisions to full-time parental leave up to a maximum of 12 months.

Finally, where needed, and to facilitate a better work-life balance, teleworking can be considered in consultation with managers. In 2016, 33 employees were able to take advantage of teleworking (21 women and 12 men).

Equal treatment

Indicators	31 Dec. 2016 BP	PAM	Ariès	31 Dec. 2015 BP	PAM	Ariès
Permanent contract male/female ratio, non-managerial (average male salary/average female salary)	1.04	nr	nr	1.04	nr	nr
Permanent contract male/female ratio, managerial (average male salary/average female salary)	1.13	1.02	nr	1.15	1.13	nr
Number of women employees taking parental leave in the last year	7	0	nr	9	0	0
Number of men employees taking parental leave in the last year	1	0	nr	1	0	nr
Number of women employees returning to work after parental leave	3	0	nr	6	0	0
Number of men employees returning to work after parental leave	0	0	nr	0	0	nr

Major efforts in support of disabled people

For three years now Banque Palatine has been taking concrete steps to promote employment of people with disabilities.

To do so, it provides close support in complete confidentiality to meet the needs of employees, recognising the status of workers with disabilities (RQTH). Over the last three years, this support by the disability representative and social worker has led to proposed improvements in working hours and workstations as well as individualised arrangements to support people in employment.

The Bank also runs employee awareness campaigns on the issue during each annual Disability Employment Week. In 2016, Banque Palatine reaffirmed its commitment to employment for people with disabilities by deploying:

- a quiz and the T'Handiquoi leaflet is sent out to all UES Banque Palatine staff to remind employees about the realities of life with disability and what actions to take in an RQTH process. The process has been run in coordination with a disability-adapted company (*entreprise adaptée*);
- awareness-raising theatrical events in the different departments of the two head offices. Themes were based on both visible and invisible disabilities. The project was run in partnership with a company specialising in the field of disability and a disability-adapted company to showcase adapted and protected companies within the sector.

Each month for more than two years, Banque Palatine has been showing the "I can't believe my eyes" series of videos which dramatise situations that people with disabilities encounter every day at work. The aim is to strengthen staff awareness of disability.

Following its qualitative diagnosis conducted between January and March 2015, in 2017 the Bank will sign an agreement with the Agefiph (a French organisation for promoting employment for people with disabilities), which will support Banque Palatine’s formal and costed commitments to recruitment, vocational integration and job retention of disabled persons.

Indicators	31 Dec. 2016 BP	PAM	Ariès	31 Dec. 2015 BP	PAM	Ariès
Number of employees with disabilities excluding ESAT	44	2	0	52	2	0
% of employees reported as disabled excluding ESAT/total workforce (permanent)	3.84	7.69	0	4.50	7.41	0

Equal opportunities

Since 2015, Banque Palatine has undertaken a partnership for equal opportunities seeking to engage our employees in a social utility process that reinforces the Company's social responsibility policy.

In 2016, this partnership was run in cooperation with *Nos Quartiers ont des Talents*, a charity founded in 2006 to promote job opportunities for graduate jobseekers aged under 30 and coming from disadvantaged areas or social backgrounds.

On a voluntary basis, employees are invited 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.

18 Banque Palatine employees signed up to be sponsors, supporting 20 young graduates.

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 of 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.

Environmental information

The Group's environmental approach

Reducing BPCE Group's environmental footprint is a core part of the Group's environmental approach. Three working groups were created in 2016 to bring together sustainable development managers and experts from the business lines affected to address the issues of:

- paper use;
- mobility;
- waste electrical and electronic equipment (WEEE).

Each working group, like all the Group's CSR working groups, defines its own objectives and concrete actions to roll out at short, medium and long term to improve our direct environmental footprint.

The Bank'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, audit scope and methodology, procedures for sending documents authenticating regulatory compliance, terms and qualification criteria for external service providers, and criteria for the recognition of the internal auditor's competence.

In accordance with regulations, Banque Palatine carried out its energy audit before 5 December 2015. It is currently being studied with a view to developing an energy efficiency strategy for all buildings occupied by Banque Palatine with action plans to be rolled out as from 2017.

The circular economy aims to produce goods and services while limiting consumption and wastage of raw materials, water and energy sources.

For Banque Palatine, this means prevention and management of waste and sustainable use of resources (water, raw materials, etc.).

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(1) https ://www.unglobalcompact.org/Languages/french/index.html.

Informing employees about environmental protection

As regards business travel, Banque Palatine encourages its employees to use the cleanest forms of transport, particularly trains and other public transport.

Also, an eco-driving booklet, produced in-house, was given to all users of company or fleet vehicles.

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Petrol consumed by company cars	4,521	4,142	nr	1,525	2,488	nr
Petrol consumed by fleet cars	36	nr	nr	nr	nr	nr
Diesel consumed by company cars	39,371	nr	nr	43,762	nr	nr
Diesel consumed by fleet cars	68,227	nr	nr	71,378	nr	nr
Business travel in private cars (km)	210,325	nr	27,863	211,133	nr	17,882
Business travel by train (km)	3,006,761	16,230	2,634	2,914,308	24,993	nr
Business travel by air, short-haul (km)	761,740	6,986	nr	617,293	5,314	nr
Average grams of CO_2 per km for company and fleet cars	96	nr	141	97	nr	198
Business travel by air, medium- and long-haul (km)	26,051	nr	nr	35,255*	nr	nr

* *Correction in 2017.*

Most meeting rooms have videoconferencing or conference call equipment to limit and optimise travel between the two head offices. All branches were also equipped with screens during 2015 to allow remote conferencing.

Continuing optimisation of current programmes in partnership with service providers remains a permanent priority to reduce greenhouse gas (GHG) emissions and the number of deliveries. Since 1 June 2016, the network has had only one mail collection/delivery per day to optimise transporter rounds without impairing the quality of service to our branches.

All journeys made inside Paris itself are exclusively by bicycle or electric vehicle, which helps reduce the Bank’s carbon footprint. 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. 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, with the introduction of:

- energy-saving systems (low-voltage lighting, LEDs etc.);
- timers, presence detectors and dimmer switches.

Water management

Banque Palatine Group indicators	31 Dec. 2016	31 Dec. 2015
Total water consumption (m^3)	255,125	201,964
Rainwater recovery (m^3)	na	na
Total water consumption per m^2	8.70	6.89
Total spending on water (in thousands of euros)	6.50	4.1*

* *This figure corresponds to the amounts of bills paid directly by Banque Palatine. Water consumption included in building charges is not recognised.*

The increase in water consumption reflects the additional floor space in the Val de Fontenay offices and the installation of demisters to protect the site's air conditioning system.

Raw materials consumption

Banque Palatine Group indicators	31 Dec. 2016	31 Dec. 2015
Total paper consumption (tonnes)	65.29	66.33
Total paper consumption per employee (kg)	53	53.62*
Of which total consumption of recycled paper or FSC or PEFC-certified paper (tonnes)	65.29	66.33
Proportion of purchased recycled paper of the total in tonnes of purchased paper as a %	0	0

***** Correction in 2017

Installation of an improved print management system with greater digitisation explains the year-on-year falls in the number of reams used: -1.5% this year, -3% the year before.

Energy consumption

Banque Palatine Group indicators	31 Dec. 2016	31 Dec. 2015
Total final energy consumption (kWh)	3,454,172	3,689,564
Total energy consumption per heated/occupied m^2 (kWh)	111.7	125.8
Total fuel oil consumption	nr	nr
Total natural gas consumption (kWh)	64,826	207,466
Total electricity consumption (kWh)	3,389,346	3,482,097
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 (blue meters) (kWh)	3,238,300	983,909

Total energy consumption fell by 6.4% on top of a 15% reduction the previous year, which is a positive and virtuous trend.

On 1 January 2016, 99% of the network branches and both head offices migrated to 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 hence preserve the economic fabric of these cities.

The relocation of two sites using natural gas reduced our consumption by nearly 69%.

Spending on energy

A process to stabilise spending on cleaning services has begun, while still retaining:

- quality of service to ensure the highest level of wellbeing at work for employees;
- use of green and certified products only;
- optimised management of sanitary consumables by on-site service providers.

Banque Palatine Group indicators	31 Dec. 2016	31 Dec. 2015
Total spending on cleaning services (in thousands of euros)	794	774

Climate change

In the framework of Article 173 of the energy transition law, BPCE began work to strengthen its role in reducing its environmental impacts.

Financial risks related to climate change and risk reduction measures

BPCE Group is profoundly aware of its role in leading the migration to a low carbon economy and is continuing its actions to take account of the risks posed by climate change and put in place measures to reduce them.

Action to take account of climate change risks in 2016 included the integration of climate change as a major evolving factor in the Bank's general credit risks, the integration of environmental risk, including climate risks, in the macro risk map of the Group's institutions and active participation in market initiatives on French, European and international scale.

Consequences for climate change of business activity and the use of products and services

BPCE Group carried out in 2016 a gap analysis to identify and quantify its direct and indirect impacts on climate change and make sure that it is taking action to limit these, by:

- mapping its main goods, services and business activities that have both positive and negative climate change impacts and which ultimately impact its GHG emissions;

- reviewing actions taken or to be taken.

This analysis was carried out by an external body on five principal products and services and six business activities of the Group (figures in brackets show the weighting of their climate change impact ranging from limited "*****" to significant "*******"):

- Products and services
  - marketing of financial products to retail customers (*****);
  - project finance (*******);
  - real estate project finance (*******);
  - insurance (*****);
  - refinancing, investment and asset management (******).
- Activities:
  - energy use (*******);
  - real estate (******);
  - fixed assets (IT facilities and vehicle fleet) (*****);
  - travel (******);
  - use of sub-contractors and suppliers (*****);
  - waste management (*****).

The study identified no major shortcomings in products, services and business activities that had a strong impact on the climate and would cast doubt on the priorities and actions currently being pursued by BPCE Group. However, it did identify a number of areas for improvement to better translate its commitment and which will be integrated into ongoing action plans.

Inclusion of climate change in stress tests

The Group took part in a market exercise in response to Article 173-V of the Law of 17 August 2015 on energy transition for green growth, to develop appropriate stress test scenarios. Based on this work, the Group drew up an analysis of its exposure to sectors exposed to two types of climate change risk: physical risk and transition risk. This revealed a low level of exposure to high-vulnerability climate risk.

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, direct emissions caused by bank products and services are excluded from the analysis.

After five 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. It also allows the Group's sustainable development department to take forward national reduction actions.

Since 2013, Banque Palatine has been able to regard its carbon indicator as reliable. The indicator is monitored with the intention of reducing it over the years.

An employee in the purchasing department and the head of quality in the working environment department took BPCE's Carbon Footprint 2015 training course. The purchasing and real estate departments are responsible for the activities and practices with most potential impact on this process.

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(1) The GHG Protocol divides the operational scope of the GHG emissions of an entity (or organisation) as follows:

- *scope 1: direct emissions from the burning of fossil fuels (oil, gas, coal, etc.) and emissions from leaks of refrigerating fluids from resources owned or controlled by the Company;*
- *scope 2: indirect emissions caused by the purchase or production of electricity, steam, heat, or cold;*
- *scope 3: other indirect emissions (from the logistics chain, including transport of goods and travel by people).*

It should be noted that the mandatory obligations of Article 75 of the environment round table ("Grenelle") cover scope 1 and scope 2.

Banque Palatine Group indicators	31 Dec. 2016	31 Dec. 2015
Scope 1: direct combustion of fossil fuels plus leaks of refrigerant gases (in CO_2 eq tonnes)	301.79	336
Scope 2: electricity consumption and the heating network (in CO_2 eq tonnes)	217.84	210
Scope 3: all emissions other than use (in CO_2 eq tonnes)	4,348.68	-

In 2015, it was impossible to establish figures for refrigerating gas emissions of type HCFC and HFC due to termination of the contract with the supplier. Henceforth, these emissions will be monitored annually.

Pollution and waste management

Resources used to prevent environmental risks and pollution

For 2016, 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

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 head offices 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. 2016	31 Dec. 2015
Total spending on waste management services by provider (in thousands of euros)ex-VAT)	121	118
Total Ordinary Industrial Waste (OIW) (tonnes)	733	672
Total Special Industrial Waste (SIW) (tonnes)	ns	ns
Total waste produced by the bank (tonnes)	733	672
Total recycled waste (tonnes)	na	na

Recycling

Banque Palatine Group indicators	31 Dec. 2016	31 Dec. 2015
Number of recycled ink and toner cartridges	502	371
Number of neon fluorescent tubes collected	451	na
Batteries collected (kg)	0	20
Electrical and electronic equipment (EEE) collected (tonnes)	na	na

The volume of recycled cartridges and toner increased by 35% in 2016 having already risen by 76% in 2015. The ambition is to recover and recycle all cartridges and toner waste generated by the Company making Banque Palatine a positive contributor to the circular economy.

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.

However, as part of a process to improve biodiversity in the city and company, two beehives were installed, at the start of 2016, on the roof of the fourth floor of the main administrative building at Val de Fontenay.

The first harvest produced 18.6 kilos of honey which on analysis showed the bees were mainly foraging from bee-pollinated plants such as the chestnut (*aesculus*), tree of heaven (*ailanthus*), elder and linden blossoms. Analysis also showed numerous other species in lesser proportions, which justifies the all-flower label for this honey.

Bee health is closely monitored as the damp spring weather took a devastating toll on numerous colonies. The hives have so far managed to overwinter successfully in good conditions.

Responses to social issues

In 2016, BPCE Group updated its mapping of social issues and stakeholders, first done in 2014. The aim was to refine our knowledge of stakeholder expectations each year and make sure they are better accommodated in light of the Group's CSR objectives.

The mapping exercise was conducted in compliance with GRI-G4 and IIRC (International Integrated Reporting Council) reporting principles.

BPCE seeks to rise to these big social challenges by structuring its actions to meet two ambitions:

- strengthening of the Group's CSR practices;
- implementation of a green and socially responsible growth strategy.

A coherence test was carried out comparing the new map with the Group's CSR process. This returned highly satisfactory results for all areas of the process. It nonetheless turned up two issues (biodiversity and waste recycling) which should be better taken into account by the Group's CSR approach.

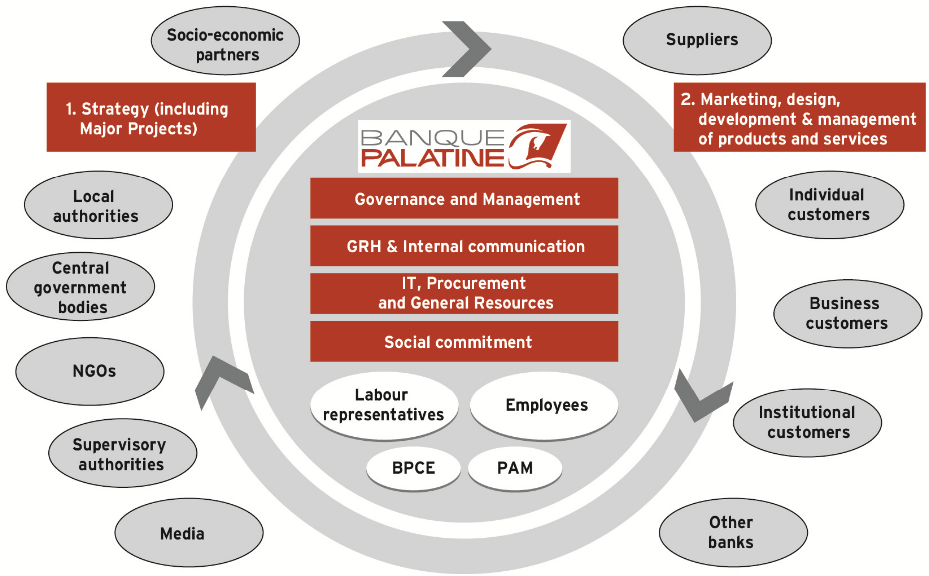
Local impact

The territorial impact of Banque Palatine is reflected in its national presence through its 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

Banque Palatine's main stakeholders are as follows:



Medium-sized businesses

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.

Banque Palatine has also chosen to partner with the leading trade group for medium-sized businesses, METI, which seeks to raise the profile of medium-sized businesses with political decision-makers.

Socially responsible investing

The Group approach

As a major player in banking and insurance BPCE Group puts green growth at the heart of its approach to CSR. More than a social trend, the energy and environmental economy is a fast-growing economic sector. For BPCE, this new avenue of growth affects all its customers, territories and business lines.

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.

The challenge is to finance the energy transition of customers and to support the development of eco-functions, the drivers of growth in the future. To achieve its ambition in this area, BPCE Group has to meet a number of challenges:

- a technical challenge: to better embrace technical innovations in order to understand the market and so finance it more effectively;
- an organisational challenge: the green growth market is important at local, national and European scales. It affects all constituencies: individuals, professionals, large corporates and institutions. To be effective in this market, we need organisations, products and services that are adapted to all these different scales;
- a financial challenge: innovation is at the core of these emerging markets and demands investment for the long term.

The Group is mobilising to manage the relative complexity of these markets and seize the business opportunities they offer. To do this, it relies on a network of experts and correspondents in its subsidiaries. Each subsidiary has also been able to create its own network of partners engaged with the issue: professional bodies, industrial firms, local authorities, think tanks, associations, NGOs, etc.

Responsible investment at Palatine Asset Management (PAM)

Climate risk is now a global problem which poses not only physical but also financial risks for the whole of society.

The teams at Palatine Asset Management, an investment management subsidiary wholly owned by Banque Palatine, share the scientific hypothesis that climate change is the result of human GHG emissions and that a reduction in these emissions will limit climate change by restricting the process of global warming to between 1.5° and 2°.

Palatine Asset Management has for many years been taking steps to ameliorate climate risks with the creation in 2005 of the Renewable Energies fund, anticipating the profitability of investing in sustainable (carbon-free) development models to combat climate change.

The asset management company subsequently developed its range of environmental impact savings products with the creation in 2006 of Palatine Or Bleu. This fund invests in companies involved in water-related business activities. Water as a natural resource is an investment opportunity for funds as it comes under increasing pressure every day due to climate disturbances and ceaseless growth in demand from demographic trends.

In 2007, the Palatine Or Bleu investment process was refined by adding an environmental, social and governance (ESG) filter.

CSR funds under management by Palatine Asset Management were €26.7 million at 30 December 2016.

Today, while all stock selection at Palatine Asset Management is based on analysis of "good practice" in strategy, financial management and governance, three equity funds (Palatine Or Bleu, Gérer Multifactoriel Euro and Palatine Actions Défensives Euro) also transparently incorporate environmental, social and governance criteria in their investment decisions.

These three funds all have publicly available CSR investment policies and transparency codes.

All three were SRI certified by Novethic from 2009 to 2016 and are currently being inspected by EY for a new certification in 2017.

In addition, all PAM investment managers have direct access to ESG research (data provided by Vigeo and internal ESG ratings) as well as to Trucost environmental data. This is an instructive starting point which forces PAM managers to lay special emphasis on certain non-financial issues, such as environmental and social impacts, in their analyses and decisions.

All managers engage in frequent dialogue with companies through meetings with companies' management teams which help them refine their analyses.

Palatine Asset Management relies in the exercise of its voting policy on the expertise of the company ISS and votes in favour of principles that serve environmental, social and governance values.

In 2017, to comply with article 173-6 of the Law on energy transition for green growth, which for the first time obliged companies to report on their management of climate-related risks, PAM's fund reports will include a measure of the carbon impact of their investments and the proportion of investments dedicated to solutions promoting a low-carbon economy:

- Three SRI funds;
- Uni Hoche, a French large corporates equities SICAV with net assets of more than €500 million at 31 December 2016;
- Palatine Moma, a short-term money market fund with net assets of more than €500 million at 31 December 2016;
- Palatine Institutions, a money market SICAV with net assets of more than €500 million at 31 December 2016.

Article 173-6 will also be applied to the OCIRP Actions fund at the customer's request.

Also, to achieve the best possible management of climate risk, PAM's qualitative non-financial analysis is supplemented by:

- carbon footprint measurements which incorporate companies' direct and indirect emissions. This is compared to revenue to gauge the operational efficiency of companies in the same sector;
- measures of the proportion of green compared to fossil-fuel investments, to concentrate investments in the least polluting sectors (such as renewable energies and energy efficiency).

PAM does not aim to concentrate on sectors with low carbon issues, but rather to select those companies most committed to reducing carbon emissions.

Having calculated these metrics, PAM reviews the weightings of its portfolio positions to optimise financial performance, reduce climate risks and exploit opportunities offered by the transition towards a lower-carbon economy.

Innovation and product development

As a universal bank, BPCE Group is able to contribute to all types of projects in its four priority areas for financing green growth: energy efficiency, investments in reducing GHG emissions by companies, companies involved in managing and extracting more value from 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 has been involved in financing green growth. In 2016 it invested €82.8 million, mostly as part of a consortium, in green power giving it installed capacity of 10.70 MWp of wind power, 20.86 MWp of photovoltaic power and 9.76 MWp of biomass power.

Partnerships and cultural sponsorship

Banque Palatine follows the values of corporate social responsibility (CSR) in its daily practice.

All of its actions are consistent with its identity.

Support for the arts is part of this aim and is embodied by a number of actions in the cultural field.

Among other projects Banque Palatine has sponsored the leading violin festival *Printemps du Violon*. The world's greatest violinists came together for a week from 21 to 27 March 2016 to share their passion and celebrate the violin. Its "*Le violon dans tous ses états*" programme included a concert each evening as well as conferences and workshops about the violin in classical, jazz, tango and gypsy music.

For several years, Banque Palatine has also been supporting the annual "*Quinzaine des réalisateurs*" event, a major conference of media and cinema decision makers whose aim is to better promote creativity in the field. Banque Palatine, as media financier, wants to actively participate in enriching the debate and to better understand and adapt to changes in the market.

Sub-contractors and suppliers

Outsourcing does not concern the core business activities of Banque Palatine, but the Bank nonetheless contributes to the Group's initiatives in this area: 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)].

Since 2015, a programme of targeted information (*Matinales Achats*, for new employees) has been running to present the tools available for implementing responsible procurement policies to a wide audience (procurement, careers, disability representatives, innovation and sustainable development correspondents).

The Group's procurement managers were invited to apply and pass on this policy within their company and their suppliers panel:

- in the procurement process: the roll-out of the responsible procurement policy was formalised by adapting the different tools used in the purchasing process and drafting new documentation (supplier selection procedure, specifications, supplier questionnaire with a CSR self-assessment tool for suppliers, tender response table, price list, tender evaluation and selection table);
- in the purchasing performance plan: the responsible procurement policy was transposed into national and local purchasing performance plans in four ways:
  - updating the pre-specification and its environmental impact,
  - guaranteeing optimal total cost,
  - intensifying cooperation with suppliers,
  - calling on stakeholders from the social and solidarity economy.

  The aim is to incorporate these methods into national, regional and local actions under the purchasing performance plans of the purchasing function: purchasing managers at BPCE Achats and Group companies;

(1) http://www.bpce.fr/Fournisseur/La-politique-achats-responsables/Engagements-durables.

- in supplier relationships: BPCE Achats has sought to rate suppliers by CSR performance as part of the national listing process. New suppliers who tender must explain their CSR commitment in a self-assessment questionnaire accompanying the tender documents. Existing listed suppliers must complete the same questionnaire and file it in the regulatory documentation database run by BPCE Achats. Purchasing managers at Group companies are invited to use the questionnaire with their own suppliers' panel.

A working group composed of heads of purchasing and CSR carried out an in-depth investigation into a reliable measurable way of assessing suppliers' CSR performance. The aim is to identify CSR risks and opportunities and integrate this performance into the overall rating of suppliers. A test running since late 2016 should verify the methodology of this assessment process and how it can best be implemented.

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 in July 2010 by the implementation of the disability and responsible procurement policy, “PHARE”.

Since July 2010 the procurement department has been pursuing BPCE Group's corporate social responsibility ambitions through the PHARE programme, which is supported by the procurement and human resources functions and contributes to 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 has adopted PHARE and appointed a disability representative in the HR department and a correspondent in the working environment department.

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 at the end of its useful life or when a branch closes.

Based on its use of the STPA, Banque Palatine forecasts a beneficiary unit score remaining above its minimum threshold of three in 2016.

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 - Déclaration obligatoire d'emploi des travailleurs handicapés) for this company.

Therefore, Banque Palatine is successfully continuing to support the protected and adapted sector.

	31 Dec. 2016			31 Dec. 2015		
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)	0.029	0.058	nr	0.028	0.056	nr

Subcontracting policy

The use of temporary staff is determined by the choices and needs of each group company. However, this is relatively small, reflecting a continual search for a balance between the workstations and workloads and 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 2016, 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 and internal and external fraud;
- embargo management;
- prevention and management 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 a non-compliance risk map that identifies risks for each process, and on a risk management system that includes the following:

- as regards financial security (AML/TF): efforts to combat money laundering and terrorist financing and internal and external fraud:
    - an AML/TF training procedure and system, a procedure for handling external fraud with appendices addressing cheques and transfers, covering preventative measures and recommendations for staff and to be communicated to customers; regular messages to the network highlighting cases of fraud encountered within the Bank or Group,
    - interventions and awareness-raising actions and regular meetings of an anti-external fraud committee bringing together all departments concerned (financial security, operational risks, IT, etc.). Note that regarding the prevention and handling of internal fraud, the Bank is currently developing a module using the SAB editor that will comply with BPCE Group specifications.
- 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 indicators	2016	2015
Proportion of employees who have received anti-money laundering training from the entity (excluding ALD)	72	60*

* *2015: launch of a new anti-money laundering campaign.*

The 2016 indicator is similar to that of 2015 and was based solely on employees who completed the AML/TF training module (either in person or through the e-learning module, essenti@). Each collaborator only counts once as having completed the course.

In addition, a campaign for all employees relating to anti-money laundering/terrorist financing is run 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;
- as regards remote banking websites:
  - for its private banking customers, Banque Palatine benefits from Groupe BPCE's secure architecture as it uses the Direct Ecureuil website, the Caisse d'Epargne remote banking website managed by the IT-CE economic interest group. Since 2015, customers' sensitive transactions have been carried out using strong authentication systems (password and OTP-SMS);
  - 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. This year, the audit was done by PWC.

The Bank also decided to industrialise its IT operations by outsourcing it to a specialist Group subsidiary: BPCE-IT.

Quality policy

Quality policy is also included in the Group's projects that have an effect on customer and employee satisfaction, notably via the annual review based on the BPCE Excellence model.

Banque Palatine, like the wider BPCE Group, has put customer satisfaction at the heart of its strategy. The quality of customer relations is systematically measured to ensure this commitment is being carried through on the ground and to evaluate its implementation. 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, particularly in a cross-group approach to the main customer processes.

Providing customers with the best possible service and ensuring excellent customer relations are at the heart of Banque Palatine's quality commitments. In 2016, four customer service commitments were adapted and communicated to customers.

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.

Banque Palatine's customer listening programme, on which the approach is based, consists of questioning its corporate and private banking customers whenever possible to find out their expectations and improve delivery and perceptions of services. This approach also helps the Bank provide a tailored service and establish close ties with all its customers by monitoring cases of customer dissatisfaction.

Mystery branch visits and calls are regularly carried out, to evaluate the quality of customer service.

All these efforts to listen to customers are used to build improvement plans in each market and business line. Banque Palatine then defines its ambitions as regards customer service quality.

Like any service company, the Bank must have full control over the whole of its production processes (particularly: lending, electronic publishing, payment services, IT and internet services etc.) and develop them in line with customer expectations.

In 2016, the Bank carried out:

- one survey of private banking customers and one survey of business customers (October 2016);
- one survey of senior executives;
- one wave of surveys for new customers per half-year and per market (carried out in January 2016 for those who became customers in 2015);
- monthly surveys on lending processes in both markets and life insurance (scope: Generali Vibrato policies);
- five surveys for the specialist business lines: real estate, dealing room, regulated real estate professions, international and Palatine Asset Management (market survey).

Indicators	2016	2015
Percentage of new business customers satisfied overall	na	8.03
Percentage of new private customers satisfied overall	na	7.94
Annual barometer of private customer satisfaction (score out of 10)	7.1	7.2
Annual barometer of business customer satisfaction (score out of 10)	7.4	7.6
Annual barometer of mid-sized company managers' satisfaction (score out of 10)	7.0	8.2

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 new product before it is brought to market 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.

Banque Palatine has until 31 December 2018 to make its branch network 100% accessible. Work will be carried out over the next two years to bring all branches up to standard.

	31 Dec. 2016			31 Dec. 2015		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of branches/sales outlets/business centres	52	1	1	52	1	1
Total floor space of the entity's buildings (m^2)	31,364	408	10	29,699	408	10
Total floor space of the entity's administrative buildings (head office) (in m^2)	14,527	408	10	12,632	408	10
Total floor space of the entity's branches and business centres (in m^2)	16,836	nr	nr	16,836	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

Information in the report is the result of a group effort by all Banque Palatine departments (resources and working environment, compliance and permanent controls, operational risks, transformation and institutional life, communications). 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 Banque Palatine Group's desire to achieve transparency and describe objectively its most relevant actions, 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 2016 to 31 December 2016.

Reporting scope

In 2016, the CSR reporting scope included wholly owned subsidiaries as well as Banque Palatine: Palatine Asset Management and Ariès Assurances.

Details on workforce-related data

- Total staff figures are a snapshot at 31 December 2016 of people related to each entity by an employment contract or corporate office (permanent, temporary, professional development, apprenticeship and suspended contracts), including those leaving on that date and employees whose employment contracts have 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 or work-study programmes 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 2016 for any reason. Breakdowns 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 people on permanent contracts: this is the gross theoretical annual salary. 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 2016. Corporate officers are not included in the indicator.
- Absences used to calculate the indicator are: illness, long illness without permanent disability, maternity and paternity leave, accidents at work, accidents while travelling, authorised leave (family events, time-in-lieu, over-55 leave) and exceptional authorised absences (recuperation).
- Training: training figures include hours of training in class, virtual class and e-learning.
- As regards the career development provisions: this is the percentage of employees undergoing career interviews as a proportion of the entity's total workforce (for Banque Palatine and PAM). Career interview here is taken to mean any interview carried out by HR department staff (mobility, career development, personal circumstances, HR review, interview as part of 'the art of being a manager" course) except for interviews when an employee left the Group. The information is published in the HR department's quarterly activity report.

Details on environmental data

- Paper consumption: data was obtained by extrapolating consumption figures at the end of October 2016. All paper consumed is in A4 format and the calculation procedure is unchanged.
- Gas consumption is estimated on the basis of cost and an average price per kWh of €0.14 at 1 August 2016. Relocation of the Saint-Étienne and Metz sites resulted in a fall in consumption.
- Energy consumption: data was obtained by extrapolating consumption figures at the end of October 2016. 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 October 2016 and the calculation method remains unchanged.

2 Table of the results of the last five financial years

Article R. 225-102 of the French Commercial Code

(in thousands of euros)	2012	2013	2014	2015	2016
• **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	505,969	471,678	498,169	495,554	543,001
Income before tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	125,413	120,618	133,810	128,578	114,673
Income taxes	(16,100)	(18,706)	(21,864)	(25,675)	(19,441)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	46,036	37,729	53,505	50,734	50,555
• Dividend payments(2)	19,936	19,396	39,602	27,748	-
• **Earnings per share (€)**					
Revenues	18.78	17.51	18.49	18.39	20
Income after tax, employee profit-sharing, but before depreciation, amortisation, and impairment and provisions	3.86	3.63	3.93	4.77	4.26
Income taxes	(0.60)	(0.69)	(0.81)	(0.95)	(0.72)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	1.71	1.40	1.99	1.88	1.88
Dividend per share(2)	0.74	0.72	1.47	1.03	-
• Employee data					
Average headcount	1,195	1,185	1,193	1,202	1,213
o/w managerial	769	758	770	767	781
o/w non-managerial	426	427	423	435	432
Total payroll	61,188	62,822	64,478	66,008	68,138
Amount of employee benefits during the period	32,304	30,936	32,474	33,214	34,213

(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 of office: 14/02/2014-14 02/2019**	• BANQUE PALATINE: Chief Executive Officer and manager responsible for publication • PALATINE ASSET MANAGEMENT: Chairman of the Supervisory Board and Chairman of the Remuneration Committee • CEGC: Director • FC LORIENT BRETAGNE SUD: Director **Previous appointments:** • OCBF: Banque Palatine's permanent representative until 9 March 2016 • PALATINE ETOILE 9: Banque Palatine's permanent representative until 29 December 2016

Bertrand Dubus	
DoB: 26/09/1959 **Term of office: 13/02/2015-14/02/2019**	• BANQUE PALATINE: Deputy Chief Executive Officer and manager responsible for publication • PALATINE ASSET MANAGEMENT: member of the Supervisory Board, member of the Remuneration Committee • PALATINE ETOILE 13: Banque Palatine's permanent representative, Director • OCBF: Banque Palatine's permanent representative since 10 March 2016

Thierry Zaragoza	
DoB: 09/01/1961 **Term of office: 14/02/2014-14/02/2019**	• BANQUE PALATINE: Deputy Chief Executive Officer and manager responsible for publication • ARIES ASSURANCES: Chairman of the Supervisory Committee • GIE CAISSE D'EPARGNE SYNDICATION RISQUE: Banque Palatine's permanent representative, member of the Supervisory Board • PALATINE ASSET MANAGEMENT: Vice-Chairman of the Supervisory Board, Chairman of the Audit Committee, member of the Remuneration Committee **Previous appointment:** • SOCIETE FONCIERE D'INVESTISSEMENT: Chairman until 16 November 2016

Laurent Roubin	
DoB: 02/11/1969 **Term of office: 24/05/2016 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2016**	• BPCE: Chief Executive Officer in charge of commercial banking and insurance, member of the Management Board, member of the General Management Committee • BANQUE PALATINE: Chairman of the Board of Directors, Chairman of the Remuneration Committee, Chairman of the Appointments Committee, member of the Audit Committee, member of the Risk Committee • BPCE INTERNATIONAL: Chairman of the Board of Directors • CREDIT FONCIER DE FRANCE: Director • ERILIA: BPCE's permanent representative, non-voting Director **Previous appointments:** • ALLIANCE ENTREPRENDRE: Board member • BANQUE PRIVEE 1818: Director • BPCE-IT: CEP's permanent representative, Director • CAISSE D'EPARGNE DE PICARDIE: Chairman of Management Board • CAISSE D'EPARGNE DEVELOPPEMENT: Director • CE CAPITAL: Chairman • COFACE: Director • FNCE: Director • IT CE: CEP's permanent representative, member of the Supervisory Board • NSAVADE: Chairman, member of the Management Committee • PALATINE ASSET MANAGEMENT: member of the Supervisory Board • PICARDIE FONCIERE: Chairman, member of the Management Committee • PICARDIE MEZZANINE: Chairman, member of the Management Committee • SEVENTURE PARTNERS: member of the Supervisory Board • SIA HABITAT: Chairman, Chairman of the Audit Committee • TRITON: Chairman

Jean-Yves Forel	
DoB: 17/05/1961 **Term in office: 14/02/2014 -24/05/2016**	• BPCE: Chief Executive Officer, member of the Executive Management Committee in charge of transformation and operational excellence • CREDIT FONCIER DE France: Director • BPCE INTERNATIONAL: Chairman of the Board of Directors • CNP ASSURANCES: director • SOPASSURE: Director • NATIXIS ALGERIE: Chairman and CEO • NATIXIS COFICINE: Director • MEDIA CONSULTING & INVESTMENT: Director **Previous appointments:** • BPCE: 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 • ECUREUIL VIE DÉVELOPPEMENT: BPCE's permanent representative, Director

Marguerite Bérard-Andrieu	
DoB: 31/12/1977 **Permanent representative 14/02/2014 - 23/05/2016**	• BPCE: deputy CEO in charge of Strategy and Legal Affairs, General Secretariat and Compliance - member of the Executive Management Committee • CE HOLDING PARTICIPATIONS: deputy CEO, BPCE's permanent representative • CREDIT FONCIER DE FRANCE: BPCE's permanent representative, Director • COFACE: BPCE's permanent representative, director • HAVAS: Director • NATIXIS: BPCE's permanent representative, Director • S-MONEY: Chairman of the Board of Directors • SCOR: Director **Previous appointments:** • BANQUE PALATINE: BPCE's permanent representative, Director • BPCE IOM: Director • ISSORIA : Chairman of the SAS and Chairman of the Board of Directors • MAISON France CONFORT: Director • NATIXIS COFICINE: Director • S-MONEY: Chairman

Max Bézard	
DoB: 05/03/1965 **Term in office: 14/02/2014 -18/05/2016** **BPCE's permanent representative from 24/05/2016**	• BPCE: Head of group strategic management control and banking transactions, member of the Management Committee • BANQUE PALATINE: BPCE's permanent representative, director, member of the Audit and Risk Committees • BPCE IOM: member of the Supervisory Board **Previous appointment:** • BANQUE PALATINE: Director, member of the Audit Committee, member of the Risk Committee

Jean-Charles Boulanger	
DoB: 01/06/1947 **Term in office: 14/02/2014 -20/09/2016**	• CAISSE D'EPARGNE AQUITAINE POITOU-CHARENTES: Chairman of the Steering and Supervisory Board, member of the Audit Committee, member of the CSR Strategy Committee, Chairman of the Remuneration Committee, Chairman of the Appointments Committee • FNCE: Director • NATIXIS INTEREPARGNE: Director • NATIXIS INTERTITRES: Director • Société Locale d'Epargne La Rochelle-Rochefort-Royan: Chairman **Previous appointment:** • BANQUE PALATINE: Director, Chairman of the Audit Committee, member of the Risk Committee

Maurice Bourrigaud	
DoB: 21/01/1958 **Term in office: 14/02/2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2016**	• BANQUE POPULAIRE DE L'OUEST (BPO): Chief Executive Officer • BANQUE PALATINE: Director, member of the Audit Committee, member of the Risk Committee • CAISSE REGIONALE DE CREDIT MARITIME MUTUEL: BPO's representative • SA INGENIERIE ET DEVELOPPEMENT: Chairman • SAS SOCIETARIAT BPO: Chairman • SASU OUEST LOGISTIQUE VOYAGES: Chairman • SA ATEA VOYAGES: Chairman • SA OUEST TRANSACTION: Director • SA MONTGERMONT 1: Director • SOCAMIO: Director • OUEST INGENIERIE FINANCIERE: Director • INFORMATIQUE BANQUE POPULAIRE: Director **Previous appointments:** • CAISSE D'EPARGNE AUVERGNE LIMOUSIN (CEPAL): Chairman of the Management Board • AGATHE: Chairman • ECUREUIL CREDIT: CEPAL's permanent representative, member of the Supervisory Board • FNCE: 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

Gonzague de Villèle	
DoB: 23/01/1953 **Term in office: 14/02/2014 - 13/09/2016**	• BANQUE POPULAIRE VAL DE FRANCE (BPVDF): Chief Executive Officer • BANQUE PALATINE: Director • BANQUE PRIVEE 1818: Director • BANQUE TUNISO-KOWEITIENNE: BPCE IOM's permanent representative, Director • BPCE: non-voting Director • BPCE IT: Director • I-BP: Director • OUEST CROISSANCE GESTION: BPVDF's permanent representative, Chairman of the Supervisory Board • OUEST INGENIERIE FINANCIERE: Chairman • PATRIMOINE ET COMMERCE: member of the Supervisory Board • VAL DE FRANCE TRANSACTIONS: Chairman **Previous appointment:** • FNBP: Vice-Chairman

Sylvie Garcelon	
DoB: 14/04/1965 **Term in office: 05/10/2016 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2016**	• CASDEN BANQUE POPULAIRE: Chief Executive Officer • BANQUE PALATINE: Director, member of the Audit Committee, member of the Risk Committee • BUREAU DU MANAGEMENT FINANCIER: Chief Executive Officer • FONDATION BANQUE POPULAIRE: Director • NATIXIS: Director, member of the Audit Committee, member of the Risk Committee

Michel Grass	
DoB: 12/11/1957 **Term in office: 14/02/2014 - 12/09/2016**	• BANQUE POPULAIRE BOURGOGNE FRANCHE COMTE: Chairman of the Board of Directors • BPCE: member of the Supervisory Board and Risk Committee • NATIXIS: Director **Previous appointments:** • BANQUE PALATINE: Director • SÉNONAIS COMMUNE: Vice-President of the Community • YONNE CHAMBER OF COMMERCE AND INDUSTRY: full member • NATIXIS GLOBAL ASSET MANAGEMENT: Director • CITY OF SENS: Deputy Mayor

Pascal Marchetti	
DoB: 13/06/1964 **Term in office: 14/02/2014 - 05/09/2016**	**Previous appointments:** • BANQUE PALATINE: director, member of the Audit Committee, member of the Risk Committee • BANQUE POPULAIRE DES ALPES (BPA): Chief Executive Officer • BANQUE DE SAVOIE: BPA's permanent representative, Vice-Chairman and member of the Audit Committee • SAS BPA ATOUT PARTICIPATIONS: BPA's permanent representative, Director • BPCE: non-voting Director • LA COMPAGNIE DES ALPES: BPA's permanent representative, Director • COFACE: director, member of the Audit Committee • IBP: BPA's permanent representative, director • INNOVAFONDS: BPA's permanent representative, member of the Steering and Supervisory Board • NAXICAP PARTNERS: member of the Supervisory Board • PRAMEX: permanent representative, Director • PRIAM BANQUE POPULAIRE: permanent representative, Director • SAS SOCIETARIAT: permanent representative, Director

Benoît Mercier	
DoB: 04/02/1953 **Term in office: 14/02/2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2016**	• CAISSE D'ÉPARGNE LORRAINE CHAMPAGNE-ARDENNE (CELCA): Chairman of the Management Board • BANQUE PALATINE: Director, member of the Appointments Committee, member of the Remunerations Committee (since 05/10/2016) • ASSOCIATION DE PREFIGURATION DU CENTRE DES CONGRES DE METZ MÉTROPOLE: CELCA's permanent representative, Director • ALBIAN-IT: Director, member of the bureau, of the Economic Committee and of the Remuneration Committee • BCP SA: Director • BPCE IT: Director • SCI CEFCL: manager representing CELCA • CEGC: Director • FBF – FBF Lorraine Regional Committee: Chairman • FEDERATION NATIONALE DES CAISSES D'EPARGNE: Director • FIRMAMENT PARTICIPATIONS: CELCA's permanent representative, Director • FONDATION CAISSE D'EPARGNE POUR LA SOLIDARITE: Vice-Chairman • FONDS DE DOTATION DE LA CELCA: Vice-Chairman of the Board of Directors, member of the bureau, CELCA's representative • 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: Director • LIVRET BOURSE INVESTISSEMENT: Director

Christine Meyer-Forrler	
DoB: 07/05/1969 **Caisse d'Epargne d'Alsace's permanent representative: from 05/10/2016**	• CAISSE D'EPARGNE D'ALSACE (CEA): member of the Management Board in charge of Corporates and Institutions • BANQUE PALATINE: CEA's permanent representative, Director • ALSACE CREATION: CEA's permanent representative, Director • SODIV: CEA's permanent representative, Director • HABITATION MODERNE: CEA's permanent representative, Director

Marie Pic-Pâris Allavena	
DoB: 04/07/1960 **Term in office: 05/10/2016 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2016**	• GROUPE EYROLLES: Chief Executive Officer, Director • BANQUE PALATINE: Director, Chairwoman of the Risk Committee, member of the Appointments Committee, member of the Remuneration Committee • AUFEMININ.COM: Director, Chairwoman of the Audit Committee • BANQUE POPULAIRE RIVES DE PARIS: Director, member of the Audit Committee and Chairwoman of the Risk Committee, member of the bureau and Investment Committee

Bernard Niglio	
DoB: 10/08/1949 **Term in office: 29/07/2014 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2016**	• CAISSE D'EPARGNE PROVENCE-ALPES-CORSE: Chairman of the steering and supervisory board • BANQUE PALATINE: Director, Chairman of the Audit Committee (since 05/10/2016), member of the Remunerations Committee, member of the Appointments Committee • FNCE: bureau member • IMF CREASOL: Director • NATIXIS FACTOR: Director • PFIL OEBI MARTIGUES: Director • SLE PROVENCE OUEST: Chairman

Raymond Oliger	
DoB: 03/09/1945 **Term in office: 14/02/2014 - 05/10/2016**	• BANQUE POPULAIRE LORRAINE CHAMPAGNE: Vice-Chairman of the Board of Directors • BCP LUXEMBOURG: Vice-Chairman **Previous appointment:** • BANQUE PALATINE: Director, member of the Remuneration Committee, member of the Appointments Committee

Matthieu Godefroy	
DoB: 03/07/1979 **Term in office: 14/05/2014 until the employee elections to be held in 2017**	• BANQUE PALATINE: Director representing employees

Brigitte Briffard	
DoB: 29/12/1958 **Term in office: 14/05/2014 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 of Banque Palatine

(Article L. 225-102-1 of the French Commercial Code)

(a) 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.

(b) Amounts paid in respect of 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.

(a) Amounts due in respect of 2016: all remuneration due on a pro rata basis in respect of duties performed in 2016, regardless of the date of payment.

(b) Amounts paid in respect of 2016: all amounts actually paid and received in 2016 (due in 2015 and paid in 2016 + due in 2016 and paid in 2016) in respect of duties performed during the period.

N/A: Not Applicable.

N/R: Not Relevant.

Senior executives

	Amounts in respect of 2016		**Amounts in respect of 2015**	
Pierre-Yves Dréan	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	€290,000	€290,000	€290,000	€290,000
Variable remuneration	€211,352	€105,676	€232,000	€111,766
Directors' fees	€17,000	€17,000	€17,000	€17,000
Housing allowance		€40,000	€40,000	€40,000
Benefits in kind		€19,317	-	€16,942

	Amounts in respect of 2016		**Amounts in respect of 2015***	
Bertrand Dubus	**Due [(a)]**	**Paid [(b)]**	**Due [(a)]**	**Paid [(b)]**
Fixed remuneration	€205,000	€205,000	€175,389	N/A
Variable remuneration	€94,546	€80,451	€87,694	N/A
Profit-sharing and incentive plans		€14,095		N/A
Directors' fees	€2,250	€2,250	€2,250	N/A
Benefits in kind		€11,770		N/A

***** *Starting from 13 February 2015.*

	Amounts in respect of 2016		**Amounts in respect of 2015**	
Thierry Zaragoza	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	€205,000	€205,000	€205,000	€190,000
Variable remuneration	€94,546	€80,345	€102,500	€81,895
Profit-sharing and incentive plans		€14,201		€16,587
Contractual bonus				€15,000
Directors' fees	7,000 €	7,000 €	€7,000	€6,750
Benefits in kind		12,958 €		€10,228

Table 4 – Stock options awarded to Executive Directors during the 2016 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 2016 financial year						

Table 5 – Stock options exercised by Executive Directors during the 2016 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 2016 financial year			

Table 6 – Performance shares awarded to Executive Directors during the 2016 financial year (bonus shares associated with performance criteria)

Performance shares awarded by the annual general meeting	Number 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 2016 financial year							

Table 7 – Performance shares available for Executive Directors during the 2016 financial year (availability of bonus shares associated with performance criteria)

Availability of performance shares	Number and date of the plan	Number of shares that have become available	Vesting terms
No performance shares were available for executive directors during the 2016 financial year (no award of this type of share)			

Table 8 – Past awards of stock options and bonus shares during the 2016 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 2016 financial year						

Table 9 – Stock options awarded to and exercised by the ten employees other than Directors who were awarded the most during the 2016 financial year

Name of non-Director employee	Number and date of the plan	Number of options awarded and exercised during the 2016 financial year	Weighted average price
No stock options were awarded or exercised by Banque Palatine employees during the 2016 financial year			

■ Table 10 – Post-employment benefits awarded to Executive Directors

Names of Executive Directors	Start of term in office	End of 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	REUNICA: 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	REUNICA: pay-as-you-go system	No	No
Thierry Zaragoza Executive Vice-President	14/02/2014	14/02/2019	Yes	REUNICA: pay-as-you-go system	No	No

Directors

	Amounts in respect of 2016*		Amounts in respect of 2015	
Laurent Roubin	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration (corporate office)	€311,828	€311,828	N/R	N/R
Variable remuneration	€211,481**	€0	N/R	N/R
Exceptional remuneration	€0	€0	N/R	N/R
Directors' fees***	€0	€0	N/R	N/R
Benefits in kind	€24,946	€24,946	N/R	N/R

* *As from 24/05/2016.*

** *Variable element in respect of 2016, of which €105,740 (50%) was paid in 2017 and the balance (50%) deferred over three years in equal instalments of €35,247.*

*** *Paid to BPCE.*

	Amounts in respect of 2016*		Amounts in respect of 2015	
Jean-Yves Forel	**Due [(a)]**	**Paid [(b)]**	**Due [(a)]**	**Paid [(b)]**
Fixed remuneration (corporate office)	€188,172 €	€188,172	€500,000	€500,000
Variable remuneration	€126,519****	€362,865*****	€401,191**	€283,586***
Exceptional remuneration	€0	€0	€0	€0
Directors' fees******	€0	€0	€0	€0
Benefits in kind	€1,493	€1,493	€4,349	€4,349

* *Until 24/05/2016.*

** *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. In 2017, the amount finally awarded will be €74,608 (after application of an indexing factor).*

*** *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.*

**** *Variable element in respect of 2016, of which €63,260 (50%) was paid in 2017 and the balance (50%) deferred over three years in equal instalments of €21,087.*

***** *€200,596 of variable remuneration paid in 2016 in respect of 2015, €76,554 and €85,715 for the fractions deferred in respect of 2014 and 2013, respectively.*

****** *Paid to BPCE.*

Marguerite Bérard-Andrieu	Amounts in respect of 2016**		Amounts in respect of 2015	
	Due(a)	Paid(b)	Due(a)	Paid(b)
Fixed remuneration	€214,665	€214,665	€330,000	€330,000
Variable remuneration	€132,393	€132,393	€170,153	€170,153
Exceptional remuneration	€0	€0	€0	€0
Incentive plan	na	na	€16,627	€16,627
Directors' fees*	€0	€0	€0	€0
Benefits in kind	€0	€0	€13.95	€13.95

* *Paid to BPCE.*

** *Until 01/05/2016.*

Max Bézard	Amounts in respect of 2016		Amounts in respect of 2015	
	Due(a)	Paid(b)	Due(a)	Paid(b)
Fixed remuneration	€250,000	€246,296	€250,000	€250,000
Variable remuneration	€0	€0	€87,812.50(**)	€87,812.50
Exceptional remuneration	€0	€0	€0	€0
Incentive plan	na	na	€16,626.89	€16,626.89
Directors' fees*	€0	€0	€0	€0
Benefits in kind	€135.98	€135.98	€18.60	€18.60

***** *Paid to BPCE.*

****** *Amount due in respect of 2015: €80,000, paid in 2016. Amount due in respect of 2016: €0; no payment will be made subsequently.*

Jean-Charles Boulanger	Amounts in respect of 2016*		Amounts in respect of 2015	
	Due(a)	Paid(b)	Due(a)	Paid(b)
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	€9,000	€9,000	€12,000	€12,000
Benefits in kind	N/A	N/A	N/A	N/A

***** *Until 20 September 2016.*

Maurice Bourrigaud	Amounts in respect of 2016		Amounts in respect of 2015	
	Due(a)	Paid(b)	Due(a)	Paid(b)
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	€10,000	€10,000	€10,000	€10,000
Benefits in kind	N/A	N/A	N/A	N/A

	Amounts in respect of 2016*		Amounts in respect of 2015	
Sylvie Garcelon	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/R	N/R
Variable remuneration	N/A	N/A	N/R	N/R
Exceptional remuneration	N/A	N/A	N/R	N/R
Directors' fees	€1,000	€1,000	N/R	N/R
Benefits in kind	N/A	N/A	N/R	N/R

***** *As from 5 October 2016.*

	Amounts in respect of 2016**		Amounts in respect of 2015	
Gonzague de Villèle	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees*****	€12,400	€12,400	€11,066.67	€11,066.67
Benefits in kind	N/A	N/A	N/A	N/A

***** *Including directors' fees paid by BPCE.*
****** *Until 13 September 2016.*

	Amounts in respect of 2016**		Amounts in respect of 2015	
Michel Grass	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees*****	€24,125	€24,125	€47,266.67	€47,266.67
Benefits in kind	N/A	N/A	N/A	N/A

***** *Including directors' fees paid by BPCE.*
****** *Until 12 September 2016.*

	Amounts in respect of 2016**		Amounts in respect of 2015	
Pascal Marchetti	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees*****	€12,233.33	€12,233.33	€14,066.67	€14,066.67
Benefits in kind	N/A	N/A	N/A	N/A

***** *Including directors' fees paid by BPCE.*
****** *Until 5 September 2016.*

	Amounts in respect of 2016		Amounts in respect of 2015	
Benoît Mercier	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	€6,500	€6,500	€6,000	€6,000
Benefits in kind	N/A	N/A	N/A	N/A

	Amounts in respect of 2016*		Amounts in respect of 2015	
Christine Meyer-Forrler	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/R	N/R
Variable remuneration	N/A	N/A	N/R	N/R
Exceptional remuneration	N/A	N/A	N/R	N/R
Directors' fees*	€0	€0	N/R	N/R
Benefits in kind	N/A	N/A	N/R	N/R

* *As from 5 October 2016.*

	Amounts in respect of 2016		Amounts in respect of 2015	
Bernard Niglio	**Due[(a)]**	**Paid[(b)]**	**Due[(c)]**	**Paid[(d)]**
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	€11,750	€11,750	€9,000	€9,000
Benefits in kind	N/A	N/A	N/A	N/A

	Amounts in respect of 2016*		Amounts in respect of 2015	
Raymond Oliger	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	€9,000	€9,000	€9,000	€9,000
Benefits in kind	N/A	N/A	N/A	N/A

* *Until 5 October 2016.*

	Amounts in respect of 2016*		Amounts in respect of 2015	
Marie Pic-Pâris Allavena	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/R	N/R
Variable remuneration	N/A	N/A	N/R	N/R
Exceptional remuneration	N/A	N/A	N/R	N/R
Directors' fees*	€4,250	€4,250	N/R	N/R
Benefits in kind	N/A	N/A	N/R	N/R

* *As from 5 October 2016.*

	Amounts in respect of 2016		Amounts in respect of 2015	
Brigitte Briffard	**Due[(a)]**	**Paid[(b)]**	**Due[(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees*	€0	€0	€0	€0
Benefits in kind	N/A	N/A	N/A	N/A

* *Paid to the CGT.*

	Amounts in respect of 2016		Amounts in respect of 2015	
Matthieu GODEFROY	**Due[(a)]**	**Paid[(b)]**	**Due [(a)]**	**Paid[(b)]**
Fixed remuneration	N/A	N/A	N/A	N/A
Variable remuneration	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	€7,500	€7,500	€6,000	€6,000
Benefits in kind	N/A	N/A	N/A	N/A

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 breaks down as 90% under their employment contract, and 10% in respect of the corporate office, 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 remuneration payable to the Chief Executive Officer on the recommendation of Banque Palatine's Remuneration Committee.

The variable remuneration 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 remuneration 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 remuneration 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 remuneration 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 items and remuneration level.

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 ten 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: subject to positive net profit for Banque Palatine in the year before the term of corporate office ends and an average 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 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 + 0.6), 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 ten 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 qualify 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 plan, 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 Banque Populaire 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 Caisse 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 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)	2016	2015
The closing balance of amounts outstanding to all suppliers stood at	710,510.56	631,823.47
This balance breaks down as follows:		
• Due in less than one month	512,006.12	508,162.38
• Due in between one month and two months	101,336.49	59,803.16
• Due in between two and three months	17,565.77	44,618.52
• Due in between three and six months	57,425.06	12,228.69
• Due in over six months	22,177.12	7,010.72

6 Appropriation of income

Sources	
Net income	€50,555,226.19
Appropriations	
To the statutory reserve	€2,527,761.31
Carried forward	€48,027,464.88
	€50,555,226.19

7 Information on inactive accounts

(Articles L. 312-19, L. 312-20, and R. 312-21 of the French Monetary and Financial Code)

- Number of dormant accounts at the Bank: 12,047
- Total amount of deposits and assets in dormant accounts: €317,205,606.71
- Number of accounts whose deposits and assets are deposited with the *Caisse des dépôts et consignations*: 724
- Total deposits and assets deposited with the *Caisse des dépôts et consignations*: €7,714,860.06

8 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
PalatineEtVous branch	10, avenue du 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 LA 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 2nd 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-Etienne

6

DRAFT RESOLUTIONS PRESENTED TO THE ORDINARY GENERAL MEETING OF 16 MAY 2017

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 2016 financial year, the general meeting approves the annual financial statements showing earnings of €50,555,269.19.

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 €63,504.12 and gave rise to a tax charge of €21,864.47.

Second resolution

After hearing the reports of the Board of Directors and the Statutory Auditors on the consolidated financial statements for the 2016 financial year, the general meeting approves the consolidated financial statements showing earnings of €46,345 million.

Third resolution

The general meeting, noting that the profit for the financial year ended 31 December 2016, amounts to €50,555,226.19, approves the appropriation of these sums as proposed by the Board of Directors:

- 5% to the legal reserve, or €2,527,761.31;
- the balance of €48,027,464.88 to the "carried forward" item.

Following this appropriation, the balance of the legal reserve is €47,176,109.27 and the balance carried forward is €180,911,197.54.

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
2013	26,940,134	€19,396,896.48	€0.72
2014	26,940,134	€39,601,996.98	€1.47
2015	26,940,134	€27,748,338.02	€1.03

* *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

The general meeting approves the co-opting of Sylvie Garcelon as director, made on a provisional basis by the Board of Directors at its meeting on 5 October 2016.

Sixth resolution

The general meeting approves the co-opting of Marie Pic-Pâris Allavena as director, made on a provisional basis by the Board of Directors at its meeting on 5 October 2016.

Seventh resolution

The general meeting approves the co-opting, made on a provisional basis by the Board of Directors at its meeting on 5 October 2016, of the Caisse d'Epargne d'Alsace as director.

Eighth resolution

The general meeting notes that the term of office as director of Laurent Roubin expires this day and decides to renew it for a period of three years, that is, until the general meeting which will approve the financial statements for the financial year ended 31 December 2019.

Ninth resolution

The general meeting notes that the term of office as director of Maurice Bourrigaud expires this day and decides to renew it for a period of three years, that is, until the general meeting which will approve the financial statements for the financial year ended 31 December 2019.

Tenth resolution

The general meeting notes that the term of office as director of Sylvie Garcelon expires this day and decides to renew it for a period of three years, that is, until the general meeting which will approve the financial statements for the financial year ended 31 December 2019.

Eleventh resolution

The general meeting notes that the term of office as director of Benoît Mercier expires this day and decides to renew it for a period of three years, that is, until the general meeting which will approve the financial statements for the financial year ended 31 December 2019.

Twelfth resolution

The general meeting notes that the term of office as director of Bernard Niglio expires this day and decides to renew it for a period of three years, that is, until the general meeting which will approve the financial statements for the financial year ended 31 December 2019.

Thirteenth resolution

The general meeting notes that the term of office as director of Marie Pic-Pâris Allavena expires this day and decides to renew it for a period of three years, that is, until the general meeting which will approve the financial statements for the financial year ended 31 December 2019.

Fourteenth resolution

The general meeting notes that the term of office as director of BPCE expires this day and decides to renew it for a period of three years, that is, until the general meeting which will approve the financial statements for the financial year ended 31 December 2019.

Fifteenth resolution

The general meeting notes that the term of office as director of Caisse d'Epargne d'Alsace expires this day and decides to renew it for a period of three years, that is, until the general meeting which will approve the financial statements for the financial year ended 31 December 2019.

Sixteenth resolution

After hearing the report referred to in Article L. 225-37-2 of the French Commercial Code, the general meeting approves the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional elements comprising the total remuneration and benefits in kind to be awarded to the Chief Executive Officer and the Executive Vice-Presidents due to their office.

Seventeenth 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 2016 to the Chief Executive Officer, Pierre-Yves Dréan, which amounted to €589,254.

Eighteenth 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 2016 to the Executive Vice-President, Bertrand Dubus, which amounted to €325,151.

Nineteenth 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 2016 to the Executive Vice-President, Thierry Zaragoza, which amounted to €331,089.

Twentieth 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 2016 to all members of staff who are regulated persons, which amounted to €9,224,320.

Twenty-first resolution

The general meeting sets the total annual amount of directors’ fees to be allocated to the members of the Board of Directors at €134,500 euros, applicable for 2017 and for the following financial years, until a new decision is taken.

Twenty-second 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.

Designed & published by LABRADOR +33 (0)1 53 06 30 80

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BANQUE PALATINE
L'Art d'être Banquier

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