BANQUE PALATINE
L'Art d'être Banquier

FINANCIAL REPORT

2017

GROUPE BPCE

Content

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.

ANNUAL FINANCIAL REPORT 2017

Banque Palatine, the bank for medium-sized companies, their leaders and private banking, has been supporting entrepreneurs both personally and professionally for more than 230 years. It uses its expertise with SMEs and medium-sized companies. Its network of 50 branches in France in synergy with the specialist business lines (asset, legal and tax engineering, investment advisory, global approach to leaders' wealth, corporate finance, property, international, trading room, etc.) currently support 12,600 companies and 66,000 individual customers. 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 picture 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 16 April 2018

Chief Executive Officer

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Reports from the Board of Directors

REPORTS FROM THE BOARD OF DIRECTORS

1 Management Report

Economic environment

Following on from previous years, 2017 witnessed solid growth of the global economy, despite strong volatility in the financial markets during the first half. This growth resulted from the momentum of developed economies and by improvement of the conditions in emerging economies. The former profited from the increase in salary and the weak level of real interest rates, as in 2016, while the latter benefited from the reduction in the volatility of their currencies and the easing of monetary conditions by certain central banks such as those in Brazil, Russia, India and Indonesia.

World trade also experienced a dynamic year. The beginning of the year was marked primarily by tax incentives and public investment in China, while the last quarters were carried by the improvement in domestic demand in developing and emerging countries.

As for the Eurozone, it experienced a generalised business recovery, with growth approaching that of the United States. Domestic demand remains supported by accommodating monetary conditions and by a strong dynamic in the labour market. Unemployment has practically returned to its structural level (8.7% end-2017) and encourages a positive vision of European economic trends. This growth has occurred without inflationary pressure.

In the United Sates, growth increased to 2.3% in 2017, following the decrease to 1.5% observed in 2016. The US economy is effectively at full employment, with an employment rate below its structural level. The improvement in the labour market, combined with the normalisation of increased productivity, allowed for an acceleration in economic activity. Inflation remained contained at 2.1%, without salary pressure, which allowed the US Federal Reserve to pursue the gradual tightening of its monetary policy.

In addition, following the re-balancing of supply and demand and geopolitical changes in the Middle East and Venezuela, the Brent rate bounced back by close to 20% in 2017. This trend led to the return of inflation across developed economies. Inflation increased from 1.6% in 2016 to 2.0% in 2017. Beyond that, the acceleration of underlying inflation was mostly modest, given the tensions in the labour market.

In emerging countries, inflation reached a historically low point, through the appreciation of currencies and thanks to abundant agricultural harvests.

Interest rate trends

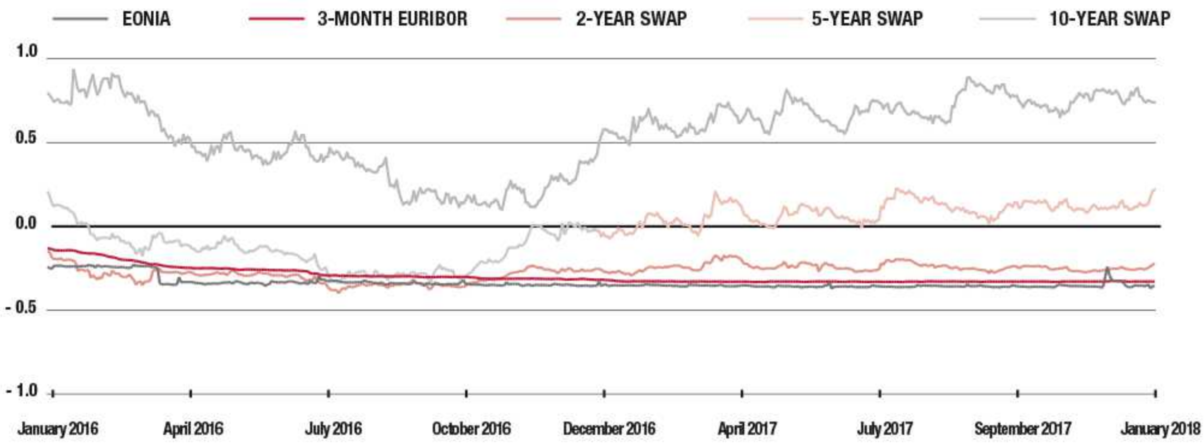
The liquidity issued by world central banks continued to increase by more than 8% over the year, which consequently limited the increase in long-term rates.

Central banks in emerging countries (Brazil, Russia, India, and Indonesia) took over and limited the slow down on global liquidity imposed by the US Federal Reserve and to a lesser extent by the European Central Bank (ECB). Of the central banks in developed countries, the US Federal Reserve was the most restrictive with respect to monetary policy. With three increases of 25 basis points each of the Federal Reserve Funds rate, the spread in the prime rate is now 1.25-1.5%. Moreover, since last October, the US Federal Reserve has started to reduce the size of its balance sheet, which had been close to USD 4,500 billion for three years.

The ECB modified its monetary policy more gradually. That bank extended its asset purchase programme twice, while effecting a slow down in the pace of its purchases. Since December 2016, the Board of Governors decided to pursue its purchases with respect to the asset purchase programme (APP) at an actual monthly rate of €80 billion until the end of March 2017, and then decreased the amount of net asset purchases to €60 billion per month starting in April 2017. In October 2017, a new announcement was made to extend the programme by nine months and to again lower the monthly purchases to €30 billion starting in January 2018. With respect to conventional policy, no changes were decided upon, at least until the end of the asset purchase programme. The rates remained unchanged at 0% for repo, 0.25% for marginal facility and -0.4% for deposit facility. These decisions did not disturb the negative anchorage of the monetary rates. The three-month Euribor rate was -0.329% at the end of the year.

This policy resulted in containing movement in the rate curve. Swap rates almost returned to 2015 levels (0.24% for 5-year swap and 0.80% for 10-year swap in December.

Euro interest rate trends since the beginning of 2016



In November, the Bank of England announced a single increase in the rate of 25 basis points for the year, with a prime rate of 0.5%.

Unlike central banks in other developed economies, the Bank of Japan did not engage in any tightening of its monetary policy.

With respect to bonds, the return on German sovereign securities trended up slightly (+30 basis points and +24 points for return on 10-year and 30-year Bunds, from January to December, compared with +14 basis points for the 2-year Schatz.

At the beginning of the year, the ten-year OAT-Bund spread was 80 basis points (its highest level for the year). But following the French elections (presidential and legislative), it again decreased.

The ECB prepares the market well in advance of its futures decisions (forward guidance), and thus volatility remained weaker for short-term maturities than for long-term maturities.

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

Key figures of Banque Palatine (in consolidated figures)

Ratings at 31 December 2017

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

Financial condition

in millions of euros	31/12/2017	31/12/2016
Equity attributable to equity holders of the parent	820.9	777.2
Tier 1 capital	787.9	721.9

Prudential ratios

	31/12/2017	31/12/2016
Core Tier One ratio	8.3%	7.9%
Tier One ratio	8.3%	7.9%
Total capital adequacy ratio	10.4%	9.5%

Consolidated income statement

in millions of euros	31/12/2017	31/12/2016
Net banking income	319.3	318.1
Gross operating income	112.8	119.0
Net income	45.9	46.3
Cost/income ratio	64.7%	62.6%

Activities

in millions of euros	31/12/2017	31/12/2016
Total assets	14,767.5	15,337.7
Customer loans	9,221.4	8,551.8

Cost of risk

(in millions of euros)	31/12/2017	31/12/2016
	39.5	46.0

Significant events

BPCE Group highlights

During 2017, Groupe BPCE implemented its online strategy, reinforced its positions in its key lines, and prepared its new strategic plan.

In 2017, the online digital plan was reflected in the implementation of new online ecosystem within the Group called “89C3”. The goal of this organisation: to develop the products and services of tomorrow in an agile manner, prior to commercialising them.

Twenty concrete projects intended for employee and partner clients have thus been initiated and incubated.

To support these projects, digital centres were opened in Aix, Toulouse, Nantes, Metz and Paris, in order to bring together animation capabilities, expertise and production.

More than 500 employees are now mobilised to work on this online strategy, with 1,000 planned from now until 2020.

The Group also sets its sights on open banking and is preparing to launch an API portal in 2018.

Finally, Groupe BPCE invested in Truffle Financial Innovation Fund, an institutional fund that focuses on creating, supporting and financing future leaders of Fintech and Insurtech in France and in Europe.

Groupe BPCE continued to strengthen its position in retail banking. Outstanding loans and savings increased by 5.5% and 4.4% respectively during 2017. The Banque Populaire and Caisse d’Epargne bank networks continued to develop with a conquest of about 250,000 primary banked clients and an increase in their teaming rate.

The Insurance line, a key strategic area of the Group, pursued its excellent dynamic with net banking income up by 12% over the year. The Natixis lines achieved excellent performance, and saw their income increase 9% over the year.

In Asset Management, the margins increased thanks in particular to a positive net collection of €24 billion concentrated in long-term products and added value. Income from Major Customers Banking (MCB) increased more than 7% in 2017.

The increased contribution of international platforms generated 58% of MCB’s income, in accordance with the intent of the strategic plan. In Global Finance & Investment Banking, income increased 8%.

In 2017, Groupe BPCE also pursued a bank-insurer (*bancassurance*) strategy. Natixis Assurances thus became the sole shareholder of BPCE Assurances, following the acquisition of 40% of the share capital of BPCE Assurances from Macif (25%) and Maif (15%). This transaction allowed Groupe BPCE to consolidate its integration strategy for the insurance value chain.

Groupe BPCE continued to optimise its organisation through the sale of S-money and its subsidiaries to Natixis Payment Holding and the repurchase of BPCE SA from Crédit Foncier and its 49% investment in GCE Foncier Coinvest.

Natixis strengthened the Payments line through the acquisition of 50.04% of the share capital of Dalenys (Payment Marketing solutions aimed at increasing income of online or point of sale merchants).

In addition, in December, BPCE SA acquired a 16.66% stake in the share capital of Paylib Services, a joint venture in the field of payment services.

Natixis acquired a majority stake (51.9%) in Investors Mutual Limited (IML) which allows it to operate in the individual customer and retirement savings markets in Australia.

In addition, the Group pursued its goal to rationalise its networks, which in 2017 took the form of cementing or starting three major projects to merge businesses.

Finally, in pursuing its Operational Excellence Plan, Groupe BPCE implemented a new organisation in its Purchasing department, by regrouping within BPCE Achats the purchasing departments of BPCE IT, I-BP, IT-CE and Natixis.

Highlights of the year for Banque Palatine

Governance

On 8 February, the Board of Directors acknowledged the appointment of Stéphanie Clavié as permanent representative of BPCE, Director, replacing Max Bézard.

On 16 May 2017, the Board of Directors acknowledged the results of the elections of the personnel representatives to the board. Guillemette Valantin was elected by the managerial staff and Sylvia Grandel by the technical staff, in order to sit on the Board of Directors as Directors representing employees, replacing Matthieu Godefroy and Sylvie Briffard, respectively.

During the Ordinary General Meeting of 16 May 2017, all of the terms of office of the Directors were renewed and the Board of Directors, meeting on the same day, appointed the Chairman of the Board of Directors and formed the committees of the Board of Directors as follows:

Board of Directors

Laurent Roubin	Chairman
Maurice Bourrigaud	Director
Sylvie Garcelon	Director
Sylvia Grandel	Employee-elected Director
Benoît Mercier	Director
Bernard Niglio	Director
Guillemette Valantin	Employee-elected Director
Marie Pic-Pâris Allavena	Director
BPCE	Director represented by Stéphanie Clavié
Caisse d'Epargne d'Alsace	Director represented by Christine Meyer-Forrler

Audit Committee

Bernard Niglio	Chairman
Maurice Bourrigaud	Member
Sylvie Garcelon	Member
Laurent Roubin	Member
BPCE represented by Stéphanie Clavié	Member

Risk Committee

Marie Pic-Pâris Allavena	Chairman
Maurice Bourrigaud	Member
Sylvie Garcelon	Member
Laurent Roubin	Member
BPCE represented by Stéphanie Clavié	Member

Appointments Committee

Laurent Roubin	Chairman
Benoît Mercier	Member
Bernard Niglio	Member
Marie Pic-Pâris Allavena	Member

Remuneration Committee

Laurent Roubin	Chairman
Benoît Mercier	Member
Bernard Niglio	Member
Marie Pic-Pâris Allavena	Member

At 31 December 2017, the percentage of female Directors was 50%.

Banque Palatine: Banque Palatine: the leading bank for medium-sized companies

Banque Palatine pursues its commitment to medium-sized companies and develops its relationship with their senior executives by relying in particular on targeted communication which emphasizes its position as a bank for medium-sized companies and their senior executives:

- **Palatine medium-sized business circle:** organisation of discussions with leaders or on themes related to the challenges faced by senior executives, such as digital transformation, financing, etc.

  This year, these meetings followed the following format:

  - a breakfast meeting with Mr Gaspard Gantzer, a political figure, at the time of the release of his book "*La politique est un sport de combat"* (Politics is a Contact Sport),
  - an event organised in connection with International Women's Day: thirty corporate managers were invited to a dinner with Catherine Maunoury, French champion of aerial acrobatics and current president of the Aéro-Club de France,
  - lunches with senior executives of medium-sized companies in Paris and in the regions,
  - evening discussions in Lyon and Strasbourg,
  - three thematic lunches with audiovisual actors;
- broadcasts of "**Défi ETI"** (Challenges for medium-sized companies) on BFM Business (23 Palatine experts appeared with senior executives of medium-sized companies) and **Ambitions of Entrepreneurs** on LCI (40 stories focusing on medium-sized companies succeeding in France and internationally) as well as a media campaign during the third quarter on BFM Business, BFM TV and Radio Classique;
- **national submission for the 6th *Ambitions d'Entrepreneurs* Trophies during a dinner bringing together more than 250 senior executives**, in partnership with LCI, Grant Thornton and Laurent-Perrier, during which 4 medium-sized companies were awarded;
- finally, every third Thursday of each month, Banque Palatine publishes a study "Banque Palatine Observations on small and medium-sized companies", which measures the levels of confidence, investment and employment in small and medium-sized businesses. The study is carried out by the OpinionWay institute with 300 senior executives of companies having revenue between €15 million and €500 million, in partnership with Challenges magazine. Each month, media devotes significant coverage to this barometer which has become a benchmark.

Activities in 2017

Commercial banking

Corporate market

In 2017, within the context of economic recovery and growth in France, development of business activity accelerated in the medium-sized business sector through three primary components of its activity:

- the **conquest** of the core target - businesses with more than €15 million in revenue - continued at a sustained pace with 317 new customer relationships in 2017, an increase of 3.6%. Thus, from 2012 to 2017, the number of Banque Palatine business customers increased 13%, from 10,748 to 12,188, while for the core target, the number increased 35%, going from 1,846 to 2,488;
- with its full range of **financing** solutions, Banque Palatine continues to support medium-sized businesses. Loans outstanding to corporate customers grew by 7.6% to €7,102 million. New lending volumes were strong across all loan categories (equipment, real estate, acquisitions and LBOs); growing nearly 20%, to €1,831 million and confirming the desire to support businesses in their development and their investments. During the year, Banque Palatine confirmed its position in arranging financial solutions (structured loans, LBO, EuroPP, real estate, financing of senior executives) with 36 transactions arranged, each generating fee income of more than €100,000, for a total of €9 million;
- on-balance sheet **savings and deposits** by companies experienced a new decrease of 3.9% in 2016 and were €10,028 million, which reflects the adjustment strategy for liabilities pursued within a context of negative interest rates.

The growth of business in the corporate market rested on the structured organisation of specialist and specialised business lines of Groupe BPCE:

- by implementing a personalised client approach through its national network of 31 agencies located in 6 regions (Western France, South & Mediterranean, Central & Eastern France, Western Paris, Central Paris, and Eastern Paris) which operate in this market;
- Banque Palatine strengthened its position as a leading player in the property administrators market, with close to 1,500 customers, in particular by offering them solutions to facilitate implementation of the new ALUR law on access to housing;
- by significantly contributing to loan production for clients of real estate professionals, in particular the investor market which represents historical customers of the Bank with ramp-up of arrangements or co-arrangements, with nine transactions completed in 2017 for a total of more than €1 million in fee income;
- by developing the large accounts department which 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;
- by pursuing the development of the audiovisual cinema subsidiary created seven years ago, which reached the level of net banking income of €5 million. 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;
- by supporting corporate finance activity which generated nearly €10 million in fee income, as compared with €9.7 million in 2016. The syndication platform was ramped up with an increase in the amount invested, standing at €409 million in 2017 (compared with €291 million in 2016);
- by beating the volume of documentary credits for 2016, issuing a total of €1,048 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;
- by supporting the Bank's customers with the dealing room offering an extended range of custom-made solutions to hedge risks or to invest surplus cash:
  - through the execution of hedging transactions at fixed and variable rates allowing customers to arm themselves against an unfavourable change in rates,
  - by undertaking currency hedges in order to protect customers against an unfavourable change in the primary world currencies,
  - by offering structured EMTNs (Euro Medium-Term Notes) with the launch of two campaigns that proved very popular with the Bank's private banking customers.

Finally, Banque Palatine strengthened its partnerships with the specialised financing lines of Natixis: Natixis Lease, Natixis Factor, Natixis Garanties, and Natixis Interépargne. In particular, there was a record income of €96 million in real-estate finance leases, up 39.2% compared with 2016.

Private banking market

The development of business activity with its core private banking customers composed of company senior executives and wealth management customers grew in accordance with ambitious targets.

Thus, the conquest of private banking customers with more than €50 thousand in assets at the start of the relationship achieved a record of 1,238 new accounts, up 16% compared with 2016 and increased 2.3 times over 4 years).

The development of the volume of financial and on-balance sheet resources continued in this market, with savings totalling €4,453 million at the end of 2016, a 2.4% increase.

Outstanding real estate loans increased by 4.9% and amounted to €1.47 billion at end-2017.

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

- a nationwide network of 36 branches dedicated to that clientele, including two specialised branches, one for mass-affluent customers (PalatineEtVous) and the other for protected adult 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 2017 to provide our private banking customers with the best possible advice.

Financial activities

2017 was marked by an overall unfavourable rate environment, although the economic environment improved.

In this environment, Banque Palatine invested €123 million in euro-zone sovereign bonds during the first half. At the end of 2017, the value of the portfolio stood at €1,878 million. This portfolio constitutes 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 re-financing is based on the resources of its customers, through a complete range of investment products. The ratio of loans to customer deposits stood at 104.7% at the end of the year. 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, 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 helped it comply with regulatory ratios. The Liquidity Coverage Ratio (LCR) remained above 100% throughout 2017.

Similarly, while the loans outstanding continued to grow, the solvency ratio was sustained at high levels throughout the year, ending 2017 at 10.4%.

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.

Total assets under management grew by 12.8% and amounted to €4.3 billion at the end of the year. Funds invested in equity funds were buoyed by the firm performance of the markets and account for more than 51% of total assets under management. This equity weighting had a positive impact on the profitability of Palatine Asset Management, in an environment of low rates which are not always favourable to management companies.

Net income was €10.6 million, a slight decrease of €0.9 million with respect to 2016.

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 2017.

Consolidated and parent-company balance sheet

Consolidated balance sheet

The Bank's consolidated assets totalled €14,767 million at 31 December 2017, down €570 million compared with 2016.

Active management of the Bank's liquidity and LCR (116.3% end-2017, compared with 117.8% end-2016) resulted in a decrease in assets of €548 million in loans and advances due from credit institutions. Available-for-sale financial assets decreased by €376 million, due to the maturing of securities lines.

With regard to liabilities, the main differences reflect the change in structure of customer resources. Amounts due to customers fell by €607 million, in particular demand deposits, and amounts due to credit institutions decreased by €599 million.

Equity increased by €43.7 million to €821 million, in line with the €46 million increase in consolidated retained earnings.

Parent-company balance sheet

The parent-company balance sheet was €14,751 million at 31 December 2017, a decrease of €519 million compared to 31 December 2016, resulting from actions implemented in order to decrease remunerated savings customers for better management of the balance sheet.

Thus, on the asset side, loans and advances due from credit institutions decreased by €548 million while loans and advances due from customers increased by €658 million.

On the liability side, the more active management of the LCR ratio and the modification of client resources resulted in a decrease of €607 million in amounts due to customers, while amounts due to credit institutions decreased €599 million compared to 31 December 2016.

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 €200 million, up by €35 million compared with the 2016 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 reached €319.3 million, an increase of 0.33% or €1 million compared to 31 December 2016.

Net interest income increased slightly by €0.1 million compared to 2016 (accounting presentation). It was negatively affected by the rate of loan production down by 15 basis points, renegotiations and early repayments experienced since the fourth quarter of 2016. This performance nevertheless demonstrated good resistance enhanced by the reversal of a significant provision amounting to €2.5 million.

This reversal reflects the €15 million decrease in yield of funds, fully compensated by the €15.4 million decrease in the cost of resources. Macro-hedging penalised net interest income by €1.8 million, due to the decline in monetary indices.

Net fee income increased to €96.6 million, compared with €94.9 million in 2016, *i.e.*, an increase of 1.7% explained by the solid performance of structured loans (€2.2 million), and customer fees which increased by €1.2 million compared with 2016. In addition there was an increase in service fee income, including fund transfer fees for €0.4 million and bank card fees for €0.5 million.

Net gains or losses on financial instruments at fair value through profit or loss increased slightly by €0.56 million, the result of sustained support by the dealing room and a net reversal of Credit Valuation Adjustment (CVA) amounting to €0.85 million. Net gains and losses on available-for-sale financial assets decreased by €2.5 million.

Finally, net income from other activities was a loss of €1 million, compared to a €2.3 million loss in 2016, a decrease of €1.2 million following the disposal of unoccupied commercial premises.

Total operating expenses came to €206.5 million, up €7.4 million or 3.7% compared with 2016. This increase was largely due to an increase in payroll costs (+€3.5 million) and external services (+€2.8 million).

At end-2017, gross operating income came to €112.8 million, down by €6.3 million (-5.3%) giving a consolidated cost/income ratio of 64.7%, compared to 62.6% in 2016.

The annual cost of risk came to €39.5 million in 2017, down €6.6 million on its 2016 level.

The share in net income of associates came to €0.6 million, generated entirely by Conservateur Finance, in line with 2016.

IFRS consolidated net income at 31 December 2017 came to €45.9 million, compared with €46.3 million in 2016 and €46.35 million in the budget.

Parent-company financial statements

Net banking income in 2017 reached €306.6 million, an increase of 2.3% compared to 31 December 2016.

Net interest income increased moderately (1%), while net gains on trading book transactions increased €6.7 million due to customer foreign exchange transactions. Net fee income increased by €2.7 million, *i.e.* 4%, following the solid performance of structured loans and customer fees. Other net operating income also increased by €1.1 million following the disposal of commercial premises.

By contrast, income from variable-income securities decreased by €2.3 million due to dividend payments that were lower than the previous year. Gains or losses on available for sale security portfolios also fell by €3.6 million primarily due to a capital loss of €1.2 million on the sale of UCITS shares.

Total operating expenses rose by €7.0 million to €197.9 million, a result of the increase in payroll expenses and external services.

Cost of risk decreased by 13.4% compared to 2016, and stood at €35.0 million at end-2017.

Income before tax increased by €3.7 million to €73.7 million at end-2017, or an increase of 5.3% compared to 2016.

Net income as at 31 December 2017 was €52.5 million, compared with €50.6 million in 2016.

Results of the subsidiaries

Palatine Asset Management recorded net income of €10.6 million in 2017, down €0.9 million compared with 2016.

Ariès Assurances’ net income totalled €0.1 million in 2017, a decrease of €0.14 million on 2016.

Main characteristics of the internal control and risk management procedures relating to the preparation and treatment of financial and accounting information

Information on the main characteristics of the internal control and risk management procedures for the preparation and processing of accounting and financial information are outlined in the “Risk management” chapter.

Main characteristics of the internal control and risk management procedures for the consolidated entities

Information on the main characteristics of the internal control and risk management procedures for all of the entities included in the consolidation are outlined in the “Risk management” chapter.

Main risks and uncertainties

This information is presented in the “Risk management” chapter 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 appendix to the management report.

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.

Significant investments

No significant investments were made in 2017.

Information on payment periods

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

List of branches

A list of all agencies is provided in the appendix to the management report.

Employee participation in the share capital at 31 December 2017

At 31 December 2017, 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 2017 include €64,062.82 in non-tax deductible expenses.

Accordingly, the tax charge incurred as a result of these expenses amounted to €22,056.83.

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 2017

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 2017, an amendment entered into this application scope, the agreement made between Banque Palatine and Natixis S.A. that was signed on 22 February 2017, related to the 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 2017, Banque Palatine did not trade in its own shares.

Resolutions

The Board of Directors presented to the general shareholders' meeting the management report, the report on corporate governance, the parent-company and consolidated financial statements for 2017 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
2014	**26,940,134**	**€39,601,996.98**	**€1.47***
2015	**26,940,134**	**€27,748,338.02**	**€1.03***
2016	**26,940,134**	**-**	**-**

** Not eligible for the 40% rebate.*

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, as well as total remuneration for the 2017 financial year, are submitted to the general shareholders' meeting for approval.

Finally, shareholders are consulted about the overall package of remuneration of any kind paid to individuals covered by Article L. 511-71 of the French Monetary and Financial Code.

In accordance with Article L. 225-129-6 of the French Commercial Code from the law of 19 February 2001 on employee savings, the extraordinary general meeting must, every three years, consider a draft resolution aimed at implementing a capital increase reserved for employees, when they hold less than 3% of the share capital, which is the case for Banque Palatine. In the last proposal from 20 May 2015, it was proposed to consider a draft resolution aimed at completing a capital increase under the terms provided for in Articles 3332-18 *et seq.* of the French Labour Code.

Outlook

2017 is the final year of Banque Palatine's "Impulsions" strategic plan. All of the plan's promises were fulfilled during its execution and, in particular concerning the strengthening of the Bank's position as a bank for medium-sized businesses and their senior executives, the completion of the first phase of its transformation and modernisation, and the consolidation of its financial balances.

In 2018 the new strategic plan will be launched with the reaffirmed ambition to be, in 2020, the benchmark bank of medium-sized companies and their senior executives, as well as a modern bank, thanks to the significant investment in information technology, to be an even more relationship-focused bank.

In order to do so, Banque Palatine will continue to invest significantly in its human resources in order to assure quality service to its core business customers.

2 Report on Corporate Governance

FY 2017

To the Shareholders,

In addition to the Board of Directors' management report and in accordance with Article L. 225-37 and L. 225-37-2 of the French Commercial Code, we have the honour of reporting to you under the terms of this report on:

- the composition of the board, the conditions for the preparation and organisation of the work of the Board of Directors, the rules and principles governing determination of remuneration and benefits of any kind granted to corporate officers;
- draft resolutions regarding remuneration which will be submitted to you at the time of the general meeting to approve the financial statements for the financial year ending 31 December 2017.

The Article 266 report under the order of 3 November 2014, which is in the appendix, lists all of the terms in office held by the corporate officers during the 2017 financial year and the Rules of procedure for the Board of Directors.

This report was finalised, under our authority, on the basis of available documentation.

It was submitted in advance to the Remuneration Committee on Thursday 8 February 2018, and then approved by the Board of Directors the same day.

In their report prepared pursuant to Article L. 225-235 of the French Commercial Code, the Statutory Auditors attest the other information required by Article L. 225-37 of the French Commercial Code (presented in the Report on corporate governance), and if applicable, present their observations.

Board of Directors

1. 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 (http://medefparis.fr/code-afep-medef-de-novembre-2016.html).

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. Accordingly, the following points are not included:

- the proportion of independent members of the Board of Directors and its committees

  Banque Palatine is a wholly owned subsidiary of BPCE. BPCE wanted the composition of the Board of Directors to allow assurance of representation of the shareholder (chairmanship and a representative) as well as representation of the senior executives of the Banque Populaire and Caisse d'Epargne banks. With respect to the position of Banque Palatine within Groupe BPCE, the shareholder did not consider designation of independent members to be necessary;
- staggered reappointments to the Board of Directors

  In view of the ownership of Banque Palatine noted above, it is not necessary to stagger the renewal of appointments;
- ownership of a significant number of Banque Palatine shares by the Directors

  This provision is unfounded, in view of the shareholder profile of Banque Palatine.

Implementation of the principle of balanced gender representation within the Board of Directors and its committees has been fully met. The action plan proposed by the Appointments Committee at its meeting on 15 December 2016, and accepted by the Board of Directors meeting on the same day, ended on the General Meeting of 16 May 2017. The appointments of all Directors were renewed and, as at 31 December 2017, the percentage of women on the Board of Directors was 50% and between 25% and 60% on the committees of the Board of Directors.

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 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

2. Board of Directors

2.1. 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 6 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.

As the direct majority shareholder of Banque Palatine, BPCE (the central body of Groupe BPCE) chose to have Group Directors coming from the two networks which are its shareholders included in the Board of Directors of Banque Palatine.

Employee-elected directors

There are two: one is elected by the managerial staff, the other by the 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.

2.2. Directors

At 31 December 2017, 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 2019 and two employee-elected Directors, whose appointment began on 16 May 2017 and ends on the determination by the Board of Directors of the results of the employee elections to be held in 2020, all of whom have French nationality:

Attendance rate

Directors	Age	Date of appointment or reappointment	Expiry date of appointment	Board of Directors	Risks committee	Audit committee	Appointments committee	Remuneration committee
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	48 years old	16/05/2017	2020	100	0	0	100	100
Maurice Bourrigaud, Chief Executive Officer, Banque Populaire Grand Ouest	59 years old	16/05/2017	2020	80	100	100	-	-
Sylvie Garcelon, Chief Executive Officer of Casden Banque Populaire	52 years old	16/05/2017	2020	60	80	80	-	-
Sylvia Grandel, elected by the employees (technical staff)	43 years old	16/05/2017	2020	100	-	-	-	-
Benoît Mercier, Chairman of the Management Board of Caisse d'Epargne Lorraine Champagne-Ardenne	64 years old	16/05/2017	2020	80	-	-	100	80
Bernard Niglio, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Provence-Alpes-Corse	68 years old	16/05/2017	2020	100	-	100	100	100
Marie Pic-Pâris Allavena, Chief Executive Officer of Eyrolles	57 years old	16/05/2017	2020	100	100	-	100	100
Guillemette Valantin, elected by the employees (managerial grade staff)	51 years old	16/05/2017	2020	100	-	-	-	-
BPCE, represented by Stéphanie Clavié, responsible for financial reporting	47 years old	16/05/2017	2020	100	100	100	-	-
CAISSE D'EPARGNE D'ALSACE represented by Christine Meyer-Forrler, Board Director in charge of Businesses and Institutions	48 years old	16/05/2017	2020	60	-	-	-	-

Changes to the Board during 2017

On 8 February, the Board of Directors acknowledged the appointment of Stéphanie Clavié as permanent representative of BPCE, Director, replacing Max Bézard.

On 16 May 2017, the Board of Directors acknowledged the results of the elections of the personnel representatives to the board: Guillemette Valantin was elected by the managerial staff and Sylvia Grandel by the technical staff, in order to sit on the Board of Directors as Directors representing employees, replacing Matthieu Godefroy and Sylvie Briffard, respectively.

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.

Banque Palatine implemented a system regarding conflicts of interest for employees and its customer dealing room. It is planned to review this system in 2018 overall in order to include terms of the Sapin 2 Law and to apply it to governance.

Terms in office

The list of all the offices held by Directors during the 2017 financial year appears in Appendix 2 to this report.

2.3. 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.

2.4. 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 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.

At any time of the year, 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 prepare the parent-company and consolidated interim and annual financial statements. It reviews the quarterly parent-company and consolidated financial statements prepared by management and hears the Management's 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 with an agenda that it establishes and that can include, in particular: the appointment or ratification of directors, the appointment of statutory auditors, the renewal of director or statutory auditor appointments, consultation of shareholders on individual remuneration of directors and on the total amount paid to regulated persons.

2.5. Rules of procedure for the Board of Directors

The rules of procedure for the Board of Directors, adopted during the meeting on 14 February 2014, were updated during the meeting on 20 May 2015 in order to take into account the adoption of rules of procedure for the Board of Directors' committees implemented following the establishment of the Risks Committee and the Appointments Committee and the recording of its meetings.

The rules of procedure lay down the arrangements for convening meetings, video conferences 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 (Appendix 3).

2.6. 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 by the legislation in force.

Banque Palatine's Board of Directors met four times in 2017 and the average attendance rate was 88%.

The main topics covered at the meetings in 2017 were:

- appointment of the Committee Chairmen and Members;
- the quarterly balance sheet and significant events;
- the resignation of the Executive Vice-President for finance and banking production;
- the variable remuneration of Executives;
- related party agreements;
- the Board of Directors' management report;
- the Chairman's report on internal control;
- the report on the employee-related, environmental and social information;
- the report pursuant to Article 266 of the order of 3 November 2014 on internal control;
- 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;
- 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;
- authorisation and delegation of authority to carry out issues of debt securities and their use.

2.7. Board appraisal

A Board appraisal was done for the first time in December 2015 based on a document containing observations on the operation of the Board of Directors, its composition and its activity.

The Appointments Committee in charge of the appraisal of the Board of Directors recommended during this first stage that a meeting be held in December 2016 so that the evaluation could be done on the basis of a questionnaire. In December, given the co-options of the Directors joining in

October 2016, it was proposed to delay the appraisal of the Board of Directors until 2017 in order to allow for a certain time period during which the Directors could attend several meetings of the Board of Directors.

In 2017, a formalised evaluation of the operation of the Board of Directors and its specialised committees was completed using a questionnaire provided to all Directors. This questionnaire had five parts, subdivided into questions (from two to eight): The Board of Directors, the committees, the composition of the Board of Directors, the areas of responsibility of the Board of Directors, the framework – the operation and support of the Directors.

The results of the questionnaire were analysed by the Nominations Committee and were provided to the Board of Directors.

In summary, the self-evaluation revealed satisfaction of all the Directors on the five parts while highlighting in particular that they could freely express themselves, having access to reliable information in sufficient amounts, appreciating the diversity of the composition of the Board of Directors which allows active participation at the Board of Directors' meetings, signalling their agreement on making collegial decisions, also finding the integration of new Directors to be satisfying.

In addition, the questionnaire included a question regarding individual contribution to the Board of Directors, which had been an issue in the Appointments Committee, in order to note the contributions with respect to their respective skills and contributions to the Board of Director meetings. In conclusion, it turned out that the Banque Palatine has a Board of Directors of quality for which the method of operating corresponds to the profile of its shareholder; relying on a diversity of skills and experience they complement one another in a satisfactory manner.

2.8. Training of the Board of Directors

The Board of Directors of Banque Palatine is composed of senior executives or employees of BPCE and of executive and non-executive officers of the Caisse d'Epargne and Banque Populaire networks.

BPCE as well as the two mutual networks have each implemented a training program in which Directors of Banque Palatine may participate.

For the two employee-elected Directors, Banque Palatine joined the IFA – Institut de formation des administrateurs. In October 2017, the two employee-elected Directors completed the training available to them in this institute.

3. Related party agreements

Since it belongs to Groupe BPCE, Banque Palatine participates as a member in the Group's economic interest group (GIE). Should a change in control of Banque Palatine occur, it can no longer participate in these GIEs.

Significant agreements

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.

Currently, there are two agreements that fall within the aforementioned category:

- the existing billing agreement between BPCE and Banque Palatine, signed on 5 March 2012.

  The purpose of this agreement is to set the amount of fees to be paid for services provided by BPCE within the context of the affiliation of Banque Palatine. The financial effect of this agreement in 2017 is €2,400,000;

- the compensation agreement entered into with Natixis SA, signed 16 February 2016, and its amendment signed 22 February 2017, as part of the transfer of the custodian activity to Natixis Titres and Caceis. The financial effect of this agreement in 2017 is €1,082,500.

4. 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.

The Board of Directors adopted a procedure for the Board of Directors' committees on 20 May 2015, updated the procedure in February 2016 in order to include within the scope of the Risk Committee's work the review of the Bank's compliance with the regulations of the French law on the separation and regulation of banking activities and the Volcker Rule.

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 specialised 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 meeting, 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.

4.1 Audit Committee

Composition

At 31 December 2017, 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 Stéphanie Clavié - 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 2017 with an average attendance rate of 75%.

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;
- presentation of the Statutory Auditors' 2017 audit plan;
- presentation of the conclusions of the Statutory Auditors regarding the limited review and the audit;
- presentation and oversight of *Dossier V*;
- review of the findings by the Audit Committee of Banque Palatine's fully controlled subsidiary Palatine Asset Management, as regards the accounting-related matters.

4.2. The Risk Committee

Composition

At 31 December 2017, 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 Stéphanie Clavié - 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 reports on risk measurement and monitoring and on the internal control system;
- propose to the Board the criteria and thresholds described in Article 98 of the Order for identifying incidents that must be reported to the Board;
- oversee the follow-up to the conclusions of inspections by the ACPR and/or the ECB and of internal audits, a summary of which will be sent to it;

- review the follow-up letters sent by the ACPR and/or ECB and issue an opinion on the projects initiated in response to such letters;
- review, within the framework of its mission, whether the price of goods and services (mentioned in Books II and III of the French Monetary and Financial Code: financial instruments, savings products, bank operations, investment services, etc.) offered to customers are compatible with Banque Palatine's risk strategy and, if not, to present to the Board of Directors a remediation action plan;
- 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 2017 with an average attendance rate of 75%.

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 law on the separation and regulation of banking activities and the Volcker Rule, and their updates;
- the review of the risk appetite system and its update;
- the review of the Senior Management Report and its update;
- 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 updated audit and risk charters;
- presentation and oversight of *Dossier V*;
- 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.

4.3. 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 2017, the Committee's members were as follows:

- Laurent Roubin, Chairman;
- Benoît Mercier, member of the Committee;
- Bernard Niglio, member of the Committee;
- Marie Pic-Pâris Allavena, member of the 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, 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 2017 with an attendance rate of 100%.

The main topics covered at the meetings were:

- 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 2016;
- the opinion on the integrity and any incompatibilities of candidates proposed as Directors;
- information on delay of appraisal of the Board of Directors;
- review of the draft questionnaire for self-evaluation by the Directors of the Board of Directors.

4.4. 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 2017, the Committee's members were as follows:

- Laurent Roubin, Chairman;
- Bernard Niglio, member of the 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, it 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 remuneration, variable remuneration, 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 2017 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 2016;
- the definition of the criteria defining the variable remuneration of the Chief Executive Officer and Executive Vice-Presidents in 2017;
- the review of which employees are classed as regulated persons – financial year 2016;
- the review of the Chairman's report (remuneration section)and the control of the remuneration for the Head of risk management;

- the review of total remuneration of corporate officers;
- the review of remuneration policy – 2017;
- the payment of a supplementary Group incentive;
- 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 2016;
- 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;
- review of the breakdown of directors' fees.

5. 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. He 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 partially 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	57 years old	14/02/2014	14/02/2019
Bertrand Dubus			
Executive Vice-President for development	58 years old	13/02/2015	14/02/2019
Thierry Zaragoza			
Thierry Zaragoza, Executive Vice-President for finance and banking production	56 years old	14/02/2014	01/07/2017

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

In conjunction with the Chief Executive Officer, the Board of Directors determined the scope and term of the powers granted to the Executive Vice-Presidents. In accordance with Article 18 of the Articles of Association, the Executive Vice-Presidents hold the same powers vis-à-vis third parties as the Chief Executive Officer.

Internally, the Executive Vice-Presidents 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.

Thierry Zaragoza, who resigned following his appointment to Groupe BPCE, was not replaced as Executive Vice-President of finance and banking production. Since 3 July 2017, a transitional organisation was put in place as follows:

- the finance division, the accounting and legal affairs division, integrating the control of management, were placed under the direction of Bertrand Dubus, Executive Vice-President;
- the banking services division was placed under the direction of Marie Rouen, Director of Human Resources and Services;
- the information systems division was placed under the direction of Emmanuelle Lucas, Director of Transformation and Strategy;
- the corporate finance division was placed under the direction of Pierre-Yves Dréan, Chief Executive Officer.

5.1. Workforce 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. On 1 July 2017, Thierry Zaragoza resigned from his position as Executive Vice-President of finance and banking production.

At 31 December 2017, Pierre-Yves Dréan, Chief Executive Officer and Bertrand Dubus, Executive Vice-President for development and finance are workforce managers of Banque Palatine. In this capacity, 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).

5.2. The Executive Management Committee

As of 3 July 2017, the Executive Management Committee is composed of the members of Executive Management plus the Director of Human Resources and Services and the Director of Transformation and Strategy.

6. Structure of share capital and participation of shareholders at general meetings

6.1. Structure of share capital

BPCE, the central body of the Groupe des Caisses d'Epargne and Banque Populaire banks, holds all the share capital of Banque Palatine. Both networks own an equal share in BPCE, the Group's central body.

BPCE implemented consumer loans each having 10 shares of Banque Palatine for the Directors appointed by the shareholders.

To the best of the Company's knowledge, there are no direct or indirect agreements between the shareholders.

6.2. General Meeting

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.

There are no provisions in the Articles of Association restricting the right to vote and the transfer of shares.

There are no powers of attorney granted by the general meeting of shareholders currently in force regarding capital increases.

7. Rules and principles governing determination of remuneration and benefits

7.1. Remuneration of Directors and Committee Members

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 total amount of directors' fees is voted on by the general meeting and the allocation of this amount is decided upon by the Board of Directors based on the recommendations of the Appointments Committee.

Directors' fees due in respect of the financial year are paid in December of each year.

The 16 May 2017 general meeting set the total amount of directors' fees at €134,500.

On 31 July 2017, the Board of Directors allocated the amount payable with respect to financial year 2017, 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.[1]

For the Risk Committee:

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

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.[1]

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.[1]

The Chairman of the Board of Directors and the permanent representative 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.

There are no agreements concerning indemnity in the event of resignation of a Director, even if it occurs due to public offering or share exchange.

[1] *Excluding payment to the Chairman.*

Remuneration of Directors

The following table summarizes the remuneration paid by Banque Palatine, BPCE and its subsidiaries.

(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 sums actually paid in 2016 (due in 2015 and paid in 2016 + due in 2016 and paid in 2016) in respect of duties performed during the period.

(c) Amounts due in respect of 2017: all remuneration due, on a pro rata basis, in respect of duties performed in 2017, regardless of the date of payment.

(d) Amounts paid in respect of 2017: all amounts actually paid and received in 2017 (due in 2016 and paid in 2017 + due in 2017 and paid in 2017) in respect of duties performed during the period.

N/A: Not applicable.

	Amounts in respect of 2017		Amounts in respect of 2016*	
Laurent Roubin	due [a]	paid [b]	due [c]	paid [d]
Fixed remuneration (corporate office)	€500,000	€500,000	€311,828	€311,828
Variable remuneration	€449,600****	€105,740*****	€211,481**	€0
Exceptional remuneration			€0	€0
Directors' fees	€0	€0	€0	€0
Benefits in kind	€45,304******	€45,304******	€24,946	€24,946

** As from 24 May 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.*

***** Variable element in respect of 2017, of which €224,800 (50%) was paid in 2018 and the balance (50%) deferred over three years in equal instalments of €74,933.*

****** Amount paid in 2017 for the variable element in respect of financial year 2016, i.e. €105,740.*

******* Of which €40,000 in housing allowance.*

	Amounts in respect of 2017		Amounts in respect of 2016	
Maurice Bourrigaud	due[a]	paid[b]	due[c]	paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€10,000	€10,000	€10,000	€10,000
Benefits in kind	NA	NA	NA	NA

	Amounts in respect of 2017		Amounts in respect of 2016	
Brigitte Briffard	due[a]	paid[b]	due[c]	paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

** Paid to the CGT.*

	Amounts in respect of 2017		Amounts in respect of 2016	
Stéphanie Clavié	due[a]	paid[b]	due[c]	paid[d]
Fixed remuneration	€104,192	€104,192	NA	NA
Variable remuneration	€18,130	€18,130	NA	NA
Exceptional remuneration			NA	NA
Directors' fees**	€0	€0	NA	NA
Benefits in kind	€162	€162	NA	NA

** As from 5 October 2016.*

*** Paid to BPCE.*

Sylvie Garcelon	Amounts in respect of 2017 due[a]	Amounts in respect of 2017 paid[b]	Amounts in respect of 2016* due[c]	Amounts in respect of 2016* paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees**	€38,821	€38,821	€40,833	€40,833
Benefits in kind	NA	NA	NA	NA

* *As from 5 October 2016.*

** *Including Natixis.*

Sylvia Grandel	Amounts in respect of 2017 due[a]	Amounts in respect of 2017 paid[b]	Amounts in respect of 2016 due[c]	Amounts in respect of 2016 paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€0	€0	NA	NA
Benefits in kind	NA	NA	NA	NA

* *Paid to the CGT.*

Matthieu Godefroy	Amounts in respect of 2017 due[a]	Amounts in respect of 2017 paid[b]	Amounts in respect of 2016 due[c]	Amounts in respect of 2016 paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€1,500	€1,500	€7,500	€7,500
Benefits in kind	NA	NA	NA	NA

Benoît Mercier	Amounts in respect of 2017 due[a]	Amounts in respect of 2017 paid[b]	Amounts in respect of 2016 due[c]	Amounts in respect of 2016 paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€9,000	€9,000	€6,500	€6,000
Benefits in kind	NA	NA	NA	NA

Christine Meyer-Forrler	Amounts in respect of 2017		Amounts in respect of 2016*	
	due[a]	paid[b]	due [c]	paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees**	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

* *As from 5 October 2016.*

** *Paid to the Caisse d'Epargne d'Alsace.*

Bernard Niglio	Amounts in respect of 2017		Amounts in respect of 2016	
	due[a]	paid[b]	due [c]	paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€13,500	€13,500	€11,750	€9,000
Benefits in kind	NA	NA	NA	NA

Marie Pic-Pâris Allavena	Amounts in respect of 2017		Amounts in respect of 2016*	
	due[a]	paid[b]	due[c]	paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€13,500	€13,500	€4,250	€4,250
Benefits in kind	NA	NA	NA	NA

* *As from 5 October 2016.*

Guillemette Valantin	Amounts in respect of 2017		Amounts in respect of 2016	
	due[a]	paid[b]	due[c]	paid[d]
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€0	€0	NA	NA
Benefits in kind	NA	NA	NA	NA

* *Paid to the CGT.*

7.2. Executive remuneration

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

Fixed remuneration

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

The Board of Directors is responsible for determining the criteria for and size of the variable remuneration payable to the Chief Executive Officer and Executive Vice-Presidents on the recommendation of Banque Palatine's Remuneration Committee.

In 2017, the variable remuneration of the Chief Executive Officer and the Executive Vice-Presidents is based on:

- common Group indicators: cost/income ratio, beneficiary capacity, economic GNB/ETP and CERC (customer deposits);
- the areas for improvement; gaining medium-sized businesses with revenue greater than €15 million, and gaining individuals holding €50,000 at the beginning of the relationship;
- the profit or loss of BPCE.

Chief Executive Officer

The variable remuneration for the Chief Executive Officer is 30% based on common Group indicators, 30% on areas for improvement, and 20% on BPCE's profit or loss.

The achievement of these goals 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 for the Executive Vice-Presidents is 20% based on common Group indicators, 20% on areas for improvement, and 10% on BPCE's profit or loss.

The variable remuneration of each Executive Vice-President is capped at 50% of the annual fixed remuneration. Where appropriate, this variable remuneration is reduced by the amount of any employee incentive and/or profit-sharing payments received.

Remuneration of the Chief Executive Officer and the Executive Vice-Presidents

(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.

(c) Amounts due in respect of 2017: all remuneration due, on a pro rata basis, in respect of duties performed in 2017, regardless of the date of payment.

(d) Amounts paid in respect of 2017: all amounts actually paid and received in 2017 (due in 2016 and paid in 2017 + due in 2017 and paid in 2017) in respect of duties performed during the period.

	Amounts in respect of 2017		Amounts in respect of 2016	
Pierre-Yves Dréan	**due(a)**	**paid(b)**	**due(c)**	**paid(d)**
Fixed remuneration	€290,000	€290,000	€290,000	€290,000
Variable remuneration	€180,670	€90,335	€211,352	€105,676
Directors’ fees	€17,000	€17,000	€17,000	€17,000
Housing allowance		€40,000		€40,000
Benefits in kind		€19,235		€19,317

	Amounts in respect of 2017		Amounts in respect of 2016	
Bertrand Dubus	**due(a)**	**paid(b)**	**due(c)**	**paid(d)**
Fixed remuneration	€205,000	€205,000	€205,000	€205,000
Variable remuneration	€76,670	€56,246	€94,546	€80,451
Profit-sharing and incentive plans		€20,424		€14,095
Directors’ fees	€4,750	€4,750	€2,250	€2,250
Benefits in kind		€11,885		€11,770

	Amounts in respect of 2017*		Amounts in respect of 2016	
Thierry Zaragoza	**due(a)**	**paid(b)**	**due(c)**	**paid(d)**
		€102,500		
Fixed remuneration	€205,000		€205,000	€205,000
Variable remuneration	€38,335	€27,399	€94,546	€80,345
Profit-sharing and incentive plans		€10,936		€14,201
Directors’ fees	€4,750	€4,750	€7,000	€7,000
Benefits in kind		€6,317		€12,958

* *Until 1 July 2017.*

Table 4 – Stock options awarded to Executive Directors during the 2017 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 2017 financial year.						

Table 5 – Stock options exercised by Executive Directors during the 2017 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 2017 financial year.			

Table 6 – Performance shares awarded to Executive Directors during the 2017 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 2017 financial year.							

Table 7 – Performance shares available for Executive Directors during the 2017 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 2017 financial year (no award of this type of share).			

Table 8 – Past awards of stock options and bonus shares during the 2017 financial year

Names of Executive Directors	Date of grant	Type of options	Number of options awarded	Subscription price after adjustment	Starting date for exercising options	Expiration date
No stock options or bonus shares were granted during the 2017 financial year.						

Table 9 – Stock options awarded to and exercised by the ten employees other than Directors who were awarded the most during the 2017 financial year

Name of non-Director employee	Number and date of the plan	Number of options awarded and exercised during the 2017 financial year	Weighted average price
No stock options were awarded or exercised by Banque Palatine employees during the 2017 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	01/07/2017	Yes	REUNICA: pay-as-you-go system	No	No

Employment contracts of Executive Vice-Presidents

Each of the two Executive Vice-Presidents has an employment contract.

The substance of these contracts is reflected particularly in the reporting relationship with respect to the Chief Executive Officer, and furthermore, true technical functions exist that are separate from the mandate of the Executive Vice-President and the employment contract of the Head of development or of the Head of finance and banking production.

With respect to the responsibilities related to his position as Executive Vice-President in charge of development, Bertrand Dubus is particularly concerned with the following duties, including but not limited to:

- developing the Bank's commercial policy;
- developing commercial targets for the entire network and for the teams falling within its scope;
- managing and overseeing commercial activity;
- supporting management of business relationships;
- managing the teams within his scope on day-to-day basis;
- overseeing the organisation's internal projects for change;
- reporting his activities to the Chief Executive Officer and briefing him on his results.

With respect to Thierry Zaragoza, Executive Vice-President for Finance and banking production until 1 July 2017, the duties were, in particular, to:

- define and oversee implementation and financial policies and strategies, accounting, and management control, consistent with the overall strategic orientations of the company established by Groupe BPCE and the Board of Directors;
- oversee the organisation's internal projects for change within the defined scopes;
- manage the teams that reported to him on a daily basis;
- report his activities to the Chief Executive Officer and brief him on his results.

Even if a signed employment contract is valid, prior authorisation from the Board of Directors is also required.

The employment contract provides benefits of: restaurant vouchers, days off for working time reduction, unemployment and conventional severance/retirement pay, thirteenth month bonus, working time accounts, profit sharing and variable pay.

In the context of the concurrent holding of an employment contract and corporate office, the Executive Vice-President does not receive restaurant vouchers and days off for working time reduction, and partially receives working time accounts (only for the paid leave portion); special treatment of the variable remuneration is also carried out due to a deduction for the Executive Vice-President's participation in profit sharing and incentive plans.

Directors' fees

In accordance with Groupe BPCE's standards, directors' fees paid by Group companies may be received directly by 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 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, 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 × (12 months + 1 month per year of service within the Group). The reference monthly remuneration used for the calculation is equal to 1/12 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 remuneration 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 remuneration 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 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 shall not be followed by retirement or by a transfer within Groupe BPCE.

Retirement benefit

Chief Executive Officer

If so decided by the Board of Directors, the Chief Executive Officer may be granted a retirement benefit equal to no less than 6 months' and no more than 12 months' remuneration for ten years of service, without any minimum attendance requirements with the Group.

Arrangements for payment of the benefit

The 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 minimal variable remuneration 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 1/12 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 × (6 + 0.6 y), 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 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 1/12 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

The Chief Executive Officer and Executive Vice-Presidents are eligible subject to the same conditions as employees for the defined-contribution 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 + 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'Epargne 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 of 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 Groupe BPCE'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 24.6.2 of the AFEP-MEDEF Code in the revised version published in November 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.

8. 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.

Since 2016, and in compliance with the Groupe BPCE standard, two criteria have been added in order to take account of employees under the French 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 division 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.

9. Draft resolutions regarding remuneration

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, as well as, for the first time, their total remuneration for the 2017 financial year, are submitted to the general shareholders' meeting for approval.

In addition, the overall package of remuneration of any kind in respect of financial year 2017 paid to all regulated persons will also be submitted to the shareholders, but this only requires an opinion.

Appendix1

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 company directors, 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 €100,000.

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.

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 no. (EU) 604/2014 of 4 March 2014.

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

Pursuant to the law, the remuneration of regulated persons was set and paid after consultation with risk control and permanent compliance divisions during the Committee of Identification of MRT (material risk takers) and associated variable remuneration.

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 Director of Human Resources and Services consists of a basic salary plus variable remuneration based on targets set and evaluated by the management. It is capped at 40% of gross annual salary.

The remuneration of the Director of Transformation and Strategy consists of a basic salary plus variable remuneration based on targets set and evaluated by the management. It is capped at 40% of gross annual salary.

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 other regulated persons

a) Fixed remuneration

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

b) Variable remuneration

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

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

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

This point is explained in detail starting at C.3.

B.7 Proportionality principle and deferred payment

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

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

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

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

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 Director of Human Resources and Services.

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 Director of Human Resources and Services.

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 Director of Human Resources and Services, the Director of Risk Management, the Director of Internal Audit and the Director of Compliance and Risk.

C.3.3 Number and nature of performance targets

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

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

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%	Target No. 3 Outperformance 120%			
Group finance	Target No. 1 No outperformance	Target No. 2 No outperformance	Target No. 3 No 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[1] 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.

1 Starting from the setting of 2017 targets, the team target may be individualised if management determines it is relevant and possible. This is a possibility and not an obligation.

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				Target No. 1 40% of indiv. portion	Target No. 2 35% of indiv. portion	Target No. 3 25% of indiv. portion

C.3.5 Evaluation of performance

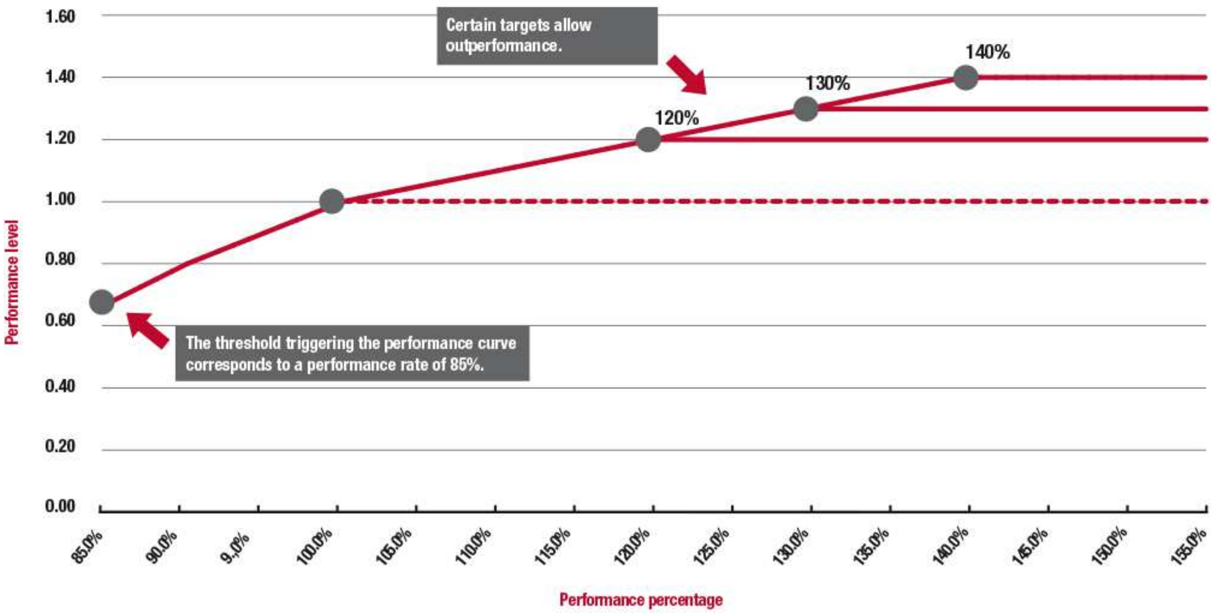
When each target is set, including the qualitative target, a scale of measurement must be defined to be able to objectively determine how far the original aim has been achieved at the year-end review.

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 18 standardised contribution profiles, making it possible to define the amount and the breakdown of the on-target bonus for each of them: (see table below).

Contribution profiles	Persons concerned	Bonus base	Composition of bonus			Level of bonus		
			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%
Division Director	Non-executives managing an operational or functional division	Annual basic salary	50%	50%		13.0%	15.0%	16.4%
Director of Support Activities	Directors 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 or back office for 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
Regulatory functions	The auditors of the audit division, the controllers or compliance officers of the compliance and permanent control divisions, the managers or those responsible of oversight and control of the risk management division	Annual basic salary		33%	66%	4.0%	4.8%	5.3%
Financial analyst	Analysts of the lending division and risk management division	Annual basic salary		33%	66%	4.0%	4.8%	5.3%
Project manager	For project leaders, Heads of the information systems division and the organisers of the organisation management division.	Annual basic salary	80%	20%		4.0%	5.0%	5.5%
Market division customer experts	For wealth managers, business planners and heads of business product marketing and private clients	Annual basic salary	80%	20%		4.0%	5.0%	5.5%
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 department employees of the private customers market division.	Annual basic salary	30%	70%		30.0%	36.0%	40.0%

Contribution profiles	Persons concerned	Bonus base	Composition of bonus			Level of bonus		
			Indiv. portion	Entity portion	Team portion	On-target bonus	Bonus +	Maxi bonus
Investment bankers	Investment banker department employees of the corporate market division.	Annual basic salary	70%	30%		30.0%	36.0%	40.0%
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 the 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
Support functions	All Banque Palatine employees whose job is not covered by any of the other profiles	Amount		33%	66%	€1,000	€1,200	€1,320

* *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

"**On-target bonus**": 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.

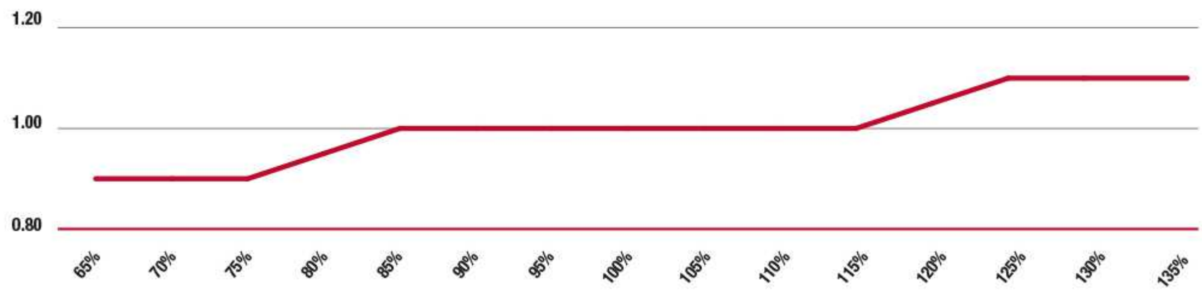
"**Bonus +**": the amount of bonus in the event of maximum outperformance on certain targets and a 100% entity and Bank performance.

"**Maxi bonus**": 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 mail from the Head of compliance (AML, KYC, whistle-blowing, 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] × Bank performance rate

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

And the individual/team portion = amount foreseen for 100% performance × 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 15 June 2017. 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 2017, 2018 and 2019 incentive schemes.

It is based on the same formula as the previous agreement and retains criteria representative of collective effort in line with the Bank's targets.

Incentives, relating to 2017, are determined based on the degree of achievement of the following five indicators:

- the individual IFRS cost/income ratio including the cost of incentives and profit-sharing in the year;
- the individual IFRS net banking income;
- 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 cost of risk.

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 the employer's contribution agreed on unanimously with the unions representing employees was signed for the first time on 28 November 2014 and a renegotiation agreed with three unions on 27 November 2015 and 20 December 2016.

It specifies that all Bank staff having received remuneration under an incentive plan in respect of 2016 will be able to receive a contribution from the Bank topping up their investment in the Group savings plan (PEG) or the employee savings scheme (PERCO).

As a result, for any investment of 2016 incentive bonuses into the Group savings plan (PEG) or employee savings scheme (PERCO), 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.

The agreement negotiated on 20 December 2016 also provides for payment of a subscription in the event of voluntary payment into the Group savings plan (PEG) or the employee savings scheme (PERCO).

E. Benefits in kind

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

F. Principles for reducing/cancelling the variable remuneration for risk takers

F.1 Minimal capital

Pursuant to the last paragraph of Article L. 511-77 of the French Monetary and Financial Code, for the allocation of the variable portion to risk takers in the Group during a financial year, a minimal level of capital for Groupe BPCE must be respected as of 31 December of the financial year, set at the beginning of the financial year by BPCE's Supervisory Board, upon recommendation by the BPCE Nominations Committee. This threshold is established with reference to the minimal amount required with respect to Pillar 2, defined by the control authority for the CET1 ratio. For 2017, this reference corresponded to the Common Equity Tier 1 of the Basel 3 group (COREP vision and interim measures) of 9.79%. This level corresponds with the minimum level of Pillar 2 (P2G) prescribed by the ECB in its notice of 25 November 2016.

F.2 Principles applicable to deferred variable remuneration

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 by:

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

F.3 Principle for cancellation or reduction of variable remuneration

The variable portion for risk takers may be reduced or cancelled under the following conditions:

- in the event of negative IFRS profit or loss (excluding exceptional elements arising from BPCE SA), the variable remuneration for employees identified as market risk takers may be cancelled;
- in the event of an obstacle to the proper functioning of the markets and price setting through unlawful behaviour (market abuse): insider trading; price manipulation; dissemination of false or misleading information, the variable remuneration of employees identified as market risk takers may be cancelled;
- in the event of failure to respect decisions coming from the committee(s) structuring their activity or in the event of an anomaly in the transmission and execution of trades, according to the charters of these committees, the variable remuneration of employees identified as risk takers may be reduced by 50%;
- with regard to risk or compliance: in the event of a major infraction[1], documented by a warning (formal and explicit notice by mail) by a Director of the company or of the Group in charge of risks or compliance, the variable remuneration of employees identified as risk takers (excluding managerial employees) may be subject to reduction up to cancellation of same;
- with regard to risk or compliance: in the event of an important infraction[2], documented by a warning (formal and explicit notice by mail or email) by a Director of the company in charge of risks or compliance and confirmed by the direct manager, the variable remuneration of employees identified as risk takers may be reduced up to 10%;
- in the event of non-participation in mandatory regulatory training, and without justification approved by the Market Risk Taker (MRT) Committee, the variable remuneration of employees identified as risk takers (excluding managerial employees) may be reduced 5% per training not taken.

1 Major infraction: infraction having an impact (even potential) of at least 0.5% of the capital of the institution.
2 Important infraction: infraction having an impact (even potential) of at least €300,000.

2. Decision-making process

The Remuneration Committee had four members at 31 December 2017:

- 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 2017, the Committee's members were as follows:

▪ **Laurent Roubin**	Chairman
▪ **Benoît Mercier**	Member of the Committee;
▪ **Bernard Niglio**	Member of the Committee;
▪ **Marie Pic-Pâris Allavena**	Member of the Committee.

The Committee met four times in 2017.

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 deliberating body approves the principles underlying the Company's remuneration policy on the opinion of the Remuneration Committee.

3. Description of the remuneration policy of regulated persons

3.1 Composition of regulated persons and general principles of the remuneration policy

In accordance with European Commission delegated regulation (EU) no. 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.

Since 2016, and in compliance with the Groupe BPCE standard, two criteria have been added in order to take account of employees under the French 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.

Exclusions were applied under quantitative criterion c) of the aforementioned rule. Application of this criterion concerned a total of 69 employees, with 11 already recognized under another criterion, and 58 with jobs and/or responsibilities that 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 17 January 2018.

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

In 2017, 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.	Directors*	A.2	A.2
4.	Director of Human Resources and Services Division	C.	B.4
5.	Director of Transformation and Strategy	C.	B.4
6.	Director of Compliance and Risk	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 corporate market	C.	C.3
15.	Head of real estate	C.	C.3
16.	Head of lending	C.	C.3
17.	Head of non-performing loans	C.	C.3
18.	Head of accounting, legal and control of management	C.	C.3
19.	Head of private banking market	C.	C.3
20.	Head of banking services	C.	C.3
21.	Head of regulated real estate professions	C.	C.3
22.	Head of information systems	C.	C.3
23.	Regional Director*	C.	C.3
24.	Deputy Head of risk management	C.	C.3
25.	Deputy Head of corporate market	C.	C.3
26.	Head of operational risk department	C.	C.3
27.	Head of customer and brokerage department	C.	C.3
28.	Head of engineering and trading department	C.	C.3
29.	Head of ALM and MLT investment department	C.	C.3
30.	Head of budgetary control 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

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
60.	Treasury manager	C.	C.3

* Functions that were filled by more than one person during 2017.

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 €100,000.

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 €100,000 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.

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;

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.

- 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.

4. Aggregate quantitative information on the remuneration of regulated persons

Table 1. Aggregated quantitative information on remunerations broken down by field of activity Article 450 (g) of EU regulation no. 575/2013

	Management body/executive function	Management body/supervisory function	Investment banking	Retail banking	Asset management	Support functions	Independent control function	Other	Total
Workforce	2.5	8.0		6.0		37.4	14.7	8.9	77.5
Fixed remuneration	€597,500	€46,500		€608,369		€3,770,577	€1,146,175	€599,563	€6,768,684
Variable remuneration	€264,315	€0		€122,000		€1,423,681	€129,524	€510,615	€2,450,135
Total remuneration	€861,815	€46,500	€0	€730,369	€0	€5,194,258	€1,275,699	€1,110,178	€9,218,819

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.

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 no. 575/2013

	Management body	Other	Total
Workforce	10.5	67.0	77.5
Total remuneration	€908,315 €	€8,310,504	€9,218,819
▪ of which fixed remuneration	€644,000 €	€6,124,684	€6,768,684
▪ of which variable remuneration	€264,315 €	€2,185,820	€2,450,135
▪ of which non-deferred	€173,980 €	€2,110,052	€2,284,032
▪ of which cash	€173,980 €	€2,110,052	€2,284,032
▪ of which shares and related instruments	€0 €	€0	€0
▪ of which other instruments	€0 €	€0	€0
▪ of which deferred	€90,335 €	€75,768	€166,103
▪ of which cash	€0 €	€0	€0
▪ of which shares and related instruments	€90,335 €	€75,768	€166,103
▪ of which other instruments	€0 €	€0	€0
Total variable remuneration awarded for prior years and not yet vested	€48,528 €	€109,117	€157,645
Amount of variable remuneration awarded for prior years and vested (after reduction)	€24,133 €	€110,957	€135,090
▪ Amount of reductions	€131 €	€190	€321
Termination benefits agreed			€0
Number of beneficiaries of termination benefits			0
Highest amount of termination benefits agreed			€0
Amounts paid for recruitment			€0
Number of beneficiaries of amounts paid for recruitment			0

In 2017, no Banque Palatine employee received total remuneration of more than €1 million.

5. Individual information

(a) Amounts due in respect of 2017: all remuneration due, on a pro rata basis, in respect of duties performed in 2017, regardless of the date of payment.

(b) Amounts paid in respect of 2017: all amounts actually paid and received in 2017 in respect of duties performed during the period.

	Amounts in respect of 2017	
Pierre-Yves Dréan	**Due**	**Paid**
Fixed remuneration	€290,000	€290,000
Variable remuneration	€180,670	€90,335
Directors' fees	€17,000	€17,000
Housing allowance		€40,000
Benefits in kind		€19,235

	Amounts in respect of 2017	
Bertrand Dubus	**Due**	**Paid**
Fixed remuneration	€205,000	€205,000
Variable remuneration	€76,670	€56,246
Profit-sharing and incentive plans		€20,424
Directors' fees	€4,750	€4,750
Benefits in kind		€11,885

	Amounts in respect of 2017*	
Thierry Zaragoza	**Due**	**Paid**
Fixed remuneration	€205,000	€102,500
Variable remuneration	€38,335	€27,399
Profit-sharing and incentive plans		€10,936
Directors' fees	€4,750	€4,750
Benefits in kind		€6,317

* *Until 1 July 2017.*

	Amounts in respect of 2017	
Henri Gallon	**Due**	**Paid**
Fixed remuneration	€99,500	€99,500
Variable remuneration	€16,500	€16,500
Benefits in kind		€1,477

	Amounts in respect of 2017*	
Marc Philippe	**Due**	**Paid**
Fixed remuneration	€95,119	€95,119
Variable remuneration	€15,277	€15,277
Benefits in kind		€2,626

* *Until 30 September 2017.*

	Amounts in respect of 2017*	
Christophe Maillard	**Due**	**Paid**
Fixed remuneration	€27,660	€27,660
Variable remuneration	€3,219	€3,219
Benefits in kind		€811

* *As from 1 October 2017.*

Appendix 2

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

ARIES ASSURANCES: Chairman of the Supervisory Board as of 03/07/2017

FC LORIENT BRETAGNE SUD: Director

Previous appointment:

CEGC: Director until 09/10/2017

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

GIE CAISSE D'EPARGNE SYNDICATION RISQUE: Permanent representative of Banque Palatine, member of the Supervisory Board since 3 July 2017

PALATINE ASSET MANAGEMENT: Vice-Chairman of the Supervisory Board, Chairman of the Audit Committee, member of the Remuneration Committee

PALATINE ETOILE 13: Permanent Representative of Banque Palatine, Director

OCBF: Permanent representative of Banque Palatine

Thierry Zaragoza

DoB: 09/01/1961

Term of office: 14/02/2014-01/07/2017

Previous appointments:

BANQUE PALATINE: Executive Vice-President and manager responsible for publication

ARIES ASSURANCES: Chairman of the Supervisory Committee

GIE CAISSE D'EPARGNE SYNDICATION RISQUE: Permanent representative of Banque Palatine, member of Supervisory Board

PALATINE ASSET MANAGEMENT: Vice-Chairman of the Supervisory Board, Chairman of the Audit Committee, member of the Remuneration Committee

Laurent Roubin

DoB: 02/11/1969

Term in office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019

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

FIDOR BANK AG: Member of Supervisory Board since 23/03/2017

Maurice Bourrigaud	
DoB: 21/01/1958 **Term in office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	BANQUE POPULAIRE GRAND OUEST (BPGO): Chief Executive Officer BANQUE PALATINE: Director, member of the Audit Committee, member of the Risk Committee BANQUE POPULAIRE DEVELOPPEMENT: Representing Ouest Croissance, Director OUEST CROISSANCE GESTION: Member of the Supervisory Board GC2I: Manager FONDATION D'ENTREPRISE BPO: Director COMITE REGIONAL DES BANQUES DE BRETAGNE DE LA FBF: Chairman ORCHESTRE SYMPHONIQUE DE BRETAGNE: Director

Stéphanie Clavié	
DoB: 16/08/1970 **BPCE's permanent representative starting on 17/01/2017**	BANQUE PALATINE: BPCE's permanent representative, Director since 17/01/2017 FIDOR BANK AG: Director since 10/03/2017

Sylvie Garcelon	
DoB: 14/04/1965 **Term in office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	CASDEN BANQUE POPULAIRE: Chief Executive Officer BANQUE PALATINE: Director, member of the Audit Committee, member of the Risk Committee FONDATION BANQUE POPULAIRE: Director NATIXIS: Director, member of the Audit Committee CENTRE NATIONAL DE RECHERCHE SCIENTIFIQUE: Director since 07/12/2017 **Previous appointment:** BUREAU DU MANAGEMENT FINANCIER: Chief Executive Officer

Benoît Mercier	
DoB: 04/02/1953 **Term in office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	CAISSE D'ÉPARGNE LORRAINE CHAMPAGNE-ARDENNE (CELCA): Chairman of the Management Board BANQUE PALATINE: Director, member of the Appointments Committee, member of the Remuneration Committee ASSOCIATION DE PREFIGURATION DU CENTRE DES CONGRES DE METZ METROPOLE: 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 – COMITE REGIONAL FBF LORRAINE: Vice-Chairman FEDERATION NATIONALE DES CAISSES D'EPARGNE: Director FIRMAMENT PARTICIPATIONS: CECLA's permanent representative, Director FONDS DE DOTATION DE LA CELCA: Vice-Chairman of the Board of Directors, member of the bureau, representative of CELCA FONDS DE DOTATION DE L'ECOLE D'ENSEIGNEMENT SUPERIEUR ICN: Chairman of the Board of Directors, CELCA's representative GIE BPCE ACHATS: Chairman GIE IT-CE: CELCA's permanent representative, member of the Supervisory Board HABITAT EN REGION: 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 Corporate and Institutional customers BANQUE PALATINE: CEA's permanent representative, Director ALSACE CREATION: CEA's permanent representative, Director HABITATION MODERNE: CEA's permanent representative, Director CE DEVELOPPEMENT: CEA's permanent representative, Director Previous appointment: SODIV: CEA's permanent representative, Director

Marie Pic-Pâris Allavena	
DoB: 04/07/1960 **Term in office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	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 Audit Committee and Chairwoman of the Risk Committee, member of the bureau and the Investment Committee, member of the Remuneration Committee and of the Appointments Committee

Bernard Niglio	
DoB: 10/08/1949 **Term in office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	CAISSE D'EPARGNE PROVENCE-ALPES-CORSE: Chairman of the Steering and Supervisory Board BANQUE PALATINE: Director, Chairman of the Audit Committee, member of the Remuneration Committee, member of the Appointments Committee FNCE: bureau member IMF CREASOL: Director NATIXIS FACTOR: Director PFIL OEBI MARTIGUES: Director SLE PROVENCE OUEST: Chairman

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

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

Sylvia Grandel	
DoB: 13/04/1974 **Term in office: 16/05/2017 until the employee elections to be held in 2020**	BANQUE PALATINE: Director representing employees

Guillemette Valantin

DoB: 25/07/1966 **Term in office: 16/05/2017 until the employee elections to be held in 2020**	BANQUE PALATINE: Director representing employees PANDORA: Manager

Appendix 3

Rules of procedure for the Board of Directors

ARTICLE 1 – MEETING NOTICE

The Board of Directors meets as often as required by the interests of the Company and at least four times per year.

Meeting notices may be transmitted by the Chief Executive Officer or the Executive Vice-Presidents following agreement on the agenda by the Chairman of the Board of Directors.

Said meeting notices are normally sent by letter but may also be made verbally or by e-mail if necessary. They shall be transmitted at least five working days before the Board of Directors meeting except in emergencies.

The Chairman of the Board of Directors should call the board meeting for a date not later than fifteen days, when the Chief Executive Officer or a third of the Directors give a reasoned request for this. If the request is not responded to, its authors may themselves call a meeting, and indicate the meeting agenda.

Furthermore, the Chairman of the Board of Directors may, with the agreement of the Directors, add to the Board's meeting agenda. In such case, the powers of representation may not be taken into account for the points added to the agenda.

ARTICLE 2 – MEETING OF THE BOARD

Meetings will be held at the head office or at any other location indicated in the meeting notice.

Meetings may be held by video conference or teleconference in accordance with the Articles of Association.

ARTICLE 3 – IMPLEMENTATION OF VIDEO OR TELECONFERENCE SYSTEM

When the meeting is held particularly by video or teleconference these techniques must comply with the following standards:

- identification of the Directors;
- guarantee their effective participation;
- guarantee the confidentiality of discussions.

Any person who participates in the meeting by means of video or teleconference must attest that the technical means he or she uses satisfy the confidentiality requirement.

The voice of participants and the discussion of the Board of Directors must be transmitted without interruption.

When a Director wishes to participate in the meeting via video conference, he/she must go to a place furnished with the necessary equipment.

ARTICLE 4 – RECORDING OF MEETINGS OF THE BOARD OF DIRECTORS

Board of Directors meetings may only be recorded in order to take notes.

When minutes are approved, the corresponding meeting recording will be destroyed.

ARTICLE 5 - PARTICIPATION IN MEETINGS OF THE BOARD OF DIRECTORS BY VIDEO OR TELECONFERENCE

Directors participating in meetings of the Board by video or teleconference are considered to be present for purposes of calculating the quorum and majority.

This provision is not applicable when the Board meets to approve the parent-company and consolidated financial statements or to prepare the management report.

A Director participating in a meeting by video or teleconference may represent another Director subject to providing a power of representation from the represented Director to the Chairman of the Board of Directors on the day of the meeting.

In the event of malfunction of the video or teleconference system, noted by the Chairman of the Board of Directors, the board may validly discuss and/or proceed with only those Directors who are physically present, once the quorum requirements are satisfied.

A Director participating by video or teleconference who is deemed not to be present due to malfunction may give a power of representation to a Director who is physically present subject to bringing this power to the attention of the Chairman of the Board of Directors. The Directors may also provide a power of representation in advance by stipulating that it will only become effective in the event of a system malfunction that prevents him or her from being considered present.

A Director may not, however, sub-delegate the power that was given to him or her and can no longer be exercised.

ARTICLE 6 – COMMITTEES

Pursuant to the provisions of law and the regulations in force, the Board of Directors may, upon recommendation of its Chairman, entrust one or more Directors with any special responsibilities or decide to set up Board Committees.

These committees operate under the direction of the Board of Directors, without said powers allowing delegation to a committee of the powers accorded to the Board of Directors itself by law or the Articles of Association, nor with the effect of limiting or reducing the powers of the Chief Executive Officer or the Executive Vice-President(s).

The Board of Directors determines, at its own discretion, how to follow up on the matters reported by the committees.

ARTICLE 7 – MINUTES

The meeting minutes shall indicate the names of the Directors present, considered present in the meaning of Article L. 225-82 of the French Commercial Code, excused or absent. They shall mention the presence or absence of persons called to the meeting through a legal provision and the presence of any other person having attend all or part of the meeting.

The occurrence of any technical incident disturbing the procedure of the meeting held by video or teleconference will be mentioned in the minutes, including the interruption and re-establishment of participation by video or teleconference.

The minutes shall be signed by the Chairman of the meeting and at least one Director. If the Chairman of the meeting is not able, the minutes shall be signed by at least two Directors.

The Secretary of the Board of Directors as well as the Chief Executive Officer and the Executive Vice-President(s) are authorised to certify copies or extracts of the meeting minutes.

ARTICLE 8 – REGISTER OF ATTENDANCE

The register of attendance will be kept at the head office and signed by the Directors participating in the meeting on their own behalf or on behalf of Directors they represent. This register will also include the names of Directors considered to be present at the meeting via video or teleconference.

The latter will, at least once per year, sign the register of attendance with the note “Present via video or teleconference” which will be next to their name.

Proxies given by letter or email will be retained by the General Secretary in the Board’s file.

ARTICLE 9 – PROFESSIONAL SECRECY AND DUTY OF DISCRETION

The Directors, as well as any person asked to attend meetings of the Board of Directors, are subject to professional secrecy under the terms provided for by Article 511-33 of the French Monetary and Financial Code, and to the duty of discretion regarding discussion as well as all confidential information presented as such by the Chairman of the meeting under the terms of Article L. 225-92 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. He may require all individuals taking part in a meeting to sign a confidentiality undertaking. He may do the same within the specialised committees of the Board.

This declaration is placed on record in the minutes of the meeting.

ARTICLE 10 - CONSEQUENCES FOR FAILURE OF THE DIRECTORS TO COMPLY WITH OBLIGATIONS

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 it concerns a committee member, the Board of Directors may, upon the recommendation of its Chairman, terminate the duties of the committee member.

The member concerned will be informed in advance of the proposed sanctions against him/her and will be allowed to present his/her comments.

ARTICLE 11 – REMUNERATION

In remuneration for their activities, the Directors receive directors’ fees. For meetings, the Board of Directors will distribute among the Directors, pro rata temporis, the amount allocated by the general meeting of shareholders.

The Directors may also receive a share of directors’ fees greater than those of other Directors when they are members of consultative commissions or committees.

ARTICLE 12 – REIMBURSEMENT OF EXPENSES

For Directors residing outside the Paris area, transportation and lodging expenses shall be reimbursed upon submission of receipts.

ARTICLE 13 – MODIFICATION OF PROCEDURAL RULES

These rules of procedure may be modified by simple decision of the Board of Directors.

2

2017 Financial Statements

1 Parent-company financial statements

1.1 Balance sheet and off-balance sheet

Assets

in millions of euros	Notes	31 Dec. 2017	31 Dec. 2016
Cash, central banks		174.6	325.6
Treasury bills and similar securities	3.3	1,080.3	1,223.3
Loans and advances due from credit institutions	3.1	3,597.5	4,145.4
Customer transactions	3.2	8,802.9	8,144.5
Bonds and other fixed-income securities	3.3	628.4	866.9
Equities and other variable-income securities	3.3	1.5	2.6
Investments in subsidiaries and long-term equity investments	3.4	7.9	7.0
Investments in associates	3.4	9.3	9.3
Intangible assets	3.6	121.6	119.8
Property, plant and equipment	3.6	18.4	20.2
Other assets	3.8	145.2	209.9
Accrual accounts	3.9	163.0	195.7
TOTAL ASSETS		**14,750.6**	**15,270.0**

Off-balance sheet items

in millions of euros	Notes	31 Dec. 2017	31 Dec. 2016
Commitments given			
Financing commitments	4.1	1,741.1	1,876.9
Guarantee commitments	4.1	1,113.4	1,073.0
Commitments on securities		48.5	50.0

Liabilities

in millions of euros	Notes	31 Dec. 2017	31 Dec. 2016
Cash placed with central banks		0.1	0.0
Amounts due to credit institutions	3.1	2,088.7	2,687.4
Customer transactions	3.2	8,385.3	8,992.2
Debt securities	3.7	2,905.4	2,250.7
Other liabilities	3.8	40.0	40.7
Accrual accounts	3.9	184.1	247.6
Provisions	3.10	69.4	60.7
Subordinated debt	3.11	200.2	165.7
Fund for general banking risks (FGBR)	3.12	1.3	1.3
Total equity (excl. FGBR)	3.13	876.1	823.6
Issued capital		538.8	538.8
Share premium		56.7	56.7
Retained earnings		47.2	44.6
Carried forward		180.9	132.9
Net income/(loss) for the year		52.5	50.6
TOTAL LIABILITIES		**14,750.6**	**15,270.0**

Off-balance sheet items

in millions of euros	Notes	31 Dec. 2017	31 Dec. 2016
Commitments received			
Financing commitments	4.1	337.5	583.2
Guarantee commitments	4.1	237.7	279.0
Commitments on securities		0.1	0.6

1.2 Income statement

in millions of euros	Notes	FY 2017	FY 2016
Interest and similar income	5.1	288.3	304.9
Interest and similar expenses	5.1	(81.6)	(100.4)
Income from variable-income securities	5.3	12.2	14.5
Fee and commission income	5.4	76.5	73.9
Fee and commission expenses	5.4	(6.7)	(6.8)
Net gains or losses on trading book transactions	5.5	18.0	11.4
Net gains or losses on available-for-sale securities and similar items	5.6	(0.7)	2.9
Other banking income	5.7	3.3	1.2
Other banking expenses	5.7	(2.7)	(1.7)
NET BANKING INCOME		**306.6**	**299.8**
Operating expenses	5.8	(186.4)	(180.0)
Depreciation, amortisation and impairment of property, plant & equipment and intangible assets		(11.5)	(10.8)
GROSS OPERATING INCOME		**108.7**	**108.9**
Cost of risk	5.9	(35.0)	(40.4)
OPERATING INCOME		**73.7**	**68.5**
Gains or losses on long-term investments	5.10	0.0	1.5
INCOME BEFORE TAX		**73.7**	**70.0**
Non-recurring items	5.11	0.0	0.0
Income tax	5.12	(21.2)	(19.4)
FRBG charges/reversals and regulated provisions		0.0	0.0
NET INCOME		**52.5**	**50.6**

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 Caisse d'Epargne banks

Groupe BPCE is a cooperative group whose members own two retail banking networks: the 14 Banques Populaires and the 16 Caisses d'Epargne. Both networks own an equal share in BPCE, the Group's central body.

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

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

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

The capital of the 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 14 Banque Populaire banks and the 16 Caisses d'Epargne.

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

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

As a holding company, BPCE acts as the ultimate controlling party of the Group and holds the joint ventures between the two networks in retail banking and insurance, 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, including Natixis, a listed company which is 71.023%-owned, are organised around three major segments:

- Commercial Banking and Insurance (including Crédit Foncier, Banque Palatine, BPCE International and the insurance activities of Natixis);
- Major Customers Banking;
- and Asset and Wealth Management.

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

Banque Palatine

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

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

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

1.2 Guarantee mechanism

In accordance with Article L. 512-107-6 of the French Monetary and Financial Code, the guarantee and solidarity mechanism aims to safeguard the liquidity and capital adequacy of the Group and 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.

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 S.A.'s central body as well as on BPCE's institutional internet site.

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 2017.

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

In the first half of 2017, following alerts issued by its atypical transaction detection tool, Banque Palatine conducted a lengthy audit process revealing a suspicion of internal fraud on mortgage loan financing files. As a result, Banque Palatine initiated legal and other recovery remedies.

At 31 December 2017, the financial statements recorded a corresponding €4 million provision.

This estimate takes into account expectations of recovery based on precautionary mortgage registrations on the assets financed and the assumption of the claim by the insurance policies.

1.4 Post-balance sheet events

No events liable to have a material effect on the 2017 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 2017. They were approved by the Board of Directors on 8 February 2018. They will be presented to the annual general meeting on 22 May 2018.

2.2 Changes in accounting methods

No change in accounting methods affected the financial statements in 2017.

The texts adopted by the ANC and the obligatory application in 2017 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 and/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, as amended, 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 only conducts operating lease transactions as a lessee.

2.3.4 Investment securities

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

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

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

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.

At closing, they are valued at the market price of the most recent day: the overall balance of differences resulting from price changes is recorded 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, fixed-income 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 CRB 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. The additional share of amortisation that software may benefit from, in application of the tax provisions, is recorded under special amortisation.

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: held for use in the production or supply of goods and services, for rental to others or for administrative purposes; and 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:

- construction, major works: 15 to 50 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 presented by type: cash vouchers, interbank market securities and negotiable debt securities, bonds and similar securities, excluding subordinated notes which are classified in a specific line 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 ANC 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 employee benefits

Short-term employee benefits mainly include wages, salaries, paid annual leave, incentive schemes, profit-sharing, and bonuses payable within 12 months of the end of the 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 employee 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 of post-employment benefits, representing differences in calculation assumptions (early retirement, discount rate, etc.) or recognised between actuarial assumptions and actual calculations (for example: return on hedging assets) are amortised according to the so-called corridor rule, *i.e.* for the part that exceeds a change of more or less than 10% of the commitments or 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 Forwards, 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:

- a commission received for an *ad hoc* service is recognised on completion of the service;
- a 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 One 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 €8.8 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €2.2 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 €6.6 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 became 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 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 2017. The amount of contributions paid and available to the fund represents €4.1 million for the financial year including €3.5 million recognised as an expense and €0.6 million in the form of cash deposit guarantees that are recognised as assets in the balance sheet (15% in the form of cash deposit guarantees). The total contributions entered in the balance sheet assets amount to €1.7 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. 2017**	**31 Dec. 2016**
Current accounts	*18.9*	*45.2*
Overnight loans	*1,049.9*	*1,306.1*
Demand accounts	**1,068.8**	**1,351.4**
Term accounts and loans	*2,508.7*	*2,773.1*
Subordinated and participating loans	*2.5*	*2.5*
Term accounts	**2,511.2**	**2,775.6**
Accrued interest	**17.5**	**18.4**
Doubtful loans and advances	**0.0**	**0.0**
Impairment of interbank loans	**0.0**	**0.0**
TOTAL	**3,597.5**	**4,145.4**

Receivables arising from transactions with the network break down into €1,058.3 million in demand accounts and €2,242.7 million in term accounts, against respectively €1,306.1 million and €2,514.1 million at 31 December 2016.

The funds collected for Livret A and LDD accounts and held centrally by Caisse des dépôts et consignations amounted to €257.1 million at 31 December 2017, up from €253.1 million at 31 December 2016.

Liabilities **in millions of euros**	**31 Dec. 2017**	**31 Dec. 2016**
Current accounts in credit	*60.7*	*175.2*
Overnight deposits	*0.0*	*174.1*
Other amounts due	*10.0*	*15.2*
Accrued interest on demand accounts	*0.0*	*0.1*
Demand accounts	**70.7**	**364.5**
Term accounts and loans	*2,017.3*	*2,318.6*
Accrued interest payable on term loans	*0.7*	*4.3*
Term accounts	**2,018.0**	**2,322.9**
TOTAL	**2,088.7**	**2,687.4**

Payables arising from transactions with the network break down into €30.8 million in demand accounts and €1,915.4 million in term accounts, against respectively €201.7 and €2,120.2 million at 31 December 2016.

3.2 Customer transactions

3.2.1 Customer transactions

Assets **in millions of euros**	**31 Dec. 2017**	**31 Dec. 2016**
Current accounts with overdrafts	**589.6**	**486.1**
Trade receivables	**173.1**	**188.1**
Export loans	*78.3*	*72.6*
Short-term and consumer credit facilities	*1,443.1*	*1,299.3*
Equipment loans	*2,022.9*	*1,777.5*
Home loans	*1,968.0*	*1,872.6*
Other customer loans	*2,121.8*	*2,067.5*
Subordinated loans	*2.5*	*3.4*
Other	*77.1*	*77.5*
Other facilities granted to customers	**7,713.6**	**7,170.1**
Accrued interest	**20.7**	**20.1**
Doubtful loans and advances*	**566.0**	**571.6**
Impairment of loans and advances to customers	**(260.1)**	**(291.5)**
TOTAL	**8,802.9**	**8,144.5**
* ***o/w restructured loans***	***104.7***	***66.2***
o/w restructured loans reclassified as performing	***0.0***	***0.0***

Loans and advances to customers eligible for European Central Bank refinancing where the bank is established amounted to €337.5 million.

Liabilities **in millions of euros**	**31 Dec. 2017**	**31 Dec. 2016**
Regulated savings accounts	1,046.0	995.4
Livret A savings accounts	*179.9*	*175.4*
PEL/CEL	*231.5*	*263.8*
Other regulated savings accounts	*634.6*	*556.2*
Other accounts and loans from customers[1]	7,331.5	7,991.2
Guarantee deposits	0.0	0.0
Other amounts due	5.9	3.3
Accrued interest	1.8	2.3
TOTAL	**8,385.3**	**8,992.2**

(1) Breakdown of accounts and loans from customers

	31 Dec. 2017			**31 Dec. 2016**		
in millions of euros	**Demand**	**Term**	**Total**	**Demand**	**Term**	**Total**
Current accounts in credit	6,910.6		6,910.6	6,896.6		6,896.6
Other accounts and loans		420.9	420.9		1,094.6	1,094.6
TOTAL	**6,910.6**	**420.9**	**7,331.5**	**6,896.6**	**1,094.6**	**7,991.2**

3.2.2 Breakdown of outstanding loans by sector

	Performing loans and advances	**Doubtful loans and advances**		**o/w Irrecoverable doubtful loans and advances**	
in millions of euros	**Gross**	**Gross**	**Specific impairment**	**Gross**	**Specific impairment**
Non-financial companies	7,171.4	478.4	219.6	309.9	178.9
Self-employed customers	5.5	0.4	0.2	0.2	0.1
Individual customers	1,165.7	77.8	35.7	50.4	29.1
Non-profit institutions	34.1	2.3	1.0	1.5	0.8
Government and social security institutions	6.5	0.4	0.1	0.3	0.1
Other	113.0	7.5	3.5	4.9	2.8
TOTAL AT 31 DECEMBER 2017	**8,496.2**	**566.8**	**260.1**	**367.2**	**211.8**
TOTAL AT 31 DECEMBER 2016	**7,864.3**	**571.6**	**291.5**	**309.4**	**219.2**

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

3.3.1 Securities portfolio

	31 Dec. 2017			31 Dec. 2016		
in millions of euros	**Available-for-sale securities**	**Held-to-maturity securities**	**Total**	**Available-for-sale securities**	**Held-to-maturity securities**	**Total**
Gross	1,062.8	0.0	1,062.8	1,192.2	10.0	1,202.1
Accrued interest	17.5	0.0	17.5	20.9	0.2	21.1
Impairment	0.0	0.0	0.0	0.0	0.0	0.0
Treasury bills and similar securities	**1,080.3**	**0.0**	**1,080.3**	**1,213.1**	**10.2**	**1,223.3**
Gross	203.1	424.7	627.7	379.7	482.2	861.9
Accrued interest	3.3	5.1	8.4	6.8	6.4	13.2
Impairment	(6.7)	(1.0)	(7.7)	(7.0)	(1.3)	(8.2)
Bonds and other fixed-income securities	**199.7**	**428.8**	**628.4**	**379.6**	**487.4**	**866.9**
Gross	1.5	0.0	1.5	2.6	0.0	2.6
Accrued interest	0.0	0.0	0.0	0.0	0.0	0.0
Impairment	0.0	0.0	0.0	0.0	0.0	0.0
Equities and other variable-income securities	**1.5**	**0.0**	**1.5**	**2.6**	**0.0**	**2.6**
TOTAL	**1,281.5**	**428.8**	**1,710.2**	**1,595.2**	**497.6**	**2,092.8**

The market value of held-to-maturity securities stood at €435.7 million.

Treasury bills, bonds and other fixed-income securities

	31 Dec. 2017			31 Dec. 2016		
in millions of euros	**Available-for-sale securities**	**Held-to-maturity securities**	**Total**	**Available-for-sale securities**	**Held-to-maturity securities**	**Total**
Listed securities	1,062.8	0.0	1,062.8	1,192.2	10.0	1,202.2
Accrued interest	17.5	0.0	17.5	20.9	0.2	21.1
TOTAL	**1,080.3**	**0.0**	**1,080.3**	**1,213.1**	**10.2**	**1,223.3**
o/w subordinated notes	*5.0*		*5.0*	*5.0*		*5.0*

The change in treasury bills and related securities is explained mainly by the arrival at maturity of sovereign securities in the amount of €205 million and by the acquisition of sovereign securities for €89.1 million.

Unrealised capital losses subject to an impairment provision on available-for-sale securities amounted to €6.7 million at 31 December 2017, compared with €7 million at 31 December 2016.

Unrealised capital gains on available-for-sale securities after deduction of hedging (mostly swapped assets) total €7.2 million at 31 December 2017, compared to €9.8 million at 31 December 2016.

Unrealised capital gains on held-to-maturity securities amounted to €13.0 million at 31 December 2017. Unrealised capital gains on held-to-maturity securities amounted to €12.3 million at 31 December 2016.

No unrealised capital losses on held-to-maturity securities were recorded at 31 December 2017, compared with €0.9 million at 31 December 2016.

The portion of bonds and other fixed-income securities issued by public bodies amounted to €1,062.8 million at 31 December 2017.

Equities and other variable-income securities

in millions of euros	31 Dec. 2017 Available-for-sale securities	31 Dec. 2016 Available-for-sale securities
Listed securities	1.5	2.6
TOTAL	**1.5**	**2.6**

Among the shares and other variable-income securities are included €1.5 million in monetary UCITS at 31 December 2017 (against €2.6 million monetary UCITS at 31 December 2016).

3.3.2 Changes in held-to-maturity securities

in millions of euros	01 Jan. 2017	Purchases	Sales	Redemptions	Discount/premium	Other changes	31 Dec. 2017
Treasury bills	10.2	0.0	0.0	(10.0)	(0.2)	0.0	0.0
Bonds and other fixed-income securities	486.2	13.0	0.0	(70.5)	0.1	0.0	428.8
TOTAL	**496.4**	**13.0**	**0.0**	**(80.5)**	**(0.1)**	**0.0**	**428.8**

3.3.3 Reclassifications of assets

Reclassification owing to market illiquidity (CRC No. 2008-17 replaced by the French Accounting Standards Authority (ANC) regulation No. 2014-07)

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 2016	Securities that matured during FY 2017	Reclassified amount remaining at the end of FY 2017	Unrealised capital gains and losses that would have been recognised without the reclassifications	Unrealised capital loss that would have been provided for without the reclassifications	Gains and losses during the period on the reclassified securities
From available-for-sale securities to held-to-maturity securities	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. 2016	Increase	Decrease	31 Dec. 2017
Investments in subsidiaries and long-term equity investments	*7.0*	*1.0*	*0.0*	*7.9*
Investments in associates	*10.8*	*0.0*	*0.0*	*10.8*
Gross	**17.8**	**1.0**	**0.0**	**18.7**
Investments in subsidiaries and other long-term equity investments	*0.0*	*0.0*	*0.0*	*0.0*
Investments in associates	*(1.5)*	*0.0*	*0.0*	*(1.5)*
Impairment	**(1.5)**	**0.0**	**0.0**	**(1.5)**
TOTAL	**16.3**	**1.0**	**0.0**	**17.2**

Other long-term equity investments particularly include associate or association certificates with guarantee deposits (€2.7 million).

3.4.2 Subsidiaries and investments

The amounts shown are stated in millions of euros.

Subsidiaries and investments	Share capital at 31 Dec. 2017	Equity other than share capital incl. fund for general banking risks, as appropriate at 31 Dec. 2017	% interest held at 31 Dec. 2017	Carrying amount of shares held at 31 Dec. 2017	
				Gross	Net
A. DETAILED INFORMATION ON EACH SECURITY WHOSE GROSS VALUE EXCEEDS 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION					
Subsidiaries (over 50%-owned) PALATINE ASSET MANAGEMENT SA 42, rue d'Anjou – 75008 PARIS	1.9	17.2	100%	5.8	5.8
B. GENERAL INFORMATION ON OTHER SECURITIES WHOSE GROSS VALUE DOES NOT EXCEED 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION					
French subsidiaries (together)				5.0	3.5
Investments in French companies				5.2	5.2

Subsidiaries and investments	Loans and advances granted by the parent-company and not yet redeemed (incl. perpetual subordinated notes) in 2017	Guarantees and endorsements given by the parent-company in 2017	Net revenue before tax for the year to 31 Dec. 2017	Net income for the year to 31 Dec. 2017	Dividends received by the parent-company in 2017	Observations
A. DETAILED INFORMATION ON EACH SECURITY WHOSE GROSS VALUE EXCEEDS 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION						
Subsidiaries (over 50%-owned) PALATINE ASSET MANAGEMENT SA 42, rue d'Anjou – 75008 PARIS	0.0	0.0	36.5	10.6	11.6	0.0
B. GENERAL INFORMATION ON OTHER SECURITIES WHOSE GROSS VALUE DOES NOT EXCEED 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION						
French subsidiaries (together)	0.0	0.1			0.1	0.0
Investments in French companies	0.0	0.0			0.5	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 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. 2017			31 Dec. 2016
in millions of euros	Credit institutions	Other businesses	Total	Total
Receivables	**0.9**	**0.0**	**0.9**	**0.8**
Liabilities	**0.6**	**0.2**	**0.8**	**0.5**
Guarantee commitments	0.0	0.1	0.1	0.1
Guarantee commitments given	**0.0**	**0.1**	**0.1**	**0.1**
Commitments received	**0.0**	**0.0**	**0.0**	**0.0**

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 only conducts operating lease transactions as a lessee.

3.6 Intangible assets and property, plant and equipment

3.6.1 Intangible assets

in millions of euros	31 Dec. 2016	Increase	Decrease	Other movements	31 Dec. 2017
Leasehold rights and commercial goodwill	106.6	0.0	0.0	0.0	106.5
Software	34.5	5.8	0.0	0.0	40.3
Other	4.3	0.0	0.0	2.0	6.3
Gross	**145.4**	**5.8**	**0.0**	**2.0**	**153.1**
Leasehold rights and commercial goodwill	1.1	0.0	0.0	0.0	1.1
Software	24.5	5.9	0.0	0.0	30.4
Depreciation and impairment	**25.6**	**5.9**	**0.0**	**0.0**	**31.5**
TOTAL NET VALUES	**119.8**	**(0.1)**	**0.0**	**2.0**	**121.6**

3.6.2 Property, plant and equipment

in millions of euros	31 Dec. 2016	Increase	Decrease	Other movements	31 Dec. 2017
Land	21.2	0.8	(2.1)	(0.8)	19.1
Other	47.2	5.5	(17.7)	(2.0)	33.0
Property, plant & equipment used in operations	**68.5**	**6.3**	**(19.7)**	**(2.8)**	**52.2**
Property, plant & equipment not used in operations	***0.4***	***0.0***	***(0.6)***	***0.6***	***0.4***
Gross	**68.9**	**6.3**	**(20.3)**	**(2.2)**	**52.6**
Land	15.4	1.0	(2.1)	(0.4)	13.9
Other	33.2	4.6	(17.7)	0.0	20.1
Property, plant & equipment used in operations	**48.6**	**5.6**	**(19.7)**	**(0.4)**	**34.0**
Property, plant & equipment not used in operations	**0.1**	**0.0**	**(0.3)**	**0.2**	**0.1**
Depreciation and impairment	**48.7**	**5.6**	**(20.0)**	**(0.2)**	**34.2**
TOTAL NET VALUES	**20.2**	**0.6**	**(0.3)**	**(2.0)**	**18.4**

3.7 Debt securities

in millions of euros	31 Dec. 2017	31 Dec. 2016
Certificates of deposit and savings bonds	0.0	0.2
Interbank market instruments and money market instruments	2,821.6	2,134.7
Other debt securities	0.5	115.0
Accrued interest	83.3	0.8
TOTAL	**2,905.4**	**2,250.7**

3.8 Other assets and other liabilities

in millions of euros	31 Dec. 2017 Assets	31 Dec. 2017 Liabilities	31 Dec. 2016 Assets	31 Dec. 2016 Liabilities
Tax and social security receivables and liabilities	0.5	12.4	0.3	11.9
Security deposits paid and received	105.6	4.5	186.9	12.6
Other non-trade receivables, other accounts payable	39.0	23.1	22.7	16.3
TOTAL	**145.2**	**40.0**	**209.9**	**40.7**

Guarantee deposits paid reflect the €101 million in cash collateral paid at 31 December 2017, compared to €183.5 million at the end of 2016.

Guarantee deposits received reflect the €4.2 million in cash collateral collected at the end of 2017, compared with €12.3 million at the end of 2016.

3.9 Accrual accounts

in millions of euros	31 Dec. 2017 Assets	31 Dec. 2017 Liabilities	31 Dec. 2016 Assets	31 Dec. 2016 Liabilities
Foreign exchange commitments	55.4	50.7	96.3	88.6
Deferred gains and losses on forwards, futures and options used for hedging purposes	0.0	6.1	0.1	9.6
Additional paid-in capital and issuance costs	0.0	0.0	0.0	0.0
Prepaid expenses and unearned income	4.0	3.1	3.9	2.5
Accrued income/expenses(1)	20.9	61.5	21.8	68.0
Items in process of collection	27.8	52.2	28.7	40.1
Other(2)	55.0	10.4	44.9	38.7
TOTAL	**163.0**	**184.1**	**195.7**	**247.6**

(1) Accrued expenses at 31 December 2017 included €21.6 million in payroll costs (paid leave, reduction in working hour allocations, social contributions, etc.), €22.9 million in accrued interest on financial instruments (interest-rate swaps, caps, floors), compared to, respectively, €21.3 million and €31.2 million at the end of 2016.

(2) The “Other” item mainly represents the amounts entered in suspense accounts, before being interfaced in the management modules.

3.10 Provisions

3.10.1 Changes in provisions

in millions of euros	31 Dec. 2016	Charges	Reversals	Uses	Other movements	31 Dec. 2017
Provisions for counterparty risk	**26.7**	**9.0**	**(3.0)**	**0.0**	**0.0**	**32.6**
Provisions for employee benefit obligations	**19.8**	**0.0**	**0.5**	**0.0**	**0.0**	**20.3**
Provisions for PEL/CEL regulated accounts	**3.3**	**0.0**	**(0.5)**	**0.0**	**0.0**	**2.8**
Securities portfolio and forwards, futures and options	*2.4*	*(0.1)*	*(1.3)*	*0.0*	*0.0*	*0.9*
Provisions for taxes	*0.3*	*0.0*	*(0.3)*	*0.0*	*0.0*	*0.0*
Litigation	*3.1*	*6.8*	*(1.7)*	*0.0*	*0.0*	*8.2*
Provisions for contingencies	*2.0*	*0.0*	*(0.3)*	*0.0*	*0.0*	*1.8*
Other	3.0	0.5	(0.8)	0.0	0.0	2.8
Other provisions for contingencies	**10.9**	**7.2**	**(4.3)**	**0.0**	**(0.1)**	**13.7**
TOTAL	**60.7**	**16.2**	**(7.4)**	**0.0**	**(0.1)**	**69.5**

3.10.2 Provisions and impairment for counterparty risks

in millions of euros	31 Dec. 2016	Charges	Reversals	Uses	Translation and other movements	31 Dec. 2017
Impairment of loans and advances to customers	281.2	52.2	(25.5)	(55.8)	0.0	252.1
Impairment of other loans and advances	4.2	0.0	(0.2)	0.0	0.0	4.0
Impairment of assets	**285.4**	**52.2**	**(25.7)**	**(55.8)**	**0.0**	**256.1**
Provisions for off-balance sheet commitments(1)	13.7	8.2	(3.0)	0.0	0.0	18.8
Provisions for country risks	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for customer counterparty risk(2)	13.0	0.8	0.0	0.0	0.0	13.8
Provisions for counterparty risk recognised as liabilities	**26.7**	**9.0**	**(3.0)**	**0.0**	**0.0**	**32.6**
TOTAL	**312.1**	**61.2**	**(28.7)**	**(55.8)**	**0.0**	**288.7**

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

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

3.10.3 Provisions for employee benefit obligations

Post-employment benefits related to defined-contribution plans

Defined-contribution plans refer to mandatory Social security pension schemes as well as those managed by the AGIRC and ARRCO pension funds and the supplementary pension schemes to which the Caisses d'Epargne and the Banque Populaire banks belong. Banque Palatine's obligations under these schemes are confined to the payment of contributions (€11.3 million in 2017).

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 calculated in accordance with ANC recommendation No. 2013-R-02.

Analysis of assets and liabilities recorded on the balance sheet

in millions of euros	FY 2017				FY 2016			
	Post-employment benefits under defined-benefit plans		Other long-term benefits		Post-employment benefits under defined-benefit plans		Other long-term benefits	
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total
Actuarial liabilities	0.5	14.5	2.6	17.6	0.6	14.5	2.5	17.6
Unrecognised actuarial gains/(losses)	0.0	(0.1)	0.0	(0.1)	0.1	(2.5)	0.0	(2.4)
NET AMOUNT REPORTED ON THE BALANCE SHEET	**0.5**	**14.4**	**2.6**	**17.5**	**0.7**	**12.0**	**2.5**	**15.2**
Employee benefits, liabilities	0.5	14.4	2.6	17.5	0.7	12.0	2.5	15.2

Analysis of the expense for the period

in millions of euros	Post-employment benefits under defined-benefit plans		Other long-term benefits	FY 2017	FY 2016
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Total
Service cost	0.0	0.9	0.3	1.2	(1.2)
Interest cost	0.0	0.2	0.0	0.2	0.0
Benefits paid	0.0	(1.2)	(0.2)	(1.4)	1.3
Actuarial gains and losses	0.0	(0.2)	0.0	(0.2)	0.0
TOTAL EXPENSE FOR THE PERIOD	**0.0**	**(0.3)**	**0.1**	**(0.3)**	**0.0**

Main actuarial assumptions

	FY 2017			FY 2016		
	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	1.38%	1.38%	1.38%	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	0.60%	0.60%	0.60%	0.76%	0.76%	0.76%

The 1.38% discount rate corresponds to that taken from the composite AA Bloomberg EUR curve for fifteen-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. 2017	31 Dec. 2016
Deposits held in PEL regulated home savings plans		
▪ plans in place for less than 4 years	15.4	97.5
▪ plans in place for more than 4, but less than 10 years	105.7	29.0
▪ plans in place for more than 10 years	98.9	123.0
Deposits collected via PEL regulated home savings plans	**220.0**	**249.5**
Deposits collected via CEL regulated home savings accounts	**17.5**	**18.2**
TOTAL	237.5	267.7

Loans granted

in millions of euros	31 Dec. 2017	31 Dec. 2016
Loans granted		
▪ in respect of PEL regulated home savings plans	0.0	0.1
▪ in respect of CEL regulated home savings accounts	0.2	0.2
TOTAL	0.2	0.3

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

in millions of euros	31 Dec. 2016	Charges/ net reversals	31 Dec. 2017
Provisions for PEL regulated home savings plans			
▪ plans in place for less than 4 years	0.9	(0.7)	0.3
▪ plans in place for more than 4, but less than 10 years	0.1	0.5	0.6
▪ plans in place for more than 10 years	2.2	(0.4)	1.8
Provisions for PEL regulated home savings plans	**3.2**	**(0.4)**	**2.7**
Provisions for CEL regulated home savings accounts	**0.1**	**0.1**	**0.2**
Provisions for regulated home savings loans	**0.0**	**0.0**	**0.0**
TOTAL	3.3	(0.5)	2.8

3.11 Subordinated debt

in millions of euros	31 Dec. 2017	31 Dec. 2016
Term subordinated debt	200.0	165.0
Accrued interest	0.2	0.7
TOTAL	**200.2**	**165.7**

These borrowings have the following characteristics:

Currency	Issue date	Outstandings at 31 Dec. 2017 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	07 Dec. 2015	150.0	150.0	3-month Euribor + 2.29%			Yes	08 Dec. 2025
EUR	21 Dec. 2017	50.0	50.0	3-month Euribor + 0.97%			Yes	22 Dec. 2027
TOTAL		**200.0**	**200.0**					

(1) Above 3-month Euribor

3.12 Fund for general banking risks

in millions of euros	31 Dec. 2017	31 Dec. 2016
Fund for general banking risks	1.3	1.3
TOTAL	**1.3**	**1.3**

3.13 Equity

in millions of euros	Share capital	Share premium	Reserves/other	Carried forward	Income	Total shareholders' equity excl. FRBG
Total at 31 December 2015	**538.8**	**56.7**	**42.1**	**112.4**	**50.8**	**800.8**
Movements in the year	0.0	0.0	2.5	20.5	(0.2)	22.8
Total at 31 December 2016	**538.8**	**56.7**	**44.6**	**132.9**	**50.6**	**823.6**
Appropriation of 2016 income			2.5	48.0	(50.6)	0.0
Dividend payments					0.0	0.0
Capital increase						0.0
Net income for the period					52.5	52.5
TOTAL AT 31 DECEMBER 2017	**538.8**	**56.7**	**47.2**	**180.9**	**52.5**	**876.1**

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. 2017						
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	Not determined	Total
Treasury bills and similar securities	46.4	0.0	248.9	785.0			1,080.3
Loans and advances due from credit institutions	1,651.8	144.2	491.9	1,291.8	17.9		3,597.5
Customer transactions	1,223.1	566.1	990.7	3,344.4	2,372.9	305.8	8,802.9
Bonds and other fixed-income securities	5.1	12.5	55.8	452.9	102.0		628.4
Total uses of funds	**2,926.2**	**722.8**	**1,787.2**	**5,874.2**	**2,492.8**	**305.8**	**14,109.0**
Amounts due to credit institutions	121.5	252.7	650.8	1,012.0	51.7		2,088.7
Customer transactions	7,904.1	20.4	101.4	359.5	0.0		8,385.3
Debt securities	286.5	383.0	2,151.5	12.4	71.9		2,905.4
Subordinated debt	0.0	0.0	0.0	0.0	200.2	0.0	200.2
Total sources of funds	**8,312.1**	**656.1**	**2,903.7**	**1,383.8**	**323.8**	**0.0**	**13,579.5**

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. 2017	31 Dec. 2016
Financing commitments given		
To credit institutions	**0.0**	**0.0**
Documentary credits	*71.6*	*121.3*
Other confirmed credit lines	*1,619.6*	*1,680.4*
Other commitments	*49.9*	*75.2*
To customers	**1,741.1**	**1,876.9**
TOTAL FINANCING COMMITMENTS GIVEN	**1,741.1**	**1,876.9**
FINANCING COMMITMENTS RECEIVED		
From credit institutions	**337.5**	**583.2**
From customers	**0.0**	**0.0**
TOTAL FINANCING COMMITMENTS RECEIVED	**337.5**	**583.2**

4.1.2 Guarantee commitments

in millions of euros	31 Dec. 2017	31 Dec. 2016
GUARANTEE COMMITMENTS GIVEN	**0.0**	**0.0**
▪ Confirmed documentary credit lines	61.9	41.4
▪ Other guarantees	11.8	7.5
To credit institutions	**73.7**	**48.9**
▪ Real estate guarantees	149.2	129.1
▪ Government and tax guarantees	72.5	81.0
▪ Other guarantees and sureties given	0.0	0.0
▪ Other guarantees given	818.0	813.9
To customers	**1,039.7**	**1,024.1**
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,113.4**	**1,073.0**
Guarantee commitments received from credit institutions	237.7	279.0
TOTAL GUARANTEE COMMITMENTS RECEIVED	**237.7**	**279.0**

4.1.3 Other commitments not recognised off-balance sheet

	31 Dec. 2017		31 Dec. 2016	
in millions of euros	Commitments given	Commitments received	Commitments given	Commitments received
Other securities pledged as collateral to credit institutions	373.2	0.0	340.4	0.0
Other securities pledged as collateral received from customers	0.0	4,761.6	0.0	4,626.7
TOTAL	**373.2**	**4,761.6**	**340.4**	**4,626.7**

At 31 December 2017, amounts pledged as collateral under funding arrangements only concerned securities, no receivable was provided to Banque de France under the TRICP system for €373.2 million, compared to €340.4 million at 31 December 2016.

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. 2017		31 Dec. 2016	
in millions of euros	Hedge	Fair value	Hedge	Fair value
Futures and forwards				
Interest rate contracts	*3.6*	*0.0*	*3.6*	*0.0*
Currency contracts	*0.4*	*0.0*	*0.3*	*0.0*
Other contracts	*0.0*	*0.0*	*0.0*	*0.0*
Transactions in organised markets	**4.0**	**0.0**	**3.9**	**0.0**
Interest rate swaps	*5,715.7*	*5.9*	*6,697.4*	*7.3*
Currency swaps	*2,179.6*	*0.0*	*2,785.0*	*0.0*
Other forward and futures	*119.7*	*0.0*	*69.3*	*0.0*
Over-the-counter transactions	**8,014.9**	**5.9**	**9,551.7**	**7.3**
TOTAL FORWARDS AND FUTURES	**8,018.9**	**5.9**	**9,555.6**	**7.3**
Options				
Other options	*1,295.7*	*(0.7)*	*671.3*	*1.9*
Transactions in organised markets	**1,295.7**	**(0.7)**	**671.3**	**1.9**
Interest rate options	*5,886.0*	*3.8*	*3,756.9*	*1.9*
Currency options	*1,116.5*	*0.0*	*978.6*	*0.0*
Over-the-counter transactions	**7,002.5**	**3.8**	**4,735.5**	**1.9**
TOTAL OPTIONS	**8,298.1**	**3.1**	**5,406.8**	**3.9**
TOTAL FINANCIAL INSTRUMENTS AND CURRENCY FUTURES AND OPTIONS	**16,317.1**	**9.1**	**14,962.4**	**11.2**

The breakdown of interest rate swaps and currency swaps was corrected at 31 December 2016 according to Note 4.2.2.

The notional amounts of contracts listed in this table are solely intended to provide an indication of the volume of Banque Palatine's activities involving financial instruments at the balance sheet date and do not reflect the market risk associated with these instruments.

Commitments on interest rate instruments traded over the counter mainly consisted of interest rate swaps and FRAs for futures and forwards, and interest rate guarantees for options.

Commitments on foreign exchange instruments traded over the counter mainly consisted of currency swaps.

4.2.2 Breakdown of over-the-counter interest rate instruments by type of portfolio

in millions of euros	31 Dec. 2017			31 Dec. 2016		
	Micro-hedge	Macro-hedge	Total	Micro-hedge	Macro-hedge	Total
Interest rate swaps	*4,933.0*	*786.2*	*5,719.3*	*5,937.7*	*763.3*	*6,701.0*
Currency swaps	*2,180.0*	*0.0*	*2,180.0*	*2,785.3*	*0.0*	*2,785.3*
Other interest rate forwards	*119.7*	*0.0*	*119.7*	*69.3*	*0.0*	*69.3*
Futures and forwards	**7,232.7**	**786.2**	**8,018.9**	**8,792.3**	**763.3**	**9,555.6**
Interest rate options	*8,298.1*	*0.0*	*8,298.1*	*5,406.8*	*0.0*	*5,406.8*
Options	**8,298.1**	**0.0**	**8,298.1**	**5,406.8**	**0.0**	**5,406.8**
TOTAL	**15,530.8**	**786.2**	**16,317.1**	**14,199.1**	**763.3**	**14,962.4**

No transactions were transferred to another portfolio during the period.

in millions of euros	31 Dec. 2017			31 Dec. 2016		
	Micro-hedge	Macro-hedge	Total	Micro-hedge	Macro-hedge	Total
Fair value	13.9	0.0	13.9	18.1	0.0	18.1

4.2.3 Commitments on forwards, futures and options by maturity

in millions of euros	31 Dec. 2017			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Transactions in organised markets	*4.0*	*0.0*	*0.0*	*4.0*
Over-the-counter transactions	*2,952.2*	*3,531.7*	*1,647.6*	*8,131.5*
Futures and forwards	**2,956.2**	**3,531.7**	**1,647.6**	**8,135.5**
Over-the-counter transactions	*2,782.6*	*5,301.0*	*214.6*	*8,298.1*
Options	**2,782.6**	**5,301.0**	**214.6**	**8,298.1**
TOTAL	**5,738.8**	**8,832.6**	**1,862.2**	**16,433.6**

4.3 Breakdown of assets and liabilities by currency

in millions of euros	31 Dec. 2017		31 Dec. 2016	
	Assets	Liabilities	Assets	Liabilities
Euro	14,433.0	14,419.6	14,865.2	14,873.5
Dollar	223.3	223.9	340.7	302.1
Pound sterling	70.1	69.9	52.5	58.6
Swiss franc	2.2	2.0	2.8	1.8
Yen	1.6	1.5	0.0	0.0
Other	20.5	33.6	8.8	34.0
TOTAL	**14,750.6**	**14,750.6**	**15,270.0**	**15,270.0**

4.4 Foreign currency transactions

in millions of euros	31 Dec. 2017	31 Dec. 2016
Spot foreign exchange transactions		
Currencies receivable not received	60.7	78.8
Currencies deliverable not delivered	60.6	78.6
TOTAL	**121.3**	**157.4**

Note 5 Information on the income statement

5.1 Interest and similar income and expense

	FY 2017			FY 2016		
in millions of euros	Income	Expense	Net	Income	Expense	Net
Transactions with credit institutions	36.7	(22.4)	14.3	41.0	(23.5)	17.5
Customer transactions	181.4	(16.7)	164.6	188.6	(27.6)	161.1
Bonds and other fixed-income securities	55.3	(38.9)	16.3	59.2	(43.9)	15.3
Subordinated debt	0.0	(3.1)	(3.1)	0.0	(4.9)	(4.9)
Other	14.9	(0.4)	14.5	16.0	(0.6)	15.5
TOTAL	**288.3**	**(81.6)**	**206.6**	**304.9**	**(100.4)**	**204.5**

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 €2.8 million for 2017, compared with €3.3 million for 2016.

5.2 Income and expenses on finance and operating leases

Banque Palatine only conducts operating lease transactions as a lessee.

5.3 Income from variable-income securities

in millions of euros	FY 2017	FY 2016
Investments in subsidiaries and long-term equity investments	0.1	0.1
Investments in associates	12.2	14.4
TOTAL	**12.2**	**14.5**

Including €11.6 million in dividends received from its Palatine Asset Management subsidiary, compared to €12.6 million in 2016.

5.4 Fees and commission

in millions of euros	FY 2017 Income	FY 2017 Expense	FY 2017 Net	FY 2016 Income	FY 2016 Expense	FY 2016 Net
Cash and interbank transactions	0.1	(0.1)	0.0	0.1	(0.1)	0.0
Customer transactions	37.4	0.0	37.4	36.0	0.0	36.0
Securities transactions	6.7	(0.2)	6.5	2.8	(0.1)	2.7
Payment services	9.1	(6.1)	3.0	11.1	(6.3)	4.8
Insurance products	14.9	0.0	14.9	12.7	0.0	12.7
Foreign exchange transactions	0.7	0.0	0.7	0.3	0.0	0.3
Off-balance sheet commitments	0.0	0.0	0.0	0.0	0.0	0.0
Financial services	5.1	(0.3)	4.8	7.3	(0.3)	7.0
Other fee and commission income[1]	2.5	0.0	2.5	3.7	0.0	3.7
TOTAL	**76.5**	**(6.7)**	**69.8**	**73.9**	**(6.8)**	**67.1**

(1) This consists of financial engineering fees.

5.5 Net gains or losses on trading book transactions

in millions of euros	FY 2017	FY 2016
Foreign exchange transactions	(1.6)	(12.9)
Forwards, futures and options	19.6	24.2
TOTAL	**18.0**	**11.4**

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

in millions of euros	FY 2017 Available-for-sale securities	FY 2016 Available-for-sale securities
Impairment		
Charges	*0.0*	*0.0*
Reversals	*0.1*	*3.4*
Net gain/(loss) on disposal	(0.8)	(0.5)
TOTAL	**(0.7)**	**2.9**

5.7 Other banking income and expense

in millions of euros	FY 2017 Income	FY 2017 Expense	FY 2017 Total	FY 2016 Income	FY 2016 Expense	FY 2016 Total
Rebilling of banking income and expense	0.6	0.0	0.6	0.5	0.0	0.5
Miscellaneous other activities	2.7	(2.7)	(0.0)	0.6	(1.7)	(1.1)
TOTAL	**3.3**	**(2.7)**	**0.6**	**1.2**	**(1.7)**	**(0.6)**

5.8 General operating expenses

in millions of euros	FY 2017	FY 2016
Wages and salaries	(67.6)	(66.7)
Pension costs and similar obligations	(6.9)	(6.7)
Other social security charges	(27.3)	(27.0)
Employee incentive scheme	(6.2)	(3.9)
Employee profit-sharing scheme	(0.6)	(0.7)
Payroll taxes	(12.0)	(12.1)
TOTAL SALARY AND EMPLOYEE BENEFIT EXPENSE	**(120.6)**	**(117.1)**
Taxes other than on income	(6.1)	(10.2)
Other operating expenses	(59.7)	(52.7)
TOTAL OTHER OPERATING EXPENSES	**(65.8)**	**(63.0)**
TOTAL	**(186.4)**	**(180.0)**

The average headcount during the year, broken down by professional category, was as follows: 793 managers and 377 non-managers, representing a total of 1,170 employees.

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1.2 million in 2017. 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

	FY 2017					FY 2016				
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	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Customers	(52.2)	81.3	(55.9)	1.3	(25.6)	(86.8)	66.0	(22.9)	1.7	(42.0)
Securities portfolio and other receivables	0.0	0.2	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.2
Provisions										
Off-balance sheet commitments	(6.3)	3.0	0.0	0.0	(3.3)	0.0	0.0	0.0	0.0	0.0
Provisions for customer credit risks	(4.0)	0.3	0.0	0.0	(3.7)	(6.5)	7.7	0.0	0.0	1.2
Other	(2.7)	0.0	0.0	0.0	(2.7)	0.0	0.0	0.0	0.0	0.0
TOTAL	**(65.2)**	**84.8**	**(55.9)**	**1.3**	**(35.0)**	**(93.3)**	**73.9**	**(22.9)**	**1.9**	**(40.4)**
o/w:										
▪ reversals of obsolete impairment charges	0.0	84.6	0.0	0.0	84.6	0.0	66.1	0.0	0.0	66.1
▪ reversals of impairment losses used	0.0	55.8	0.0	0.0	55.8	0.0	22.1	0.0	0.0	22.1
▪ reversals of obsolete provisions	0.0	0.3	0.0	0.0	0.3	0.0	7.7	0.0	0.0	7.7
▪ reversals of provisions used	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
▪ losses covered by provisions	0.0	(55.8)	0.0	0.0	(55.8)	0.0	(22.1)	0.0	0.0	(22.1)
Net reversals	0.0	84.8	0.0	0.0	84.8	0.0	73.9	0.0	0.0	73.9

5.10 Gains or losses on long-term investments

in millions of euros	FY 2017 Investments in subsidiaries and other long-term equity investments	FY 2016 Investments in subsidiaries and other long-term equity investments
Impairment		
Charges	0.0	0.0
Reversals	0.0	0.0
Net gain/(loss) on disposal	**0.0**	**1.5**
TOTAL	**0.0**	**1.5**

It should be recalled that, in FY 2016, a merger premium in the amount of €1.5 million was recognised as a gain on fixed assets, following the simplified merger with the Société Foncière d'Investissement.

5.11 Non-recurring items

No non-recurring items were recorded in 2017.

5.12 Income tax

5.12.1 Breakdown of income tax in 2017

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	FY 2017
Tax bases at the rate of	**33.33%**
Tax on income before non-recurring items	62.7
Tax bases	**62.7**
Corresponding tax expense	20.9
+ 3.3% contributions	0.7
Deductions in respect of tax credits	(0.1)
Tax expense reported	**21.4**
Provisions for taxes	0.1
TOTAL	**21.5**

The amount of corporate income tax recorded in the income statement, *i.e.* €21.2 million, includes a €0.3 million reversal of the tax provision.

5.12.2 Breakdown of 2017 taxable income – reconciliation from book to taxable income

in millions of euros	FY 2017	FY 2016
Net income per the financial statements (A)	**52.5**	**50.6**
Corporate tax (B)	**21.4**	**19.4**
Add-backs (C)	**17.5**	**21.5**
Other impairment losses and provisions	10.0	15.8
Other	7.6	5.7
Deductions (D)	**28.8**	**35.1**
Reversals of impairment losses and provisions	15.1	18.1
Dividend payments	11.7	14.3
Other	1.9	2.7
Tax base at standard rate (A)+(B)+(C)-(D)	**62.7**	**56.4**

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 2017 to members of the management bodies came to €1.2 million.

During 2017, no advances and loans were granted to any one of the members of the administration, management or supervisory bodies.

6.3 Fees paid to Statutory Auditors

	PricewaterhouseCoopers				KPMG				TOTAL			
	Amount		%		Amount		%		Amount		%	
Amounts in thousands of euros	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Role of certification of financial statements	189	183	100%	86%	257	191	87%	77%	446	374	92%	81%
- Issuer	189	183			257	191			446	374		
Services other than the certification of the financial statements	0	30	0%	14%	39	56	13%	23%	39	86	8%	19%
- Issuer	0	30			39	56			39	86		
TOTAL	**189**	**213**	**100%**	**100%**	**296**	**247**	**100%**	**100%**	**485**	**460**	**100%**	**100%**
Change (%)		*-11%*				*20%*				*5%*		

The total fees of PricewaterhouseCoopers Audit included in the company income statement for the year amounted to €189,000, all of which in respect of the certification of Banque Palatine's financial statements;

The total fees of KPMG included in the company income statement for the year amounted to €296,000, including €257,000 for the certification of the financial statements of Banque Palatine and its subsidiaries, and €39,000 for services other than the certification of the financial statements (Parly II and CSR certification).

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 an 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 8 April 2016 decree, made in application of Article 238-0-A of the French Tax Code.

At 31 December 2017, Banque Palatine had no offices or activities in uncooperative tax havens.

3 IFRS consolidated financial statements of the Palatine Group

3.1 Consolidated balance sheet

Assets

in millions of euros	Notes	31 Dec. 2017	31 Dec. 2016
Cash, central banks	5.1	174.6	325.6
Financial assets at fair value through profit or loss	5.2.1	138.4	178.6
Hedging derivatives	5.3	3.5	5.4
Available-for-sale financial assets	5.4	1,326.7	1,702.6
Loans and advances due from credit institutions	5.6.1	3,601.6	4,149.5
Loans and advances due from customers	5.6.2	9,221.4	8,551.8
Remeasurement gains and losses on interest rate risk-hedged portfolios	5.6.3	6.8	15.2
Held-to-maturity investments	5.7	0.0	51.0
Current tax assets		0.0	0.0
Deferred tax assets	5.9	12.6	13.6
Accrued income and other assets	5.10	230.9	294.2
Non-current assets held for sale	5.11	0.0	0.0
Investments in associates	8.1	3.5	3.3
Investment property	5.12	0.3	0.3
Property, plant and equipment	5.13	17.1	18.4
Intangible assets	5.13	27.0	25.1
Goodwill	5.14	3.1	3.1
TOTAL ASSETS		**14,767.5**	**15,337.7**

Liabilities

in millions of euros	Notes	31 Dec. 2017	31 Dec. 2016
Cash placed with central banks	5.1	0.1	0.0
Financial liabilities at fair value through profit or loss	5.2.2	125.0	161.9
Hedging derivatives	5.3	48.4	98.3
Amounts due to credit institutions	5.15.1	2,088.7	2,687.4
Amounts due to customers	5.15.2	8,384.5	8,991.7
Debt securities	5.16	2,905.4	2,250.6
Remeasurement gains and losses on interest rate risk-hedged portfolios	5.6.3	4.1	5.0
Current tax liabilities		0.2	1.6
Deferred tax liabilities	5.9	1.8	2.6
Accrued expenses and other liabilities	5.17	129.4	147.6
Provisions	5.18	58.8	48.1
Subordinated debt	5.19	200.2	165.7
Equity		**820.9**	**777.2**
Equity attributable to equity holders of the parent		**820.9**	**777.2**
Share capital and share premium	5.20.1	595.5	595.5
Retained earnings		178.7	132.3
Gains and losses recognised directly in other lines of comprehensive income		0.9	3.0
Net income for the period		45.9	46.3
Non-controlling interests (minority interests)	**5.21**	**0.0**	**0.0**
TOTAL LIABILITIES AND EQUITY		**14,767.5**	**15,337.7**

3.2 Consolidated income statement

in millions of euros	Notes	FY 2017	FY 2016
Interest and similar income	6.1	291.7	309.4
Interest and similar expenses	6.1	(80.3)	(98.2)
Fee and commission income	6.2	110.6	108.2
Fee and commission expenses	6.2	(14.0)	(13.3)
Net gains or losses on financial instruments at fair value through profit or loss	6.3	13.5	13.0
Net gains or losses on available-for-sale financial assets	6.4	(1.2)	1.2
Income from other activities	6.5	3.0	0.6
Expenses from other activities	6.5	(4.0)	(2.8)
NET BANKING INCOME		**319.3**	**318.1**
Operating expenses	6.6	(194.7)	(188.3)
Net depreciation and amortisation of intangible assets and property, plant and equipment		(11.8)	(10.9)
GROSS OPERATING INCOME		**112.8**	**118.9**
Cost of risk	6.7	(39.5)	(46.0)
OPERATING INCOME		**73.3**	**72.9**
Share in net income of associates	8.2	0.6	0.7
Gains or losses on other assets	6.9	0.0	0.0
Changes in the value of goodwill	6.9	0.0	0.0
INCOME BEFORE TAX		**73.9**	**73.6**
Income tax	6.10	(28.0)	(27.3)
Net income after tax from discontinued operations or operations being discontinued		0.0	0.0
NET INCOME		**45.9**	**46.3**
Non-controlling interests (minority interests)	5.21	0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**45.9**	**46.3**

3.3 Comprehensive income

in millions of euros	FY 2017	FY 2016
NET INCOME	**45.9**	**46.3**
Remeasurement gains and losses on defined-benefit plans	(0.4)	0.3
Tax impact of remeasurement gains and losses on defined-benefit plans	0.0	(0.2)
ITEMS THAT CANNOT BE RECLASSIFIED IN INCOME	**(0.4)**	**0.1**
Translation differences	0.0	0.0
Change in the value of available-for-sale financial assets	(2.4)	10.2
Changes in the value of hedging derivatives	0.0	0.4
Income taxes	0.6	(3.2)
ITEMS THAT CAN BE RECLASSIFIED IN INCOME	**(1.8)**	**7.4**
GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER ITEMS OF COMPREHENSIVE INCOME (NET OF TAX)	**(2.2)**	**7.5**
COMPREHENSIVE INCOME	**43.7**	**53.8**
Attributable to equity holders of the parent	43.7	53.8
Non-controlling interests	0.0	0.0

3.4 Statement of changes in equity

in millions of euros	Share capital and share premium: Share capital	Share capital and share premium: Additional paid-in capital	Share capital and share premium: Retained earnings	Perpetual deeply subordinated notes
EQUITY AT 1 JAN. 2016	**538.8**	**56.7**	**206.4**	**80.0**
Dividend payments			(28.9)	
Capital increase				
Redemptions of deeply subordinated notes				(80.0)
Interest on deeply subordinated notes				
Gains and losses recognised directly in other lines of comprehensive income				
Profit or loss				
Other changes				
EQUITY AT 31 DEC. 2016	**538.8**	**56.7**	**177.5**	**0.0**
Appropriation of 2016 net income			50.6	
Reclassification				
Effect of IFRIC 21				
EQUITY AT 1 JAN. 2017	**538.8**	**56.7**	**228.1**	**0.0**
Dividend payments			0.0	
Redemptions of deeply subordinated notes				
Interest on deeply subordinated notes				
Gains and losses recognised directly in other lines of comprehensive income				
Profit or loss				
Other changes				
EQUITY AT 31 DEC. 2017	**538.8**	**56.7**	**228.1**	**0.0**

		Gains and losses recognised directly in equity							
			Change in fair value of financial instruments						
	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
	(45.5)	**(0.1)**	**(1.9)**	**(0.4)**	**(2.1)**	**55.5**	**887.4**	**0.0**	**887.4**
						(55.5)	(84.4)		(84.4)
							0.0		0.0
							(80.0)		(80.0)
	0.4						0.4		0.4
			7.4	0.0	0.1		7.5		7.5
						46.3	46.3		46.3
							0.0		0.0
	(45.1)	**(0.1)**	**5.5**	**(0.4)**	**(2.0)**	**46.3**	**777.2**	**0.0**	**777.2**
	(4.2)						46.4		46.4
							0.0		0.0
							0.0		0.0
	(49.3)	**(0.1)**	**5.5**	**(0.4)**	**(2.0)**	**46.3**	**823.6**	**0.0**	**823.6**
						(46.3)	(46.3)		(46.3)
							0.0		0.0
	0.0						0.0		0.0
	(0.1)		(2.1)	0.4	(0.5)		(2.3)		(2.3)
						45.9	45.9		45.9
							0.0		0.0
	(49.4)	**(0.1)**	**3.4**	**0.0**	**(2.5)**	**45.9**	**820.9**	**0.0**	**820.9**

3.5 Cash flow statement

in millions of euros	FY 2017	FY 2016
Income before tax	**73.8**	**73.6**
Net depreciation and amortisation of property, plant and equipment, and intangible assets	11.6	10.9
Net charge to provisions and impairment losses	(18.2)	16.3
Share in net income of associates	(0.2)	(0.1)
Net gains/losses on investment activities	(1.5)	(2.8)
Other movements	13.9	58.6
Total non-cash items included in net income before tax	**5.6**	**82.8**
Net increase or decrease arising from transactions with credit institutions	(42.1)	133.0
Net increase or decrease arising from transactions with customers	(1,245.3)	(1,203.7)
Net increase or decrease arising from transactions affecting financial assets and liabilities	946.6	(114.5)
Net increase or decrease arising from transactions affecting non-financial assets and liabilities	70.2	(3.5)
Tax paid	(28.5)	(29.4)
Net increase/(decrease) in assets and liabilities generated by operating activities	(299.2)	(1,218.0)
NET CASH FLOW FROM OPERATING ACTIVITIES (A)	**(219.7)**	**(1,061.7)**
Net increase or decrease related to financial assets and investments	50.9	2.2
Net increase or decrease relating to investment property	1.4	(0.4)
Net increase or decrease related to property, plant and equipment, and intangible assets	(12.3)	(12.7)
NET CASH FLOW FROM INVESTMENT ACTIVITIES (B)	**40.0**	**(10.8)**
Cash flow received from or paid to shareholders(1)	0.0	(109.0)
Cash flow from financing activities	34.5	(25.0)
NET CASH FLOW FROM FINANCING ACTIVITIES (C)	**34.5**	**(134.0)**
IMPACT OF CHANGES IN EXCHANGE RATES (D)	**0.0**	**0.0**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A + B + C + D)	**(145.2)**	**(1,206.4)**
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	**1,002.2**	**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)**
Opening cash and cash equivalents	**1,327.8**	**2,534.1**
Cash and net balance of accounts with central banks	**174.5**	**325.6**
Cash and net balance of accounts with central banks (assets)	174.6	325.6
Cash placed with central banks (liabilities)	(0.1)	0.0
Net balance of demand transactions with credit institutions	**1,008.1**	**1,002.1**
Current accounts with overdrafts(2)	18.9	45.3
Demand accounts and loans	1,049.9	1,306.1
Demand accounts in credit	**(60.7)**	**(349.3)**
Closing cash and cash equivalents	**1,182.6**	**1,327.7**
CHANGE IN NET CASH FLOW	**(145.2)**	**(1,206.4)**

(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 Palatine Group's consolidated financial statements

Note 1 General background

1.1 BPCE Group 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 14 Banques Populaires and the 16 Caisses d'Epargne. Each of the two networks owns an equal share in BPCE, the Group's central body.

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

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

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

The share capital of the 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 14 Banque Populaire banks and the 16 Caisses d'Epargne.

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

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

As a holding company, BPCE acts as the ultimate controlling party of the Group and holds the joint ventures between the two networks in retail banking and insurance, 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, including Natixis, a listed company which is 71.023%-owned, are organised around three major segments:

- Commercial Banking and Insurance (including Crédit Foncier, Banque Palatine, BPCE International and the insurance activities of Natixis);
- Major Customers Banking;
- and Asset and Wealth Management.

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 Banques Populaires that was recorded by BPCE as a ten-year term account renewable in perpetuity.

The **Caisse d'Epargne Network Fund** consists of a €450 million deposit made by the Caisses d'Epargne 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 2017.

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

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

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

1.3 Significant events

In the first half of 2017, following alerts issued by its atypical transaction detection tool, Banque Palatine conducted a lengthy audit process revealing a suspicion of internal fraud on mortgage loan financing files. As a result, Banque Palatine initiated legal and other recovery remedies.

At 31 December 2017, the financial statements recorded a corresponding €4 million provision.

This estimate takes into account expectations of recovery based on precautionary mortgage registrations on the assets financed and the assumption of the claim by the insurance policies.

1.4 Post-balance sheet events

No events liable to have a material effect on the 2017 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 2017 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 2016 were complemented by standards, amendments and interpretations, application of which is mandatory for reporting periods starting on or after 1 January 2017.

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

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

On initial recognition, financial assets are classified at amortised cost, at fair value through equity or at fair value through profit or loss depending on the nature of the instrument (debt or equity), the characteristics of their contractual cash flows and how the entity manages its financial instruments (business model).

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

Business model

The entity's business model is the way said entity manages its financial assets with a view to generating cash flows. The entity must exercise its judgement to assess the business model.

The definition of the business model must take into account all the information on how cash flows have been generated in the past, as well as all other relevant information.

By way of example, it is worth highlighting:

- the way the performance of the financial assets is evaluated and presented to the main senior executives;
- the risks that have an impact on the performance of the business model and, in particular, the way these risks are managed;
- the way senior executives are paid (for example, whether remuneration is based on the fair value of the assets under management or on the contractual cash flows generated);
- the frequency, the volume and the generation of sales.

Moreover, the definition of the business model must be conducted in such a way that it reflects how the groups of financial assets are collectively managed with a view to attaining a given economic objective. Therefore, the business model is not defined instrument by instrument but rather at a higher level of aggregation, by portfolio.

The standard recognises three business models:

- a business model whose objective is to hold financial assets with a view to generating contractual cash flows from them (collection model);
- a mixed business model where assets are managed with a view to both generating contractual cash flows and selling the financial assets (a collection and sales model);
- a business model whose objective is to cash-in the cash flows generated by the sale of financial assets (held for trading).

Establishing basic nature or SPPI (Solely Payments of Principal and Interest)

A financial asset is basic if the contractual terms of the financial asset give rise, on specified dates, to cash flows corresponding solely to payments of principal and interest calculated on the outstanding capital due.

The principal is defined as the fair value of the financial asset at its vesting date. The interest is consideration for the time value of money and the credit risk associated with the principal, as well as other risks such as liquidity risk, administrative expenses and the trading margin.

To assess whether contractual cash flows are solely payments of principal and interest, the contractual terms of the instrument must be examined. This involves analysing any element that might call into question the exclusive representation of the time value of money. For example:

- events that would change the amount and date of generation of the cash flows;
- the characteristics of the applicable rates;
- the terms of early redemption and extension.

Debt instruments (loans, receivables or debt securities) can be measured at amortised cost, at fair value through equity or at fair value through profit or loss.

A debt instrument is measured at amortised cost if it meets the following two conditions:

- the asset is held under a business model whose objective is to collect contractual cash flows, and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

A debt instrument is measured at fair value through equity only if it meets the following two conditions:

- the asset is held under a business model whose objective is both to collect contractual cash flows and to sell financial assets, and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

The equity instruments will be recognised by default 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 profit or loss) without subsequent reclassification in income. However, in the case of an option for the latter category, dividends will still be recognised in income.

All other financial assets are classified at fair value through profit or loss. Said financial assets notably include financial assets held for trading, financial assets used at fair value through profit or loss and non-basic assets (non-SPPI). The designation at fair value through profit or loss option for financial assets only applies in the case of the elimination or significant reduction of an accounting treatment gap. This makes it possible to eliminate distortions arising from different valuation rules applied to instruments managed as part of the same strategy.

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.

As regards financial liabilities, the rules for classifying and assessing financial liabilities given in IAS 39 are adopted without change in IFRS 9, apart from those applicable to 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.

Impairment

Debt instruments classified as financial assets at amortised cost or financial assets at fair value through equity, financing commitments and financial guarantee contracts that are not recognised at fair value through profit or loss as well as receivables resulting from leases and trade receivables will systematically be the object of an impairment or an allowance for expected credit losses (ECL).

Impairments or provisions for expected credit losses will be recognised, in the case of financial instruments that have not been subject to objective indications of individual losses, on the basis of observed historical losses but also of reasonable and justifiable forecasts of discounted future cash flows. This more prospective approach to credit risk is already taken into account, in part, when collective provisions are currently recorded on homogeneous portfolios of financial assets in application of IAS 39. The financial assets concerned will be divided into three categories depending on the gradual deterioration of the credit risk observed since their initial recognition. An impairment will have to be recorded on the outstandings of each of these categories according to the following terms:

- Stage 1

There is no significant deterioration of the credit risk.

An impairment or provision 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.

The impairment or provision for credit risk will then be calculated on the basis of expected losses over the remaining life of the instrument (expected losses 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

There is objective evidence of impairment related to an event that characterises a counterparty risk and occurs after the initial recognition of the asset concerned. This category is equivalent to the scope of outstandings impaired individually under IAS 39.

The impairment or provision for credit risk will be calculated against the expected losses over the remaining life of the instrument (expected losses on termination).

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.

Moreover, the standard distinguishes assets impaired from their acquisition or origination (purchased or originated credit impaired, or POCI), which are financial assets acquired or created and impaired for credit risk on initial recognition. Upon initial recognition, an adjusted effective interest rate is calculated, which includes estimated recoverable cash flows. Subsequent impairments will be calculated by re-estimating the recoverable flows, the adjusted effective interest rate being fixed. In the case of a re-estimation of flows above the recoverable flows, a gain could be recognised in income.

Hedge accounting

IFRS 9 introduces a modified hedge accounting model to better align it with risk management.

Implementation

Since 2015, the management of the IFRS 9 programme has been structured around a Strategic Committee, which is cross-functional – including the risk and finance departments – and meets four times a year with most of the members of the BPCE Executive Management Committee. The Strategic Committee oversees the guidelines and decisions, defines the schedule of implementation and consolidates the programme's budget. The IFRS 9 programme also convenes, five times a year, a Steering Committee which includes the senior executives and corporate officers of the Caisses d'Epargne and Banques Populaires as well as those of the main subsidiaries (Crédit Foncier, Natixis). The Steering Committee oversees the operational guidelines and decisions in relation to the implementation of the standard. The Steering Committee also presents progress reports to the Committees on finance, risk, IT and transformation support, which are held every six weeks.

In addition, a comprehensive review of the implementation of the standard (progress, guidelines and options chosen) was presented to and discussed by BPCE's Audit Committee. Challenges in relation to the standard were also presented to the members of the Supervisory Board of BPCE and its main subsidiaries.

The work conducted in the second half of 2017 was mainly devoted to the finalisation of functional earnings at the various sites, general earnings, the preparation of the opening balance sheet (First Time Application), the finalisation of the work to calibrate the models, the measurement of the impacts of the impairments, the completion of documentation and the adaptation of processes as part of change management.

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 will be very 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 profit or loss because their contractual cash flows do not represent solely 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 at fair value and under a trading business 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 a trading business 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,
- Groupe BPCE has a portfolio of a few fixed-rate loans with symmetrical early repayment clauses. In an amendment to IFRS 9 published in October 2017, the IASB Board clarified that the possibility that an early redemption fee would be negative was not per se inconsistent with the notion of a basic financial instrument. The application of this amendment is mandatory from 1 January 2019, and an early application is possible. Groupe BPCE intends to apply this amendment in advance, at 1 January 2018, once the text is adopted by the European Commission;

- 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 could be different under IFRS 9 with a choice between a classification at amortised cost or at fair value through equity depending on whether they will be managed under a cash flow collection business model or under a cash flow collection and sales business 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 profit or loss due to their debt instrument nature under IFRS 9 and the characteristics of their contractual cash flows which do not solely represent repayments of the principal 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 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 equity,
  - securitisation units measured at amortised cost and classified as loans and advances in accordance with IAS 39, will be measured at fair value through profit or loss in accordance with IFRS 9 if their contractual cash flows do not represent solely repayments of principal and interest on the principal. They will be measured at fair value through equity if they are managed under a cash flow collection and sales business model, and would be held at amortised cost in other cases.

The reclassifications between categories of financial assets assessed at amortised cost and at fair value could potentially have a net impact on Groupe BPCE's consolidated equity owing to the difference in the method for assessing these assets and to the retrospective application of the standard. However, since these reclassifications are limited or affect assets whose fair value does not differ significantly from the value at cost, notably in view of the residual maturity of the transactions concerned, it is not expected that these reclassifications will have a material impact, in amount terms, on Groupe BPCE's opening equity at 1 January 2018.

Impairment

As previously stated, the credit risk impairment will be equal to the expected one-year or termination losses depending on the level of credit risk deterioration since the grant (stage 1 or stage 2 asset). A set of qualitative and quantitative criteria make it possible to evaluate this degradation of risk.

The existence of a significant increase in credit risk will be assessed on an individual basis taking into account all reasonable and justifiable information and comparing the risk of default on the financial instrument at the reporting date with the risk of default on the financial instrument at the date of initial recognition. This deterioration will have to be identified before the transaction is impaired (stage 3).

In order to assess whether there is a significant deterioration, the Palatine Group relies mainly on the system put in place by Groupe BPCE:

- for the Large Corporate, Corporate, Banks and Specialised Financing portfolios, the process adopted concerns rating changes since the grant. This quantitative criterion is accompanied by a set of qualitative criteria, including the classification of the contract as sensitive, the identification of a situation of forbearance or the registration of the third party in a Watch List;
- for the individual customers portfolio, the Palatine Group does not currently benefit from Groupe BPCE's internal rating system. The process adopted is based on qualitative criteria (past due payments, unsolved incidents, Watch List contract, forbearance) and predictive criteria (including incidents) to differentiate between stages 1 and 2, and uses a simplified matrix of probability of default.

The standard makes it possible to consider that the credit risk of a financial instrument has not increased significantly since initial recognition if the risk is considered low at the reporting date. This provision could be applied to certain investment grade-rated debt securities.

Financial instruments for which there is objective evidence of an impairment loss related to an event that characterises a counterparty risk and which occurs after initial recognition will be considered impaired and will fall under stage 3. The criteria for identifying impaired instruments are similar to those which are applicable pursuant to IAS 39 and are aligned with the one on default in the prudential sense.

The standard also requires the identification of amended contracts which are financial assets that are renegotiated, restructured or reorganised, whether or not in view of financial difficulties, and which do not give rise to derecognition. A profit or loss is recognised in the income statement in the event of an amendment. The gross carrying amount of the financial asset shall be recalculated so that it is equal to the discounted value of the renegotiated or amended contractual cash flows at the original effective interest rate. An analysis of the substantial nature of the amendments is however to be carried out on a case by case basis.

The treatment of restructuring as a result of financial difficulties should remain analogous to that applicable pursuant to IAS 39.

For assets in stages 1 or 2, expected credit losses (ECL) are calculated as the product of three parameters:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD), which notably depends on the contractual cash flows, the effective interest rate of the contract and the expected level of early redemption.

To define these parameters, the Group relies on the existing concepts and devices used notably for the internal models developed in the framework of the calculation of regulatory capital requirements and on the projection models used in the context of stress tests. Specific adjustments are made to take into account current conditions and prospective macroeconomic projections:

- however, the goal of the IFRS 9 parameters is to estimate as accurately as possible the losses within an accounting provisioning framework, while the prudential parameters are prudently scaled within a regulatory framework. Many of these margins of prudence are consequently restated;
- the IFRS 9 parameters must make it possible to estimate losses up to the maturity of the contract, while the prudential parameters are defined in order to estimate losses over a one-year period. The one-year parameters are projected across long-term periods;
- the IFRS 9 parameters must take into account the anticipated economic climate over the projected period (forward looking), while the prudential parameters correspond to average cycle estimates (for the PD) or low cycle estimates (for LGD and EAD). The prudential parameters are therefore also adjusted according to these forecasts on the economic climate.

The parameters thus defined make it possible to evaluate the credit losses of all rated exposures, whether they belong to a scope certified through the internal method or one treated as standard for the calculation of risk-weighted assets. In the case of unrated exposures, prudent default rules apply. The stakes are not significant for the Group.

The adjustment of the parameters in respect of the economic environment is done through the definition of reasonable and justifiable economic scenarios, associated with probabilities of occurrence and the calculation of a probable average credit loss. This adjustment mechanism requires the definition of models linking the IFRS 9 parameters to a set of economic variables. These models are based on those developed in the framework of the stress tests. The projection mechanism is also based on the budgetary process. Three economic scenarios (the budgetary scenario accompanied by optimistic and pessimistic views of this scenario), associated with probabilities, are thus defined over a three-year horizon in order to evaluate the probable economic loss. The scenarios and weights are defined using analyses from the Natixis economic research department and the expert judgement of the management.

Although most of the parameters are defined by the risk departments of BPCE and Natixis, other entities including Natixis Financement, BPCE International and certain institutions in the regions for their subsidiaries also contribute to the IFRS 9 Group provisioning mechanism. Institutions in the regions are also responsible for assessing the consistency of the provisioning level determined for the Group with regard to the local and sectoral characteristics of their portfolio and for defining additional sectoral provisions if necessary.

The IFRS 9 parameter validation system is fully integrated into the model validation system already in place within the Group. The validation of the parameters thus follows a review process involving the independent internal model validation unit, a review of this work by the Group Model Committee and monitoring of the recommendations issued by the validation unit. The validation work was planned to allow a review of the main calculation parameters prior to the first application of IFRS 9.

In summary, the new IFRS 9 provisioning model leads to an increase in the amount of impairments on loans and securities recognised in the balance sheet at amortised cost or at fair value through recyclable equity, and of off-balance sheet commitments and receivables arising from leases and trade receivables.

Calibration and validation work is still under way and a disclosure cannot be made in the financial statements at this stage.

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 continue to apply IAS 39 for the recognition of 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.

Furthermore, Regulation (EU) 2017/2395 of 12 December 2017 on transitional provisions to mitigate the impact of the introduction of IFRS 9 on capital and for the treatment of the significant risks of certain public sector exposures was published in the Official Journal of the European Union (OJEU) on 27 December 2017. Groupe BPCE decided not to opt for the transitional neutralisation of IFRS 9 impacts at the prudential level because of the moderate impacts anticipated.

New IFRS 15

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

The "Clarification of IFRS 15" amendment issued by the IASB on 12 April 2016 was adopted by the European Commission on 31 October 2017. It should also be possible to apply it retrospectively as of 1 January 2018.

According to this standard, the recognition of income from current activities will, from now on, have to reflect the transfer of control of goods and services the customers were promised for an amount corresponding to the consideration that the entity expects to receive in exchange for these goods and services. IFRS 15 thus introduces a new general approach to income recognition in five steps:

- identifying contracts with customers;
- identifying distinct performance obligations (or elements) to be recognised separately from each other;
- establishing the price of the transaction as a whole;
- allocating the price of the transaction to the different distinct performance obligations;
- recognising income when the performance obligations are met.

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 impact analysis work on the application of this new standard was initiated by the Group during the second half of 2016 and is currently being completed.

This work was based on self-assessments carried out in a few pilot institutions and subsidiaries in coordination with the Group accounting department, and subsequently transposed by all of the Group's significant institutions and subsidiaries. It made it possible to identify the main items concerned, notably:

- commission income, in particular that relating to banking services when this income is not included in the effective interest rate, or that relating to asset management or financial engineering services;
- income from other activities, notably in the case of integrated services provided under leases;
- banking services rendered with the participation of Group partners.

This work has also confirmed that the Group is only barely affected or not affected at all by certain issues relating to the first application of IFRS 15 identified in other banking institutions in the market such as property development, loyalty programmes or telephony.

On the basis of the work carried out, the Group does not anticipate significant impacts from the application of IFRS 15, either on opening equity as at 1 January 2018, or on income statement items for the 2018 financial year.

In accordance with the option offered by the provisions of IFRS 15, the Group does not anticipate providing any comparative information on its financial statements.

New IFRS 16

IFRS 16 “Leases” will replace IAS 17 “Leasing agreements” and the interpretations relating to the recognition of such agreements. It was adopted by the European Commission on 31 October 2017. It will become applicable at 1 January 2019.

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.

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

Conversely, IFRS 16 will require the lessee to recognise in the balance sheet leases in the form of a right to use the leased asset presented, as the case may be, under property, plant and equipment or investment property, and a rental liability. Rental liabilities correspond to the discounted value of lease payments that have not yet been paid. The Group plans to use the exception provided by the standard by not changing the accounting treatment of short-term leases (less than 12 months) or leases relating to low-value underlying assets (as-new unit value of €5,000 at most). The right of use will be amortised using the straight-line method and the rental liability actuarially over the term of the leasing agreement.

The expense related to rental debt will be included in the interest margin under net banking income while the amortisation expense of the right of use will be recognised as an operating expense.

The Group undertook impact analysis work on the application of this standard as soon as it was published by the IASB in early 2016. This work continued during the 2017 financial year and entered the analysis phase on the structuring choices to be made in terms of organisation and information systems.

In light of Groupe BPCE’s activities, the implementation of IFRS 16 will focus to a very large extent on real estate assets leased for operational purposes as offices and commercial branches. A significant impact is therefore expected on property, plant and equipment, without this modifying in itself the relatively low weight of fixed assets in the balance sheet total.

For the first-time application of this standard, the Group has chosen the amended retrospective method, by recognising the cumulative effect at 1 January 2019, without a comparison to the 2018 financial year, and by indicating in the appendix any impact of the standard on the different items in the financial statements.

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 2017, 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 2017. The Palatine Group’s consolidated financial statements for the period ended 31 December 2017 were approved by the Board of Directors on 8 February 2018. They will be presented to the annual general meeting on 22 May 2018.

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, more than 20% of the voting rights.

A joint venture is a joint arrangement whereby the parties that have joint control of the entity have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control over a company which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Equity accounting

Income, assets and liabilities of investments in associates and joint ventures are accounted for in the group’s consolidated financial statements using the equity method.

An investment in an associate or a joint venture is initially recognised at cost and adjusted thereafter for the group’s share in the income and other comprehensive income of the associate or joint venture.

The equity method is applied from the date on which the entity becomes an associate or a joint venture. On the acquisition of an associate or a joint venture, the difference between the cost of investment and the group’s share in the net fair value of the entity’s identifiable assets and liabilities is recognised as goodwill. When the net fair value of the entity’s identifiable assets and liabilities is higher than the cost of investment, the difference is recognised in income.

The share in net income of entities accounted for under the equity method is included in the group’s consolidated income.

When a group entity carries out a transaction with a group joint venture or associate, the profit and loss resulting from this transaction is recognised in interests held by third parties in the associate or joint venture.

The provisions of IAS 39 – Financial instruments: recognition and measurement are applied to determine whether an impairment test is required in respect of its investment in an associate or 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

Pursuant to revised IFRS 3 "Business Combinations" and revised IAS 27 "Consolidated and Separate Financial Statements":

- 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 are 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 prior 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.

When loans are granted at below market conditions, a discount corresponding to the difference between the nominal value of the loan and the sum of future cash flows, discounted at the market rate, is recognised as a reduction in the nominal value of the loan. The market rate is the rate used by the vast majority of institutions in the market at a given moment, for instruments and counterparties with similar characteristics.

In the event of restructuring following a loss-generating event pursuant to IAS 39, the loan is considered as an impaired outstanding and is discounted by an amount equal to the difference between the discounting of the initially expected contractual flows and the discounting of expected future flows of capital and interest following the restructuring. The discount rate used is the initial effective interest rate. This discount is expensed to the “Cost of risk” item 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. The restructured loan is reclassified as performing on the basis of an expert opinion when there is no more uncertainty about the borrower’s capacity to honour its commitments.

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 temporis 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 short term;
- 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 maximal 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 related to these instruments are recognised in "Net gains or losses on financial instruments at fair value through profit or loss".

Issues of debt securities

Issues of debt securities (which are 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 the case of a macro-coverage relation, the remeasurement of the component covered is broadly included in the item “Remeasurement gains and losses on interest rate risk-hedged portfolios”: on the assets side of the balance sheet when a portfolio of financial assets is hedged and on the liabilities side of the balance sheet when a portfolio of financial liabilities is hedged.

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 in the Group's financial statements.

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 (CMSs);
- Forward Rate Agreements (FRAs);
- 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);
- 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 whose fair value is determined on the basis of observable market data (for example: use of market data from comparable listed companies or earnings multiple method);
- 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;
- 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 customer loans portfolio: 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. 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 must 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 collective impairment: these are “triggering events” or “loss events” that indicate a counterparty risk and 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 Reclassification 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 be considered substantial, such as: a change of issuer (even within the same group) or a change of currencies.

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 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:

- construction, major works: 15 to 50 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 in the income statement for all financial instruments measured at amortised cost using the effective interest method, as well as interest income and expense related to available-for-sale financial assets and financing commitments, and accrued interest on hedging derivatives.

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 the reporting date. Any foreign currency gains and losses are recognised in income, except in the following two cases:

- only the portion of the foreign currency gains and losses calculated on the amortised cost of available-for-sale financial assets is recognised in income, with any additional gains and losses recognised in “Gains and losses recognised directly in other lines of comprehensive income”;
- foreign currency gains and losses arising on monetary items designated as cash flow hedges or as part of a net investment in a foreign operation are recognised in “Gains and losses recognised directly in other lines of comprehensive income”.

Non-monetary assets carried at historical cost are translated at the exchange rate ruling at the transaction date. Non-monetary assets held at fair value are measured at the exchange rate ruling at the reporting date. Any foreign currency gains and losses on non-monetary assets and liabilities are recognised in:

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

4.9 Employee benefits

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

4.9.1 Short-term employee benefits

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

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

4.9.2 Long-term employee benefits

Long-term employee benefits are generally linked to long-service awards accruing to current employees and payable 12 months or more after the reporting date. Long-service awards to employees are a major component.

A provision is set aside covering the amount of these obligations at the reporting date.

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

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 on the liabilities side of the balance sheet corresponds to the amount of the net commitment.

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.

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. For the deposit guarantee fund, the cumulative amount of contributions paid and available to the fund for deposit, guarantee and security mechanisms represents €8.8 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €2.2 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 €6.6 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 became 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 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 2017. The amount of contributions paid represents €4.1 million for the financial year including €3.5 million recognised as an expense and €0.6 million in the form of cash deposit guarantees that are recognised as assets in the balance sheet (15% in the form of cash deposit guarantees). The total contributions that are entered in the balance sheet assets amount to €1.7 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. 2017	31 Dec. 2016
Cash	8.0	4.2
Cash placed with central banks	166.6	321.4
TOTAL CASH AND NET BALANCE OF ACCOUNTS WITH CENTRAL BANKS	**174.6**	**325.6**

in millions of euros	31 Dec. 2017	31 Dec. 2016
Cash placed with central banks	0.1	0.0
TOTAL CASH PLACED WITH CENTRAL BANKS	**0.1**	**0.0**

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 portfolio consist of firm and conditional financial derivative instruments traded as part of Banque Palatine's position management activities.

	31 Dec. 2017	31 Dec. 2016
in millions of euros	**Trading**	**Trading**
Trading derivatives	138.4	178.6
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**138.4**	**178.6**

The "Trading derivatives" item includes derivatives with a positive fair value and which are economic hedging derivatives which do not meet the restrictive hedging criteria required by IAS 39.

The amount of this item is also reduced by the amount of value adjustments in respect of the CVA (Credit Valuation Adjustment), *i.e.* €0.1 million.

5.2.2 Financial liabilities at fair value through profit or loss

Financial liabilities in the trading book consist of firm and conditional derivatives.

in millions of euros	**31 Dec. 2017**	**31 Dec. 2016**
Trading derivatives	125.0	161.9
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**125.0**	**161.9**

The "Trading derivatives" item includes derivatives with a negative fair value and which are economic hedging derivatives which do not meet the restrictive hedging criteria required by IAS 39.

The amount of this item is also reduced by the amount of value adjustments of the derivatives portfolio as a whole (trading and hedging) in respect of the DVA (Debit Valuation Adjustment), however this amount is not material.

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.

in millions of euros	31 Dec. 2017 Notional	31 Dec. 2017 Positive fair value	31 Dec. 2017 Negative fair value	31 Dec. 2016 Notional	31 Dec. 2016 Positive fair value	31 Dec. 2016 Negative fair value
Interest rate instruments	4,045.5	39.3	33.9	3,945.0	54.3	48.4
Currency instruments	2,328.8	58.4	54.2	2,854.3	100.5	91.7
Futures and forwards	**6,374.3**	**97.7**	**88.1**	**6,799.3**	**154.8**	**140.1**
Interest rate instruments	2,978.0	5.5	1.7	3,756.9	6.6	4.6
Currency instruments	1,764.5	35.2	35.2	1,314.4	17.2	17.2
Options	**4,742.5**	**40.7**	**36.9**	**5,071.3**	**23.8**	**21.8**
TOTAL TRADING DERIVATIVES	**11,116.8**	**138.4**	**125.0**	**11,870.6**	**178.6**	**161.9**

Changes noted in fair value items on the asset side are recorded as liabilities since the instruments sold to customers are traded back to back. The increase in activity applies to both assets and liabilities.

5.3 Derivative hedging instruments

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.

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.

in millions of euros	31 Dec. 2017 Notional	31 Dec. 2017 Positive fair value	31 Dec. 2017 Negative fair value	31 Dec. 2016 Notional	31 Dec. 2016 Positive fair value	31 Dec. 2016 Negative fair value
Interest rate instruments	1,673.8	3.5	48.4	2,752.4	5.4	98.3
Futures and forwards	**1,673.8**	**3.5**	**48.4**	**2,752.4**	**5.4**	**98.3**
Fair value hedge	**1,673.8**	**3.5**	**48.4**	**2,752.4**	**5.4**	**98.3**
Interest rate instruments						
Futures and forwards						
Cash flow hedge						
TOTAL HEDGING DERIVATIVES	**1,673.8**	**3.5**	**48.4**	**2,752.4**	**5.4**	**98.3**

5.4 Financial assets available for sale

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. 2017	31 Dec. 2016
Treasury bills and similar securities	1,100.9	1,258.7
Bonds and other fixed-income securities	199.4	415.2
Impaired securities	0.0	0.0
Fixed-income securities	**1,300.3**	**1,673.9**
Equities and other variable-income securities	**26.4**	**28.6**
Loans to customers	0.0	0.1
Loans	**0.0**	**0.1**
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS, GROSS	**1,326.7**	**1,702.6**
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	**1,326.7**	**1,702.6**
Gains and losses recognised directly in equity on available-for-sale financial assets (before tax)	**7.2**	**9.9**

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 portfolio of available-for-sale financial assets decreased in FY 2017 due to sovereign or private securities maturing.

The change in “Gains and losses recognised directly in equity” mainly concerns the swapped assets securities for the unhedged portion.

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:

in millions of euros	31 Dec. 2017				31 Dec. 2016			
	Price quoted in an active market (level 1)	Valuation techniques using observable inputs (level 2)	Valuation techniques using unobservable inputs (level 3)	Total	Price quoted in an active market (level 1)	Valuation techniques using observable inputs (level 2)	Valuation techniques using unobservable inputs (level 3)	Total
FINANCIAL ASSETS								
Derivatives	0.0	138.4	0.0	138.4	0.0	178.6	0.0	178.6
Interest-rate derivatives	*0.0*	*44.8*	*0.0*	*44.8*	*0.0*	*60.8*	*0.0*	*60.8*
Currency derivatives	*0.0*	*93.6*	*0.0*	*93.6*	*0.0*	*117.7*	*0.0*	*117.7*
Financial assets held for trading	**0.0**	**138.4**	**0.0**	**138.4**	**0.0**	**178.6**	**0.0**	**178.6**
Interest-rate derivatives	*0.0*	*3.5*	*0.0*	*3.5*	*0.0*	*5.4*	*0.0*	*5.4*
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**	**3.5**	**0.0**	**3.5**	**0.0**	**5.4**	**0.0**	**5.4**
Investments in unconsolidated subsidiaries	0.0	0.0	4.7	4.7	0.0	0.0	4.3	4.3
Other securities	1,301.8	18.7	1.4	1,321.9	1,676.5	20.7	1.0	1,698.2
Fixed-income securities	*1,300.2*	*0.0*	*0.0*	*1,300.2*	*1,674.0*	*0.0*	*0.0*	*1,674.0*
Variable-income securities	*1.5*	*18.7*	*1.4*	*21.7*	*2.6*	*20.7*	*1.0*	*24.2*
Other financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Available-for-sale financial assets	**1,301.8**	**18.7**	**6.2**	**1,326.7**	**1,676.5**	**20.7**	**5.4**	**1,702.6**
FINANCIAL LIABILITIES								
Derivatives	0.0	125.0	0.0	125.0	0.0	161.9	0.0	161.9
Interest-rate derivatives	*0.0*	*35.6*	*0.0*	*35.6*	*0.0*	*53.0*	*0.0*	*53.0*
Currency derivatives	*0.0*	*89.5*	*0.0*	*89.5*	*0.0*	*108.9*	*0.0*	*108.9*
Financial liabilities held for trading	**0.0**	**125.0**	**0.0**	**125.0**	**0.0**	**161.9**	**0.0**	**161.9**
Interest-rate derivatives	*0.0*	*48.4*	*0.0*	*48.4*	*0.0*	*98.3*	*0.0*	*98.3*
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**	**48.4**	**0.0**	**48.4**	**0.0**	**98.3**	**0.0**	**98.3**

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

in millions of euros	31 Dec. 2016	Gains and losses recognised in income during the period on transactions still outstanding at the reporting date	Management events during the period: Purchases/ issues	Management events during the period: Sales/ repayments	31 Dec. 2017
FINANCIAL ASSETS					
Investments in unconsolidated subsidiaries	4.3		0.4	(0.0)	4.7
Other securities	1.0		0.4		1.4
Fixed-income securities					
Variable-income securities	*1.0*		*0.4*		*1.4*
Other financial assets	0.1			(0.1)	0.0
Available-for-sale financial assets	**5.4**		**0.8**	**(0.1)**	**6.2**

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 of 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. 2017	31 Dec. 2016
Loans and advances due from credit institutions	3,601.6	4,149.5
TOTAL LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS	**3,601.6**	**4,149.5**

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. 2017	31 Dec. 2016
Current accounts with overdrafts	18.9	45.3
Accounts and loans	3,576.1	4,097.7
Securities classified as loans and advances	4.1	4.0
Subordinated and participating loans	2.5	2.5
Impaired loans and advances	0.0	0.0
TOTAL GROSS LOANS AND ADVANCES DUE FROM CREDIT INSTITUTIONS	**3,601.6**	**4,149.5**

Livret A and LDD savings accounts centralised with Caisse des dépôts et consignations and recorded under “Loans and advances” amounted to €257.1 million at 31 December 2017 (€253.1 million at 31 December 2016).

5.6.2 Loans and advances due from customers

in millions of euros	31 Dec. 2017	31 Dec. 2016
Loans and advances due from customers	9,491.0	8,849.8
Specific impairments	(255.8)	(285.0)
Collective impairments	(13.8)	(13.0)
TOTAL LOANS AND ADVANCES DUE FROM CUSTOMERS	**9,221.4**	**8,551.8**

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. 2017	31 Dec. 2016
Current accounts with overdrafts	**592.6**	**489.0**
Loans to financial customers	0.0	0.0
Trade receivables	173.7	188.7
Short-term loans	1,447.3	1,303.2
Equipment loans	2,027.0	1,782.1
Home loans	1,971.2	1,875.8
Export loans	78.3	72.6
Other loans	2,205.5	2,150.7
Subordinated loans	2.5	3.4
Other facilities granted to customers	**7,905.5**	**7,376.5**
Other loans and advances due from customers	**0.0**	**0.0**
Securities classified as loans and advances	**429.0**	**416.8**
Securities classified as doubtful loans and advances	**6.1**	**6.5**
Impaired loans and advances	**557.8**	**561.0**
TOTAL GROSS LOANS AND ADVANCES DUE FROM CUSTOMERS	**9,491.0**	**8,849.8**

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

This item records changes in the fair value of assets or liabilities that are subject to overall interest rate hedging.

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. 2017	31 Dec. 2016
Treasury bills and similar securities	0.0	10.2
Bonds and other fixed-income securities	0.0	40.8
Gross amount of the held-to-maturity investments	**0.0**	**51.0**
TOTAL HELD-TO-MATURITY INVESTMENTS	**0.0**	**51.0**

All investment securities matured in 2017.

5.8 Reclassification 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 has taken place since then.

Portfolio of reclassified financial assets

in millions of euros	Carrying amount at the reclassification date	Carrying amount at 31 December 2016	Carrying amount at 31 December 2017	Change in 2017	Fair value at 31 December 2016	Fair value at 31 December 2017	Change in 2017
Assets reclassified in 2009							
Available-for-sale financial assets reclassified as loans and receivables	22.8	4.7	4.5	(0.2)	4.7	6.3	1.6
TOTAL SECURITIES RECLASSIFIED IN 2009	**22.8**	**4.7**	**4.5**	**(0.2)**	**4.7**	**6.3**	**1.6**
Assets reclassified between 2010 and 2017							
TOTAL SECURITIES RECLASSIFIED BETWEEN 2010 AND 2017	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL FINANCIAL ASSETS RECLASSIFIED	**22.8**	**4.7**	**4.5**	**(0.2)**	**4.7**	**6.3**	**1.6**

The table contains a non-material modification of data certified by the auditors on the opening as at 31 December 2016.

Results and changes in equity in 2017 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	0.3	0.3
TOTAL RESULTS RELATED TO RECLASSIFIED FINANCIAL ASSETS	**0.3**	**0.3**

Gains and losses recognised directly in equity on transferred financial assets amounted to a net loss of €2.6 million at 31 December 2017.

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

in millions of euros	FY 2017	FY 2016
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. 2017	31 Dec. 2016
Provisions for employee benefit obligations	4.3	4.5
Provisions for regulated home savings products	1.0	1.1
Other non-deductible provisions	5.2	6.9
Fair value of financial instruments with changes recognised in other comprehensive income	(1.6)	(2.4)
Other temporary differences	5.5	5.5
Deferred tax assets and liabilities related to temporary differences	**14.3**	**15.6**
Deferred taxes arising from the IFRS valuation model	**(3.9)**	**(5.1)**
Deferred tax assets and liabilities on consolidation adjustments and eliminations	**0.4**	**0.5**
NET DEFERRED TAXES	**10.8**	**11.0**
Recognised		
As an asset	12.6	13.6
As a liability	(1.8)	(2.6)

5.10 Accrued income and other assets

in millions of euros	31 Dec. 2017	31 Dec. 2016
Collection accounts	27.8	28.7
Prepaid expenses	4.2	4.1
Accrued income	20.4	18.0
Other accrual accounts	54.9	45.8
ACCRUAL ACCOUNTS – ASSETS	**107.3**	**96.6**
Security deposits paid	4.7	3.4
Miscellaneous debtors	118.9	194.2
SUNDRY ASSETS	**123.6**	**197.6**
TOTAL ACCRUED INCOME AND OTHER ASSETS	**230.9**	**294.2**

At 31 December 2017, miscellaneous debtors chiefly include margin calls on financial instruments for €101 million against €183.5 million at 31 December 2016.

5.11 Non-current assets held for sale and related liabilities

None.

5.12 Investment property

in millions of euros	31 Dec. 2017 Gross	31 Dec. 2017 Accumulated depreciation and impairment	31 Dec. 2017 Net	31 Dec. 2016 Gross	31 Dec. 2016 Accumulated depreciation and impairment	31 Dec. 2016 Net
Property recognised at historical cost	0.4	(0.1)	0.3	0.4	(0.1)	0.3
TOTAL INVESTMENT PROPERTY	**0.4**	**(0.1)**	**0.3**	**0.4**	**(0.1)**	**0.3**

5.13 Non-current assets

in millions of euros	31 Dec. 2017 Gross	31 Dec. 2017 Accumulated depreciation and impairment	31 Dec. 2017 Net	31 Dec. 2016 Gross	31 Dec. 2016 Accumulated depreciation and impairment	31 Dec. 2016 Net
PROPERTY, PLANT AND EQUIPMENT						
Land and buildings	19.0	(14.8)	4.2	21.0	(16.6)	4.4
Equipment, furniture and other property, plant and equipment	33.1	(20.2)	12.9	47.3	(33.3)	14.0
TOTAL PROPERTY, PLANT AND EQUIPMENT	**52.1**	**(35.0)**	**17.1**	**68.3**	**(49.9)**	**18.4**
INTANGIBLE ASSETS						
Leasehold rights	11.8	(1.3)	10.5	11.8	(1.1)	10.7
Software	40.8	(30.6)	10.2	34.8	(24.7)	10.1
Other intangible assets	6.3	0.0	6.3	4.3	0.0	4.3
TOTAL INTANGIBLE ASSETS	**58.9**	**(31.9)**	**27.0**	**50.9**	**(25.8)**	**25.1**

5.14 Goodwill

This item reflects goodwill on fully-consolidated entities.

in millions of euros	31 Dec. 2017	31 Dec. 2016
Net value at beginning of period	**3.1**	**3.1**
Goodwill at end of period, net	**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 9.5%;
- perpetual growth rate of 2.0%.

Sensitivity of the recoverable amounts

Analyses of the sensitivity are given in the statement below:

	Carrying amount	
in millions of euros	**31 Dec. 2017**	**31 Dec. 2016**
Ariès Assurances	3.1	3.1
TOTAL GOODWILL	**3.1**	**3.1**

In view of the key assumptions used, these tests did not result in the Palatine Group recognising an impairment for the 2017 financial year.

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. 2017**	**31 Dec. 2016**
Demand accounts	70.7	364.4
Accrued interest	0.0	0.1
AMOUNTS DUE TO CREDIT INSTITUTIONS - REPAYABLE ON DEMAND	**70.7**	**364.5**
Term deposits and loans	2,017.3	2,318.6
Accrued interest	0.7	4.3
AMOUNTS DUE TO CREDIT INSTITUTIONS - REPAYABLE AT AGREED MATURITY DATES	**2,018.0**	**2,322.9**
TOTAL AMOUNTS DUE TO CREDIT INSTITUTIONS	**2,088.7**	**2,687.4**

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. 2017	31 Dec. 2016
Current accounts in credit	**6,910.6**	**6,930.1**
Livret A savings accounts	179.9	175.4
Regulated home savings products	231.5	263.8
Other regulated savings accounts	634.7	556.2
Regulated savings accounts	**1,046.1**	**995.4**
Demand accounts and loans	5.9	3.3
Term accounts and loans	420.9	1,061.5
Accrued interest	1.0	1.4
Other customer accounts	**427.8**	**1,066.2**
TOTAL AMOUNTS DUE TO CUSTOMERS	**8,384.5**	**8,991.7**

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

The decrease observed in 2017 is mainly due to the maturity of €550 million in term loans.

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. 2017	31 Dec. 2016
Interbank market instruments and negotiable debt securities	2,906.9	2,249.8
Accrued interest	(1.5)	0.8
TOTAL DEBT SECURITIES	**2,905.4**	**2,250.6**

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

This rise is due to an increase in the number of outstanding Certificates of Deposit, the funds for which stem from the reduced number of remunerated demand accounts.

5.17 Accrued expenses and other liabilities

in millions of euros	31 Dec. 2017	31 Dec. 2016
Collection accounts	52.4	40.1
Prepaid income	3.1	2.6
Accrued expenses	38.5	36.8
Other accrual accounts	10.4	38.7
ACCRUAL ACCOUNTS - LIABILITIES	**104.4**	**118.2**
Settlement accounts in credit on securities transactions	0.2	0.6
Guarantee deposits received	0.3	0.3
Sundry creditors	24.5	28.5
OTHER LIABILITIES	**25.0**	**29.4**
TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES	**129.4**	**147.6**

At 31 December 2017, the “Other accrual accounts” line mainly represents the amounts entered in suspense accounts, before interface in the management modules.

5.18 Provisions

in millions of euros	31 Dec. 2016	Increase	Use	Reversal	Other movements	31 Dec. 2017
Provisions for employee benefit obligations	**22.9**	**1.0**	**0.0**	**(0.3)**	**0.7**	**24.3**
Provisions for regulated home savings products	3.3	0.0	0.0	(0.5)	0.0	2.8
Provisions for off-balance sheet commitments	15.6	12.3	0.0	(3.3)	(0.1)	24.5
Provisions for litigation	3.1	3.0	(0.8)	(1.0)	0.0	4.3
Other	3.2	0.5	0.0	(0.8)	0.0	2.9
Other provisions	**25.2**	**15.8**	**(0.8)**	**(5.6)**	**(0.1)**	**34.5**
TOTAL PROVISIONS	**48.1**	**16.8**	**(0.8)**	**(5.9)**	**0.6**	**58.8**

The €0.7 million recorded in the “Other movements” column corresponds to the reclassification as a provision of the commitment relating to the time savings account (CET) previously recorded in accrued expenses, in the amount of €0.3 million, and to the flow of termination benefits recognised in OCI, in the amount of €0.4 million, at 31 December 2017.

5.18.1 Deposits collected via regulated home savings products

in millions of euros	31 Dec. 2017	31 Dec. 2016
Deposits held in PEL regulated home savings plans		
plans in place for less than 4 years	15.4	97.5
plans in place for more than 4, but less than 10 years	105.7	29.0
plans in place for more than 10 years	98.9	123.0
Deposits collected via PEL regulated home savings plans	**220.0**	**249.5**
Deposits collected via CEL regulated home savings accounts	**17.5**	**18.2**
TOTAL DEPOSITS COLLECTED VIA REGULATED HOME SAVINGS PRODUCTS	**237.5**	**267.7**

5.18.2 Loans granted via home savings products

in millions of euros	31 Dec. 2017	31 Dec. 2016
Loans granted for PEL regulated home savings plans	0.0	0.1
Loans granted under CEL regulated home savings accounts	0.2	0.2
TOTAL LOANS GRANTED VIA HOME SAVINGS PRODUCTS	**0.2**	**0.3**

5.18.3 Provisions set aside for regulated home savings products

in millions of euros	31 Dec. 2017	Charges/ Net reversals	31 Dec. 2016
Provisions for PEL regulated home savings plans			
plans in place for less than 4 years	0.2	(0.7)	0.9
plans in place for more than 4, but less than 10 years	0.6	0.5	0.1
plans in place for more than 10 years	1.8	(0.4)	2.2
Provisions for PEL regulated home savings plans	**2.6**	**(0.6)**	**3.2**
Provisions for CEL regulated home savings accounts	**0.2**	**0.1**	**0.1**
TOTAL PROVISIONS SET ASIDE FOR REGULATED HOME SAVINGS PRODUCTS	**2.8**	**(0.5)**	**3.3**

5.19 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.

in millions of euros	31 Dec. 2017	31 Dec. 2016
Term subordinated debt	200.0	165.0
Accrued interest	0.2	0.7
TOTAL SUBORDINATED DEBT	**200.2**	**165.7**

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	Issue currency	Issue date	Maturity date	Interest rate	Amount at 31 Dec. 2017
BPCE	EUR	07 Dec. 2015	08 Dec. 2025	3-month Euribor + 2.29%	150.2
BPCE	EUR	22 Dec. 2017	22 Dec. 2027	3-month Euribor + 0.97%	50.0
TOTAL TERM SUBORDINATED DEBT					**200.2**

5.20 Ordinary shares and equity instruments issued

5.20.1 Ordinary shares

in millions of euros	31 Dec. 2017			31 Dec. 2016		
	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

The Palatine Group does not have outstanding perpetual deeply subordinated notes.

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	FY 2017	FY 2016
Remeasurement gains and losses on defined-benefit plans	(0.4)	0.3
Tax impact of remeasurement gains and losses on defined-benefit plans	0.0	(0.2)
Items that cannot be reclassified in income	**(0.4)**	**0.1**
Change in the value of available-for-sale financial assets	**(2.4)**	**10.2**
Change in value over the period affecting equity	*(0.2)*	*10.4*
Change in value over the period affecting income	*(2.2)*	*(0.2)*
Changes in the value of hedging derivatives	**0.0**	**0.4**
Change in value over the period affecting equity	*0.0*	*0.4*
Income taxes	**0.6**	**(3.2)**
Items that can be reclassified in income	**(1.8)**	**7.4**
GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER ITEMS OF COMPREHENSIVE INCOME (NET OF TAX)	**(2.2)**	**7.5**

In thousands of euros	FY 2017 Gross	FY 2017 Income taxes	FY 2017 Net	FY 2016 Gross	FY 2016 Income taxes	FY 2016 Net
Remeasurement gains and losses on defined-benefit plans	(0.4)	0.0	(0.4)	0.3	(0.2)	0.1
Items that cannot be reclassified in income	**(0.4)**	**0.0**	**(0.4)**	**0.3**	**(0.2)**	**0.1**
Change in the value of available-for-sale financial assets[1]	(2.4)	0.6	(1.8)	10.2	(3.0)	7.2
Changes in the value of hedging derivatives	0.0	0.0	0.0	0.4	(0.1)	0.3
Items that can be reclassified in income	**(2.4)**	**0.6**	**(1.8)**	**10.6**	**(3.2)**	**7.4**
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER LINES OF COMPREHENSIVE INCOME (NET OF TAXES)	**(2.8)**	**0.6**	**(2.2)**	**10.9**	**(3.4)**	**7.5**
Attributable to equity holders of the parent	(2.8)	0.6	(2.2)	10.9	(3.4)	7.5
Non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0

(1) Of which €0.1 million reclassified as income at 31 December 2017 against €1.1 million reclassified as income at 31 December 2016.

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)”.

5.23.1 Financial assets

Financial assets under netting arrangements not offset on the balance sheet

in millions of euros	31 Dec. 2017 Net amount of financial assets presented on the balance sheet	31 Dec. 2017 Associated financial liabilities and financial instruments received as collateral	31 Dec. 2017 Margin calls received (cash collateral)	31 Dec. 2017 Net exposure	31 Dec. 2016 Net amount of financial assets presented on the balance sheet	31 Dec. 2016 Associated financial liabilities and financial instruments received as collateral	31 Dec. 2016 Margin calls received (cash collateral)	31 Dec. 2016 Net exposure
Derivatives	28.1	27.0	1.0	0.1	34.4	29.5	1.8	3.1
TOTAL FINANCIAL ASSETS UNDER NETTING ARRANGEMENTS NOT OFFSET ON THE BALANCE SHEET	**28.1**	**27.0**	**1.0**	**0.1**	**34.4**	**29.5**	**1.8**	**3.1**

5.23.2 Financial liabilities

Financial liabilities under netting agreements not offset on the balance sheet

in millions of euros	31 Dec. 2017 Net amount of financial liabilities presented on the balance sheet	31 Dec. 2017 Associated financial assets and financial instruments pledged as collateral	31 Dec. 2017 Margin calls paid (cash collateral)	31 Dec. 2017 Net exposure	31 Dec. 2016 Net amount of financial liabilities presented on the balance sheet	31 Dec. 2016 Associated financial assets and financial instruments pledged as collateral	31 Dec. 2016 Margin calls paid (cash collateral)	31 Dec. 2016 Net exposure
Derivatives	89.2	27.0	57.1	5.1	145.7	29.5	112.0	4.3
TOTAL FINANCIAL LIABILITIES UNDER NETTING ARRANGEMENTS NOT OFFSET ON THE BALANCE SHEET	**89.2**	**27.0**	**57.1**	**5.1**	**145.7**	**29.5**	**112.0**	**4.3**

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.

	FY 2017			FY 2016		
In thousands of euros	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Loans and advances due from/to customers	208.1	(19.8)	188.3	215.8	(24.4)	191.4
Transactions with customers (excl. regulated savings accounts)	*207.6*	*(9.7)*	*197.9*	*215.3*	*(13.0)*	*202.3*
Term deposits and loans in regulated savings accounts	*0.5*	*(10.1)*	*(9.6)*	*0.5*	*(11.4)*	*(10.9)*
Loans and advances due from/to credit institutions	37.2	(11.1)	26.1	39.9	(14.2)	25.7
Debt securities and subordinated debt		(5.9)	(5.9)		(5.8)	(5.8)
Hedging derivatives	14.0	(43.5)	(29.5)	11.2	(53.8)	(42.6)
Available-for-sale financial assets	27.6	0.0	27.6	36.0	0.0	36.0
Held-to-maturity investments	0.3	0.0	0.3	0.9	0.0	0.9
Impaired financial assets	4.5	0.0	4.5	5.6	0.0	5.6
TOTAL INTEREST INCOME AND EXPENSE	**291.7**	**(80.3)**	**211.4**	**309.4**	**(98.2)**	**211.2**

In a context of continued renegotiation of customer loans and interbank rates which are still very low, interest income decreased by €17.7 million between 31 December 2016 and 31 December 2017.

The amount of accrued interest on impaired assets (accretion) stood at €4.5 million at 31 December 2017.

Interest income on loans and advances from credit institutions comprises €2.6 million collected in 2017 and 2016 on the Livret A, LDD and LEP passbook savings accounts deposited centrally with Caisse des dépôts et consignations.

The decrease in interest expense had a €10.3 million impact on interest on derivative hedging instruments, mainly due to hedged securities maturing during the year.

Expenses on amounts due to customers decreased by €4.6 million, mainly due to lower interest payments on interest on current accounts in credit.

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".

	FY 2017			FY 2016		
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
Customer transactions	37.2	0.0	37.2	36.0	0.0	36.0
Financial services	4.7	(7.6)	(2.9)	4.4	(6.6)	(2.2)
Sales of life insurance products	12.3		12.3	12.7		12.7
Payment services	11.4	(6.0)	5.4	11.1	(6.3)	4.8
Securities transactions	2.2	(0.2)	2.0	1.8	(0.1)	1.7
Fiduciary and trust activities	37.2	0.0	37.2	37.4	0.0	37.4
Foreign exchange and arbitrage transactions	0.3	0.0	0.3	0.3	0.0	0.3
Other fee and commission income	5.2	(0.1)	5.1	4.4	(0.2)	4.2
TOTAL FEES AND COMMISSION	**110.6**	**(14.0)**	**96.6**	**108.2**	**(13.3)**	**94.9**

6.3 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	**FY 2017**	**FY 2016**
Gains and losses on financial instruments held for trading	15.4	25.8
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	*36.0*	*32.6*
Change in fair value of hedged items attributable to hedged risks	*(36.0)*	*(32.6)*
Gains and losses on foreign exchange transactions	**(1.9)**	**(12.8)**
TOTAL NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**13.5**	**13.0**

The line "Gains and losses on financial instruments held for trading" included for 2017 a change in:

- economic hedging derivatives which do not meet the restrictive hedging criteria required by IAS 39;
- enhanced derivatives of which €1 million was attributable to counterparty risk adjustments (Credit Valuation Adjustment – CVA), and €0.2 million was attributable to the risk of non-performance of the valuation of the liability derivatives (Debit Valuation Adjustment – DVA).

6.4 Gains or losses on financial assets available for sale

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	FY 2017	FY 2016
Net gain/(loss) on disposal	(1.3)	1.1
Dividends received	0.1	0.1
TOTAL NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**(1.2)**	**1.2**

6.5 Income and expense from other activities

This item mainly comprises:

- income and expense on investment property (rental income and expense, gains and losses on disposals, depreciation and impairment);
- miscellaneous operating income and expense.

	FY 2017			FY 2016		
in millions of euros	Income	Expense	Net	Income	Expense	Net
Income/(loss) on disposal of investment property	1.1	0.0	1.1	0.0	0.0	0.0
Income and expense on investment property	**1.1**	**0.0**	**1.1**	**0.0**	**0.0**	**0.0**
Transfers of expenses and income	0.2	(1.5)	(1.3)	0.2	(1.3)	(1.1)
Other miscellaneous operating income and expense	1.7	(1.4)	0.3	0.4	(2.2)	(1.8)
Additions to and reversals of provisions to other operating income and expense	0.0	(1.1)	(1.1)	0.0	0.7	0.7
Other banking income and expense	**1.9**	**(4.0)**	**(2.1)**	**0.6**	**(2.8)**	**(2.2)**
TOTAL INCOME AND EXPENSE FROM OTHER ACTIVITIES	**3.0**	**(4.0)**	**(1.0)**	**0.6**	**(2.8)**	**(2.2)**

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	FY 2017	FY 2016
PAYROLL COSTS	**(125.9)**	**(122.5)**
Taxes, levies and regulatory contributions	(10.6)	(10.7)
External services	(58.2)	(55.1)
OTHER ADMINISTRATIVE EXPENSES	**(68.8)**	**(65.8)**
TOTAL OPERATING EXPENSES	**(194.7)**	**(188.3)**

Taxes, levies and regulatory contributions notably include the contribution to the Single Resolution Fund (SRF) for an annual amount of €3.5 million (compared to €3 million in 2016) and the systemic risk tax for banks (TSB) for an annual amount of €1.6 million (compared to €1.9 million in 2016).

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	FY 2017	FY 2016
Net impairment losses and provisions	(37.3)	(47.3)
Recoveries of bad debts written off	1.3	1.9
Unrecoverable loans and receivables not covered by impairment losses	(3.5)	(0.6)
TOTAL COST OF RISK	**(39.5)**	**(46.0)**

Cost of risk by type of asset

in millions of euros	FY 2017	FY 2016
Interbank transactions	0.0	0.2
Customer transactions	(39.5)	(46.2)
Other financial assets	0.0	0.0
TOTAL COST OF RISK	**(39.5)**	**(46.0)**

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 2017.

6.9 Changes in the value of goodwill

No change in value was recorded over the 2017 financial year.

6.10 Income tax

6.10.1 Analysis of income tax

in millions of euros	FY 2017	FY 2016
Current income tax	(27.1)	(25.6)
Deferred income tax	(0.9)	(1.7)
INCOME TAX	**(28.0)**	**(27.3)**

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

	FY 2017		FY 2016	
	In millions of euros	Tax rate	In millions of euros	Tax rate
Net income attributable to equity holders of the parent	45.9		46.3	
Changes in the value of goodwill	0.0		0.0	
Share in net income of associates	(0.6)		(0.7)	
Income taxes	28.0		27.3	
Income before tax and changes in the value of goodwill (A)	**73.3**		**72.9**	
Standard income tax rate in France (B)		**34.43%**		**34.43%**
Theoretical income tax expense/(benefit) at the tax rate applicable in France (A × B)	**(25.2)**		**(25.1)**	
Impact of permanent differences	(2.2)	2.98%	(0.6)	0.82%
Reduced rate of tax and tax-exempt activities	0.0	(0.04%)	0.0	0.00%
Difference in tax rates on income taxed abroad		0.00%		0.00%
Temporary step-up in corporate tax	0.0	0.00%	0.0	0.00%
Tax on prior periods, tax credits and other taxes	(0.6)	0.81%	(0.2)	0.26%
Other items	(0.1)	0.09%	(1.4)	1.95%
Income tax expense/(benefit) recognised	**(28.0)**		**(27.3)**	
EFFECTIVE TAX RATE (INCOME TAX EXPENSE DIVIDED BY TAXABLE INCOME)		**38.20%**		**37.45%**

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 section on Risk Management - 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.

	Performing loans	Doubtful loans	Impairment losses and provisions	Net loans at 31 Dec. 2017	Net loans at 31 Dec. 2016
Financial assets at fair value through profit or loss (excluding variable-income securities)	138.4			138.4	178.6
Hedging derivatives	3.5			3.5	5.4
Available-for-sale financial assets (excluding variable-income securities)	1,300.3	0.0	0.0	1,300.3	1,673.9
Loans and advances due from credit institutions	3,601.6	0.0	0.0	3,601.6	4,149.5
Loans and advances due from customers	8,927.2	563.8	(269.6)	9,221.4	8,551.8
Held-to-maturity investments	0.0	0.0	0.0	0.0	51.0
EXPOSURE TO BALANCE SHEET COMMITMENTS	**13,971.0**	**563.8**	**(269.6)**	**14,265.2**	**14,610.2**
Financial guarantees given	1,053.6	59.7	0.0	1,113.2	1,072.8
Off-balance sheet commitments	1,727.1	13.9	(18.8)	1,722.3	1,863.2
EXPOSURE TO OFF-BALANCE SHEET COMMITMENTS	**2,780.7**	**73.6**	**(18.8)**	**2,835.5**	**2,936.0**
GLOBAL EXPOSURE TO CREDIT RISK AND COUNTERPARTY RISK	**16,751.7**	**637.4**	**(288.4)**	**17,100.7**	**17,546.2**

7.1.3 Impairments and provisions for credit risk

in millions of euros	31 Dec. 2016	Charges	Reversals	Other changes	31 Dec. 2017
Available-for-sale financial assets	0.0	0.0	0.0	0.0	0.0
Customer transactions	298.0	57.5	(86.0)	0.1	269.6
Other financial assets	0.4	0.0	0.0	0.0	0.4
IMPAIRMENT LOSSES RECOGNISED IN ASSETS	**298.4**	**57.5**	**(86.0)**	**0.1**	**270.0**
PROVISIONS FOR OFF-BALANCE SHEET COMMITMENTS	**15.6**	**12.2**	**(3.3)**	**(0.1)**	**24.4**
TOTAL IMPAIRMENT LOSSES AND PROVISIONS FOR CREDIT RISK	**314.0**	**69.7**	**(89.3)**	**0.0**	**294.4**

The item “Other changes” includes a reclassification of interest provisions to capital provisions resulting from the capitalisation of interest due for €0.1 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 ≤ 90 days past due	Impaired outstandings (net)	Total outstandings
Loans and advances	102.7	308.1	410.8
TOTAL AT 31 DEC. 2017	**102.7**	**308.1**	**410.8**

in millions of euros	Unimpaired outstandings ≤ 90 days past due	Impaired outstandings (net)	Total outstandings
Loans and advances	60.3	282.5	342.8
TOTAL AT 31 DEC. 2016	**60.3**	**282.5**	**342.8**

7.1.5 Credit risk reduction 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 2017.

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 months inclusive	1 to 3 months inclusive	3 to 12 months inclusive	1 to 5 years inclusive	Over 5 years	Indeterminate	Total
Cash, central banks		174.6	0.0					174.6
Financial assets at fair value through profit or loss - trading	138.4							138.4
Hedging derivatives	3.5							3.5
Available-for-sale financial assets	3.0	89.4	55.2	261.1	870.3	43.0	5.2	1,326.7
Loans and advances due from credit institutions	0.0	1,649.3	144.2	491.9	1,291.8	24.4	0.0	3,601.6
Loans and advances due from customers	322.4	1,233.9	566.1	990.7	3,678.6	2,429.8	0.0	9,221.4
Remeasurement gains and losses on interest rate risk-hedged portfolios	6.8							6.8
Held-to-maturity investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL FINANCIAL ASSETS BY MATURITY	**474.0**	**3,147.2**	**765.5**	**1,743.6**	**5,840.7**	**2,497.2**	**5.2**	**14,473.5**
Cash placed with central banks		0.1	0.0					0.1
Financial liabilities at fair value through profit or loss – trading	125.0							125.0
Hedging derivatives	48.4							48.4
Amounts due to credit institutions	10.0	111.4	252.7	650.8	1,012.1	51.7	0.0	2,088.7
Amounts due to customers	0.0	7,903.2	20.4	101.4	359.5	0.0	0.0	8,384.5
Subordinated debt	0.0	0.2	0.0	0.0	0.0	200.0	0.0	200.2
Debt securities	0.0	285.0	383.0	2,136.7	28.7	71.9	0.0	2,905.4
Remeasurement gains and losses on interest rate risk-hedged portfolios	4.1							4.1
TOTAL FINANCIAL LIABILITIES BY MATURITY	**187.6**	**8,299.9**	**656.1**	**2,888.9**	**1,400.2**	**323.6**	**0.0**	**13,756.4**
Financing commitments given to customers		245.4	59.4	35.5	1,386.6	0.3	13.9	1,741.1
TOTAL FINANCING COMMITMENTS GIVEN BY MATURITY		**245.4**	**59.4**	**35.5**	**1,386.6**	**0.3**	**13.9**	**1,741.1**
Guarantee commitments given to credit institutions		28.9	26.4	17.1	0.6	0.8	0.0	73.7
Guarantee commitments given to customers		38.6	37.2	94.1	203.9	606.2	59.7	1,039.5
TOTAL GUARANTEE COMMITMENTS GIVEN BY MATURITY		**67.4**	**63.6**	**111.1**	**204.5**	**606.9**	**59.7**	**1,113.3**

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 Shares 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. 2017	31 Dec. 2016
Conservateur Finance	3.5	3.3
Financial companies	**3.5**	**3.3**
TOTAL INVESTMENTS IN ASSOCIATES	**3.5**	**3.3**

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. 2017	31 Dec. 2016
Valuation method	Equity method	Equity method
Dividends received	0.4	0.5
MAIN AGGREGATES		
Total assets	32.0	22.4
Total debt	14.2	5.6
Income statement		
▪ Net banking income	24.2	22.5
▪ Income tax expense	(1.7)	(1.7)
▪ Net income	3.0	3.4
RECONCILIATION WITH THE BALANCE SHEET VALUE OF ASSOCIATES		
Equity of associates	17.7	16.7
Percentage interest	20.0%	20.0%
Share in equity of associates	3.5	3.3
Value of the investment in associates	3.5	3.3

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	FY 2017	FY 2016
Conservateur Finance	0.6	0.7
Financial companies	**0.6**	**0.7**
TOTAL SHARE IN NET INCOME OF ASSOCIATES	**0.6**	**0.7**

Note 9 Employee benefits

9.1 Payroll costs

in millions of euros	FY 2017	FY 2016
Wages and salaries	(70.8)	(71.6)
Costs of defined-contribution and benefit plans	(8.3)	(6.8)
Other tax and social security charges	(39.6)	(39.0)
Profit-sharing and incentive plans	(7.2)	(5.1)
TOTAL PAYROLL COSTS	**(125.9)**	**(122.5)**

The Group's average headcount during the year, broken down by professional category, was as follows: 817 managers and 377 non-managers, representing a total of 1,194 employees.

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1.2 million in respect of 2017, compared with €1.1 million in respect of 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	FY 2017	FY 2016
Actuarial liabilities	0.5	15.1	2.7	5.9	24.2	22.8
Asset cap effect	0.0	0.0	0.0	0.0	0.0	0.0
Net amount reported on the balance sheet	**0.5**	**15.1**	**2.7**	**5.9**	**24.2**	**22.8**
Employee benefits, liabilities	0.5	15.1	2.7	5.9	24.2	22.8
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

	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	FY 2017	FY 2016
Actuarial liabilities at start of year	0.6	15.0	2.6	4.7	22.8	18.5
Service cost	0.0	1.0	0.3	0.0	1.3	1.3
Interest cost	0.0	0.2	0.0	0.0	0.2	0.2
Benefits paid	(0.1)	(1.3)	(0.2)	0.0	(1.6)	(1.3)
Other	0.0	(0.2)	0.0	1.2	1.0	(0.3)
Changes recognised in income	**(0.1)**	**(0.4)**	**0.1**	**1.2**	**0.8**	**(0.1)**
Remeasurement gains and losses - Demographic assumptions	0.0	0.4			0.4	(0.3)
Remeasurement gains and losses - Financial assumptions	0.0	0.1			0.1	0.0
Remeasurement gains and losses - Experience adjustments	0.0	0.0			0.0	0.0
Changes recognised directly in equity that cannot be reclassified	**0.0**	**0.5**			**0.5**	**(0.3)**
Other	0.0	0.0	0.0	0.0	0.0	4.7
ACTUARIAL LIABILITIES AT END OF PERIOD	**0.5**	**15.1**	**2.7**	**5.9**	**24.2**	**22.8**

Remeasurement gains and losses on post-employment benefits

in millions of euros	Post-employment benefits under defined-benefit plans: Supplementary pension benefits and other	Post-employment benefits under defined-benefit plans: Termination benefits	FY 2017	FY 2016
Cumulative remeasurement gains and losses at start of period	**(0.5)**	**3.5**	**3.0**	**3.3**
Remeasurement gains and losses in reporting period	(0.1)	0.5	0.4	(0.3)
CUMULATIVE REMEASUREMENT GAINS AND LOSSES AT END OF PERIOD	**(0.6)**	**4.0**	**3.4**	**3.0**

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: Supplementary pension benefits and other	Post-employment benefits under defined-benefit plans: Termination benefits	Other long-term benefits: Long-service awards	Other long-term benefits: Other long-term benefits	FY 2017	FY 2016
Service cost	0.0	(1.0)	(0.3)	0.0	(1.3)	(1.3)
Interest cost	0.0	(0.2)	0.0	0.0	(0.2)	(0.2)
Benefits paid	0.0	1.3	0.2	0.0	1.5	1.3
Other	0.0	0.2	0.0	(1.2)	(1.0)	0.3
TOTAL EXPENSE (INCOME) FOR THE PERIOD	**0.0**	**0.4**	**(0.1)**	**(1.2)**	**(1.0)**	**0.1**

9.2.4 Main actuarial assumptions

	31 Dec. 2017			31 Dec. 2016		
	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	1.38%	1.38%	1.38%	1.41%	1.41%	1.41%
Inflation/Wage growth rate	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%
Life tables used	INSEE (TH 00-02 and TF 00-02)			INSEE (TH 00-02 and TF 00-02)		

The 1.38% discount 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).

Sensitivity of actuarial liabilities to changes in key assumptions

At 31 December 2017, a 1% change in the discount rate would have the following impact on actuarial liabilities:

in millions of euros	End-of-career benefits	Restated supplementary healthcare	ATTFC	Long-service awards
Discount rate		**1,375%**		
Central scenario	**14.9**	**0.5**	**0.2**	**2.8**
1% increase	13.4	0.5	0.2	2.5
1% decrease	16.7	0.6	0.2	2.9

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 Assurances 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	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Net banking income	294.0	291.6	24.7	26.0	0.5	0.5	319.3	318.1
Operating expenses	(197.5)	(190.6)	(8.6)	(8.4)	(0.4)	(0.2)	(206.5)	(199.2)
Gross operating income	**96.5**	**101.0**	**16.1**	**17.6**	**0.1**	**0.3**	**112.7**	**118.9**
Cost/income ratio	67.2%	65.4%	34.7%	32.4%	73.4%	34.2%	64.7%	62.6%
Cost of risk	(39.5)	(46.0)					(39.5)	(46.0)
Share in net income of associates					0.6	0.7	0.6	0.7
Change in value of goodwill							0.0	0.0
Income before tax	**57.1**	**55.0**	**16.1**	**17.6**	**0.8**	**1.0**	**73.8**	**73.6**
Income tax expense	(22.4)	(21.1)	(5.5)	(6.1)	(0.0)	(0.1)	(28.0)	(27.3)
Non-controlling interests (minority interests)							0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**34.7**	**33.9**	**10.6**	**11.5**	**0.7**	**0.9**	**45.9**	**46.3**
TOTAL ASSETS	**14,747.2**	**15,316.6**	**18.6**	**19.5**	**1.6**	**1.6**	**14,767.5**	**15,337.7**

Note 11 Commitments

The amounts disclosed represent the nominal value of commitments given.

11.1 Financing commitments

In thousands of euros	31 Dec. 2017	31 Dec. 2016
Financing commitments given to:		
▪ credit institutions	0.0	0.0
▪ from customers	1,741.1	1,876.9
Confirmed credit lines	1,691.2	1,801.8
Other commitments	49.9	75.2
TOTAL FINANCING COMMITMENTS GIVEN	**1,741.1**	**1,876.9**
Financing commitments received:		
▪ from credit institutions	337.5	583.2
TOTAL FINANCING COMMITMENTS RECEIVED	**337.5**	**583.2**

11.2 Guarantees issued

in millions of euros	31 Dec. 2017	31 Dec. 2016
Guarantee commitments given to:		
▪ to credit institutions	73.7	48.9
▪ to customers	1,039.5	1,023.9
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,113.3**	**1,072.8**
Guarantee commitments received:		
▪ from credit institutions	237.7	279.0
▪ from customers	560.5	642.4
TOTAL GUARANTEE COMMITMENTS RECEIVED	**798.2**	**921.4**

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 Palatine Group exercises significant influence and are recognised using the equity method (associates).

	31 Dec. 2017		31 Dec. 2016	
in millions of euros	BPCE	Associates	BPCE	Associates
Loans	3,280.6	0.0	3,802.8	0.0
TOTAL ASSETS WITH RELATED ENTITIES	3,280.6	0.0	3,802.8	0.0
Liabilities	2,124.2	4.1	2,398.6	2.6
Other liabilities	0.3	0.0	1.6	0.0
TOTAL LIABILITIES WITH RELATED ENTITIES	2,124.4	4.1	2,400.2	2.6
Interest and similar income and expense	23.1	0.0	20.5	0.0
Fees and commission	(0.9)	0.0	(0.0)	0.0
TOTAL NET BANKING INCOME WITH RELATED ENTITIES	22.2	0.0	20.5	0.0
Commitments received	46.5	0.0	45.2	0.0
TOTAL COMMITMENTS WITH RELATED ENTITIES	46.5	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 employee benefits

Short-term benefits paid to senior executives came to €1.8 million in 2017 (€1.9 million in 2016).

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).

in millions of euros	FY 2017	FY 2016
Overall amount of the loans granted	0.0	0.0
Overall amount of the pledges granted	0.0	0.0

Post-employment benefits, long-term employee benefits and termination benefits

The amount provisioned by the Palatine Group for senior executives in respect of retirement benefits amounted to €0.1 million at 31 December 2017 and 31 December 2016.

For corporate officers who do not have an employment contract, no provision has been recognised.

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

13.1 Financial assets transferred but not fully derecognised

	Repos	Assets transferred or pledged as collateral	31 Dec. 2017	Repos	Assets transferred or pledged as collateral	31 Dec. 2016
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	337.5	337.5	0.0	340.4	340.4
Available-for-sale financial assets	**0.0**	**337.5**	**337.5**	**0.0**	**340.4**	**340.4**
Loans and advances due from credit institutions	0.0	0.0	0.0	0.0	0.0	0.0
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**	**0.0**	**0.0**
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**0.0**	**337.5**	**337.5**	**0.0**	**340.4**	**340.4**
o/w financial assets transferred but not fully derecognised	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
TOTAL LIABILITIES ASSOCIATED WITH FINANCIAL ASSETS NOT FULLY DERECOGNISED	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Repurchase agreements

As at 31 December 2017, the Palatine Group did not carry out 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 2017, amounts pledged as collateral under funding arrangements only concerned securities provided to Banque de France under the TRICP system for €337.5 million, compared to €340.4 million at 31 December 2016.

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. 2017				31 Dec. 2016			
	Residual maturity				Residual maturity			
in millions of euros	< 1 year	≥one year to < five years	Over 5 years	Total	< 1 year	≥ one year to < five years	Over 5 years	Total
Operating leases								
Minimum future payments to be paid under non-terminable agreements	(7.4)	(20.0)	(3.6)	(30.9)	(6.6)	(22.3)	(5.1)	(34.0)
Minimum future payments to be received under non-terminable sub-leases								

Amounts recognised as net income

in millions of euros	2017	2016
Operating leases		
Minimum payments	(11.0)	(11.0)
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. 2017 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. 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)
FINANCIAL ASSETS AT AMORTISED COST								
Loans and advances due from credit institutions	3,601.6	0.0	1,068.8	2,532.8	4,149.5	0.0	1,351.5	2,798.0
Loans and advances due from customers	9,221.4	0.0	592.6	8,628.9	8,551.8	0.0	489.0	8,062.8
Held-to-maturity investments	0.0	0.0	0.0	0.0	51.2	51.2	0.0	0.0
FINANCIAL LIABILITIES AT AMORTISED COST								
Amounts due to credit institutions	2,088.7	0.0	70.7	2,018.0	2,687.4	0.0	364.5	2,322.9
Amounts due to customers	8,384.5	0.0	6,910.6	1,473.9	8,991.7	0.0	6,930.1	2,061.6
Debt securities	2,905.4	0.0	0.0	2,905.4	2,250.6	0.0	0.0	2,250.6
Subordinated debt	200.2	0.0	0.0	200.2	165.7	0.0	0.0	165.7

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 Palatine Group holds an interest and acts in one or more of the following roles:

- originator/structurer/arranger;
- placing agent;
- manager;
- any other role that has a major impact on the structuring or management of the transaction (for example: granting of financing, guarantees or structuring derivatives, tax investor, significant investor).

An interest in a structured entity refers to contractual and non-contractual involvement that exposes the Palatine 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. This concerns the financing of movable assets (related to aeronautical, maritime or land transport, telecommunication, etc.) and fixed assets and the acquisition of targeted companies (LBO financing).

Groupe BPCE may be required to create a structured entity in which a specific financing transaction is held on behalf of a client. This involves contractual and structural organisation. The specificities of these financing arrangements are linked to risk management, with recourse to notions such as limited recourse or waiver of recourse, conventional and/or structural subordination and the use of dedicated legal vehicles to in particular bear a single leasing agreement which is representative of the financing granted.

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	Securitisation	Asset management	Structured financing	Other activities	Total at 31 Dec. 2017
Available-for-sale financial assets	0.0	17.6	0.0	0.0	17.6
TOTAL ASSETS	**0.0**	**17.6**	**0.0**	**0.0**	**17.6**
Maximum exposure to the risk of loss	**0.0**	**(17.6)**	**0.0**	**0.0**	**(17.6)**
Size of the structured entity	**0.0**	**7,069.1**	**0.0**	**0.0**	**7,069.1**

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. 2017
Income from entities	**26.2**	**26.2**
Net fee and commission income	26.2	26.2

Note 17 Scope of consolidation

	31 Dec. 17				
	Country of incorporation or domicile	Consolidation method	Changes in scope compared with 31 December 2016	Percentage control	Percentage interest
BANQUE PALATINE	**France**	**Full consolidation**			**Consolidating entity**
PALATINE ASSET MANAGEMENT	France	Full consolidation	-	100.0%	100.0%
ARIES ASSURANCES	France	Full consolidation	-	100.0%	100.0%
CONSERVATEUR FINANCE	France	Equity method	-	20.0%	20.0%

Note 18 Companies not consolidated at 31 December 2017

The companies not consolidated comprise:

- on the one hand, significant investments which are not covered in the scope of consolidation;
- on the other, companies excluded from the scope of consolidation because the stake therein is not significant.

The following companies were excluded from the scope of consolidation because the stake therein is not significant; in each case, the capital held by the Group, directly and indirectly, is indicated:

Companies	Location	Stake	Reason for not consolidating
GIE GDS 24	France	50%	Not significant
GIE GDS Gestion Délégué Social	France	100%	Not significant
Jardins d'Arcadie Grasse	France	55%	Not significant
Sté Immobilière d'investissement	France	100%	Not significant

Note 19 Fees paid to Statutory Auditors

	PricewaterhouseCoopers				KPMG				TOTAL			
	Amount		%		Amount		%		Amount[2]		%	
in thousands of euros	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Role of certification of financial statements	**224**	**219**	**98%**	**87%**	**266**	**198**	**87%**	**78%**	**490**	**417**	**92%**	**82%**
▪ *Issuer*	*189*	*183*			*257*	*191*			*446*	*374*		
▪ *Fully consolidated subsidiaries*	*35*	*36*			*9*	*7*			*44*	*43*		
Services other than the certification of the financial statements	**4**	**34**	**2%**	**13%**	**39**	**56**	**13%**	**22%**	**43**	**90**	**8%**	**18%**
▪ *Issuer*	*0*	*30*			*39*	*56*			*39*	*86*		
▪ *Fully consolidated subsidiaries*	*4*	*4*			*0*	*0*			*4*	*4*		
TOTAL	**228**	**253**	**100%**	**100%**	**305**	**254**	**100%**	**100%**	**533**	**507**	**100%**	**100%**
Change (%)				(10)%				20%				5%

The total fees of PricewaterhouseCoopers Audit included in the consolidated income statement for the year amounted to €228,000, including €224,000 for the certification of the financial statements of Banque Palatine and its subsidiaries, and €4,000 for services other than the certification of the financial statements (CACEIS certification);

The total fees of KPMG included in the consolidated income statement for the year amounted to €305,000, including €266,000 for the certification of the financial statements of Banque Palatine and its subsidiaries, and €39,000 for services other than the certification of the financial statements (Parly II and RSE certification).

3

Reports by the statutory auditors

1 Statutory Auditors’ report on the annual financial statement

Year ended 31 December 2017

To the General Meeting of Banque Palatine S.A.,

Opinion

Pursuant to the mission entrusted to us by your General Meeting, we conducted an audit of the parent-company financial statements of Banque Palatine S.A. for the year ended 31 December 2017, as annexed to this report.

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.

The above opinion is consistent with the content of our report to the audit committee.

Basis of opinion

Audit standards

We carried out our audit in accordance with the professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our responsibilities under these standards are explained in the section on “Auditor’s responsibilities for the Audit of the parent-company financial statements” in this report.

Independence

We conducted our audit in accordance with applicable standards of independence between 1 January 2017 and the date of our report. We did not provide any services prohibited under Article 5, paragraph 1 of Regulation (EU) no. 537/2014 or the French Statutory Auditors’ Professional Code of Conduct.

Justification of our assessments – Key audit matters

In application of the provisions of Articles L. 823-9 and R. 823-7 of the French Commercial Code on the justification of our assessments, your attention is drawn to the key audit matter relating to the risk of material misstatement which, in our professional judgement, was the most significant for the audit of the parent-company financial statements for the year, and our response to this risk.

The resulting assessments were part of the audit of the parent-company financial statements as a whole and of the formation of the opinion given above. We have no comment to make on the items of the parent-company financial statements taken in isolation.

Credit risk - specific impairments

Assessed risk

Banque Palatine is exposed to credit and counterparty risks.

These risks arise when the bank's customers or counterparties cannot meet their financial commitments, and notably related to the lending business.

As explained in Note 2.3.2 to the individual financial statements, impairment losses are 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.

Provisions are based on the judgement of managers and involve accounting estimates due to uncertainty as to the amounts that may be recovered and the timing of any recovery.

We considered the determination of impairment losses on loans and advances as a key audit matter given the size of such impairment relative to the balance sheet and their sensitivity to management assumptions when estimating future cash flows and the value of the associated guarantees.

Our response

In the course of our audit procedures, we examined the control system and tested the design and effectiveness of the key controls used to identify exposures, monitor credit and counterparty risk, assess non-recovery risks and determine the associated specific impairment losses and provisions.

Our work involved conducting control tests of the system for identifying and monitoring doubtful and non-performing counterparties, of the credit review process and of the guarantee appraisal system. Furthermore, we carried out comparative analyses of amounts and provisions in a sample of loan files.

The accumulated impairment loss on loans outstanding is €260.1 million on gross outstandings of €9,063 million (the gross amount of impaired outstandings was €566.8 million) at 31 December 2017. The cost of risk in 2017 was €35 million (compared to €40.4 million in 2016).

For further details on accounting principles and exposures, see notes 3.2, 3.10.2 and 5.9 to the financial statements.

Verification of the management report and other documents sent to shareholders

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

Disclosures in the management report and other documents sent to shareholders concerning the financial position and the parent-company financial statements

We are satisfied that the information given in the Board of Directors' management report and other documents provided to shareholders concerning the Company's financial position and parent-company financial statements is fairly presented and consistent with the parent-company financial statements.

Corporate governance report

We certify that the Board of Director's corporate governance report includes all items required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

Regarding the information given in accordance with the requirements of Article L. 225-37-3 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.

Information required by other legal and regulatory obligations

Appointment of Statutory Auditors

We were appointed as Statutory Auditors of Banque Palatine S.A. by the shareholders at the General Meeting of 20 April 2007, in the case of KPMG Audit FS I, and of 12 April 2001, in the case of PricewaterhouseCoopers Audit.

At 31 December 2017, KPMG Audit FS I had conducted its duties for 11 years without interruption and PricewaterhouseCoopers Audit had done so for 17 years.

Responsibilities of the management and those charged with corporate governance in relation to the parent-company financial statements

Management is responsible for preparing parent-company financial statements that present a true and fair view in accordance with French accounting principles and for establishing such internal controls as it deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent-company financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is a plan either to liquidate the Company or to cease its operations.

It is the responsibility of the audit committee to monitor the process for preparing financial information and the effectiveness of the internal control and risk management systems, as well as any internal audit, regarding the procedures used to prepare and process accounting and financial information.

The parent-company financial statements were approved by the Board of Directors on 8 February 2018.

Responsibilities of the Statutory Auditors in relation to the audit of the parent-company financial statements

Audit objectives and procedures

It is our responsibility to draw up a report on the parent-company financial statements. Our objective is to obtain reasonable assurance that the parent-company financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or cumulatively, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As stated in Article L. 823-10-1 of the French Commercial Code, our audit mission does not require us to guarantee the viability or quality of the management of your Company.

Professional standards applicable in France require that the Statutory Auditor exercise professional judgement throughout the audit. Moreover, an audit must:

- identify and assess the risks of material misstatement of the parent-company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management in the parent-company financial statements;
- assess the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the Company's capacity to continue as a going concern. Such conclusions are based on evidence collected up to the date of the report. However, events or conditions arising after this date may threaten the Company's continuity as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent-company financial statements or, if such disclosures are missing or inadequate, to issue a certificate with reserves or to refuse certification;
- evaluate the overall presentation and content of the parent-company financial statements and whether the parent-company financial statements give a true and fair view of the underlying transactions and events.

Report to the audit committee

We present to the audit committee a report which covers among other matters the audit scope and the programme of work undertaken as well as conclusions based on this work. We also draw attention, where necessary, to any significant weaknesses identified in internal control as regards the procedures used to prepare and process accounting and financial information.

Items covered by the audit committee report include the risks of material misstatement that we judge to be the most significant for the audit of the parent-company financial statements for the year and which constitute one of the key audit matters, which we are obliged to describe in this report.

We also present to the audit committee the declaration required by Article 6 of Regulation (EU) no. 537-2014 confirming our independence, within the meaning of the rules applicable in France as set out notably in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Statutory Auditors' Professional Code of Conduct. Where applicable, we discuss with the audit committee any risks to our independence and any safeguards applied.

Paris-La Défense and Bordeaux, 16 April 2018

KPMG Audit FS I	PricewaterhouseCoopers Audit
Marie-Christine Jolys	Antoine Priollaud
Partner	*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 2017)

To the Shareholders

BANQUE PALATINE

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

We have not been informed of any agreement or commitment authorised in the past year to be submitted for approval to the General Meeting pursuant to the provisions of Article L. 225-38 of the French Commercial Code.

Agreements and commitments already approved by the shareholders

Agreements and commitments approved during previous financial years which remained applicable in the past year

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

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. and of Natixis S.A.).
- **Nature and purpose:**

This agreement, approved by the Board of Directors on 9 February 2016, was signed on 16 February 2016. An additional clause to this agreement was signed on 22 February 2017

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., in agreement with Palatine Asset Management S.A.S., decided to outsource the custody account-keeping of the 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 custody services provider to Groupe BPCE, in which Natixis S.A. holds an equity stake.

  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).

  The migration of custodial services for Retail customers to Natixis EuroTitres took effect in November 2017.

An additional clause to this agreement was established (see above “Agreements and commitments subject to shareholder approval” approved during the current year, and “Agreements and commitments subject to shareholder approval” approved during the past year).

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

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). 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.):

- €272,000 for 2016, paid in January 2017;
- €110,000 for the first half of 2017, paid in July 2017;
- €800,000 for 2016, paid in December 2017;
- and, on completion of the migration to Natixis EuroTitres, €345,000 to be paid annually from June 2018 (inclusive) until June 2022 (inclusive).

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

The financial effect on the 2017 financial year was income of €1,082,500 inclusive of tax.

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 2017 was an expense of €2,400,000, excluding tax.

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, 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.

- **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 × (12 months + 1 month per year of service within the Group). The reference monthly remuneration used for the calculation, is equal to 1/12 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 2017.

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: The 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 loses any entitlement to the defined-benefit pension plan that he or she may 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 × (6 + 0.6 y), 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.

This commitment did not have any financial effect on the financial statements of Banque Palatine S.A. closed on 31 December 2017.

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 1/12 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 2017.

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:**

For the year ended 31 December 2017, the amount of the expense is €12,356.82.

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 financial impact on Banque Palatine S.A.'s 2017 financial statements.

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.* €156,912 in 2017.

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

For 2017, 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 2017: €15,691;
- Thierry Zaragoza, from 1 January to 1 July 2017: €7,846;
- Bertrand Dubus, from 1 January to 31 December 2017: €15,691.

Bordeaux and Paris-La Défense, 16 April 2018

Statutory Auditors

PricewaterhouseCoopers Audit	KPMG Audit FSI
Antoine Priollaud	Marie-Christine Ferron-Jolys
Partner	*Partner*

3 Statutory Auditors’ report on the consolidated financial statements

Year ended 31 December 2017

To the General Meeting of Banque Palatine S.A.,

Opinion

Pursuant to the mission entrusted to us by your General Meeting, we conducted an audit of the consolidated financial statements of Banque Palatine S.A. for the year ended 31 December 2017, as annexed to this report.

In our opinion, the consolidated financial statements give a true and fair view of the operating results for the year then ended and of the financial position, assets and liabilities of the companies and entities included in the consolidated group in accordance with IFRS standards as adopted in the European Union.

The above opinion is consistent with the content of our report to the audit committee.

Basis of opinion

Audit standards

We carried out our audit in accordance with the professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our responsibilities under these standards are explained in the section on “Auditor’s responsibilities for the Audit of the consolidated financial statements” in this report.

Independence

We conducted our audit in accordance with applicable standards of independence between 1 January 2017 and the date of our report. We did not provide any services prohibited under Article 5, paragraph 1 of Regulation (EU) no. 537/2014 or the French Statutory Auditors’ Professional Code of Conduct.

Justification of our assessments – Key audit matters

In application of the provisions of Articles L. 823-9 and R. 823-7 of the French Commercial Code on the justification of our assessments, your attention is drawn to the key audit matter relating to the risk of material misstatement which, in our professional judgement, was the most significant for the audit of the consolidated financial statements for the year, and our response to this risk.

The resulting assessments were part of the audit of the consolidated financial statements as a whole and of the formation of the opinion given above. We have no comment to make on the items of the consolidated financial statements taken in isolation.

Credit risk - specific impairments

Assessed risk

Banque Palatine is exposed to credit and counterparty risks.

These risks, which arise when the bank's customers or counterparties cannot meet their financial commitments, largely relate to the lending business

As explained in note 4.1.6 to the consolidated financial statements, a loan or receivable is judged on an individual basis as being impaired:

- If there is objective evidence of impairment "triggering events" or "loss events" that indicate a counterparty risk and occur after the initial recognition of the loans concerned. 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;
- If these events trigger the recognition of incurred losses.

Provisions are based on the judgement of managers and involve accounting estimates due to uncertainty as to the amounts that may be recovered and the timing of any recovery.

We considered the determination of impairment losses on loans and advances as a key audit matter given the size of such impairment relative to the balance sheet and their sensitivity to management assumptions when estimating future cash flows and the value of the associated guarantees.

Our response

In the course of our audit procedures, we examined the control system and tested the design and effectiveness of the key controls used to identify exposures, monitor credit and counterparty risk, assess non-recovery risks and determine the associated specific impairment losses and provisions.

Our work involved conducting control tests of the system for identifying and monitoring doubtful and non-performing counterparties, of the credit review process and of the guarantee appraisal system. Furthermore, we carried out comparative analyses of amounts and provisions in a sample of loan files.

The accumulated individual impairment loss on loans outstanding is €255.8 million on a gross outstandings of €9,491 million (the gross amount of impaired outstandings was €557.8 million) at 31 December 2017. The cost of risk in 2017 was €39.5 million (compared to €46 million in 2016)

For further details on accounting principles and exposures, see notes 5.6.2; 5.18 and 6.7 to the financial statements.

Verification of information about the Group in the management report

We also carried out a specific verification, as required by law, of information about the Group provided in the Chairman'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.

Information required by other legal and regulatory obligations

Appointment of Statutory Auditors

We were appointed as Statutory Auditors of Banque Palatine S.A. by the shareholders at the General Meeting of 20 April 2007, in the case of KPMG Audit FS I, and of 12 April 2001, in the case of PricewaterhouseCoopers Audit.

At 31 December 2017, KPMG Audit FS I had conducted its duties for 11 years without interruption and PricewaterhouseCoopers Audit had done so for 17 years.

Responsibilities of the management and those charged with corporate governance in relation to the consolidated financial statements

It is the management's responsibility to prepare the consolidated financial statements in accordance with IFRS as adopted by the EU and to put in place the internal controls it deems necessary to ensure the consolidated financial statements are free of material misstatement, whether as a result of fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is a plan either to liquidate the Company or to cease its operations.

It is the responsibility of the audit committee to monitor the process for preparing financial information and the effectiveness of the internal control and risk management systems, as well as any internal audit, regarding the procedures used to prepare and process accounting and financial information.

The consolidated financial statements were approved by the Board of Directors on 8 February 2018.

Responsibilities of the Statutory Auditors in relation to the audit of the consolidated financial statements

Audit objectives and procedures

It is our responsibility to draw up a report on the consolidated financial statements. Our objective is to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or cumulatively, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As stated in Article L. 823-10-1 of the French Commercial Code, our audit mission does not require us to guarantee the viability or quality of the management of your Company.

Professional standards applicable in France require that the Statutory Auditor exercise professional judgement throughout the audit. Moreover, an audit must:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management in the consolidated financial statements;
- assess the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Such conclusions are based on evidence collected up to the date of the report. However, events or conditions arising after this date may threaten the Company's continuity as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are missing or inadequate, to issue a certificate with reserves or to refuse certification;
- evaluate the overall presentation and content of the consolidated financial statements and whether the consolidated financial statements give a true and fair view of the underlying transactions and events;
- as regards the financial information of persons or entities included in the scope of consolidation, collect information that it considers a sufficient and appropriate basis for its opinion on the consolidated financial statements. As Statutory Auditor, we are responsible for the management, supervision and conduct of the audit of the consolidated financial statements and for reporting our opinion on these financial statements.

Report to the audit committee

We present to the audit committee a report which covers among other matters the audit scope and the programme of work undertaken as well as conclusions based on this work. We also draw attention, where necessary, to any significant weaknesses identified in internal control as regards the procedures used to prepare and process accounting and financial information.

Items covered by the audit committee report include the risks of material misstatement that we judge to be the most significant for the audit of the consolidated financial statements for the year and which constitute one of the key audit matters, which we are obliged to describe in this report.

We also present to the audit committee the declaration required by Article 6 of Regulation (EU) no. 537-2014 confirming our independence, within the meaning of the rules applicable in France as set out notably in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Statutory Auditors' Professional Code of Conduct. Where applicable, we discuss with the audit committee any risks to our independence and any safeguards applied.

Paris-La Défense and Bordeaux, 16 April 2018

KPMG Audit FS I	PricewaterhouseCoopers Audit
Marie-Christine Jolys	Antoine Priollaud
Partner	*Partner*

4 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 2017

To the Shareholders,

In our capacity as a third-party organisation independent of Banque Palatine S.A., accredited by COFRAC under number 3-1049[1] , we present to you our report on the consolidated workforce-related, environmental and social information relating to the financial year ended 31 December 2017 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).

It is not our responsibility, however, to offer an opinion as to compliance with other law that may be applicable, including Article L. 225-102-4 of the French Commercial Code (vigilance plan) or Law no. 2016-1691 of 9 December 2016, the so-called Sapin II law (anti-corruption).

We carried out our work with four members of staff between September 2017 and April 2018 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 Commissaires au Comptes with respect to this work and, with regard to the reasoned opinion on accuracy and the reasonable assurance report, with the ISAE 3000 international standard[2].

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.

1 *Of which the scope is available at www.cofrac.fr.*

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

Conclusion

Based on our audit, we confirm that the management report includes the required CSR Information.

2 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 98% of the workforce considered as the characteristic dimension of the workforce-related element, 100% of the environmental data considered as characteristic dimensions[2] 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.

2 *See the list of environmental indicators in the previous footnote of this report.*

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 judgement 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, 16 April 2018

KPMG S.A.

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

5 Report by the Statutory Auditors on the capital increase without preferential subscription rights reserved for employees

Combined General Meeting, 22 May 2018 - resolution no. 12

To the Combined General Meeting of Banque Palatine S.A.,

As Statutory Auditors of the Company and pursuant to our duties under Articles L. 225-135 *et seq.* of the French Commercial Code, we present our report on the proposal, on which you are being asked to vote, to delegate powers to the Board of Directors to increase capital by issuing ordinary shares without preferential subscription rights, reserved for current or former employees of the Company, in a maximum amount of €5,388,020, or 1% of the current share capital.

This capital increase will be submitted for approval in application of Articles L. 225-129-6 of the French Commercial Code and L. 3332-18 *et seq.* of the French Labour Code.

The Board of Directors is proposing, on the basis of its report, that it should be delegated, for twenty-six months, the powers to decide a capital increase and suspend your preferential subscription rights over any ordinary shares issued in consequence. The Board would be responsible for setting the definitive terms and conditions of any issue under these delegated powers.

The Board of Directors is charged with drawing up a report in accordance with Articles R. 225-113 and R. 225-114 of the French Commercial Code. It is our responsibility to give our opinion as to the fair presentation of the quantitative information drawn from the financial statements, the proposal to waive shareholders' preferential subscription rights and certain other types of information on the issue contained in this report.

We have carried out the work we considered necessary to comply with the professional guidelines issued by the French national auditing body (Compagnie Nationale des Commissaires aux Comptes) relating to this type of assignment. This work consisted of verifying the content of the Board of Directors' report on the proposed transaction and the procedures used to determine the issue price of the shares.

We have the following comment to make on the Board of Directors' report:

This report refers to the provisions of Article L. 3332-20 of the French Labour Code but does not specify which of the two methods provided for in this article would be applied in the event of an issue.

As the definitive terms and conditions for the capital increase have not yet been specified, we cannot express an opinion on them or, therefore, on the proposal to waive your preferential subscription rights.

Article R. 225-116 of the French Commercial Code requires us to prepare an additional report, if applicable, when the powers delegated are used by your Board of Directors.

Paris-La Défense and Bordeaux, 16 April 2018

KPMG Audit FS I	PricewaterhouseCoopers Audit
Marie-Christine Jolys	Antoine Priollaud
Partner	*Partner*

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2017 Risk Management

Internal control procedures

General organisation

Groupe BPCE's internal control framework is structured to comply with all laws and regulations applicable to the Group and its activities and also with the Group's own principles and governance framework.

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.

Under this structure, the Bank'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 Banque Palatine and overseen by two BPCE 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;
- standards issued by BPCE;
- definition or approval of control plans.

These links have been formally defined in charters covering each function. The overall framework was approved by the Group Coordination Committee for Internal Control on 29 March 2017. These charters and the processes that flow from them were presented internally at the Coordination committee for internal control functions before being validated by the Executive Management Committee and Risk Committee and finally approved 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 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 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;
- security of assets and of employees (reporting to the human resources and services division).

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.

Third level

Third-level periodic control is the responsibility of the internal audit division. This division operates under rules defined by Groupe BPCE for the audit function and a multi-year audit plan, which is reviewed annually in light of the audit scope and risk assessment defined by the Group's general inspection division.

In accordance with the regulations, this division conducts on-site and off-site investigations led by agents possessing the requisite independence. The resulting reports go to the Bank's corporate officers and executive management and are analysed quarterly at the Board of Directors' meeting via the Risk Committee.

The aim is to produce an assessment of the compliance of the transactions, the level of risk actually incurred, compliance with procedures, the effectiveness and adequacy of risk measurement and administration and internal control frameworks. The implementation of these frameworks is supervised and monitored by the permanent control functions.

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 Board of Directors. 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. This configuration is used to ensure adequate steering by the executive body of the effectiveness of the 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, monitoring 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

Permanent control, periodic control and compliance functions are all represented on the committee which is chaired by the Chief Executive Officer. It met three times in 2017.

The other committee members are: Executive vice-presidents[1], the heads of audit, central risk, compliance, permanent controls and financial security, and risk management. Other members of the Executive Management Committee can always attend as guest members. The Head of internal audit acts as secretary.

The Committee's roles are to:

- approve the Bank's control charters;
- approve the charters of the committees and the Bank's committee system;
- approve risk maps;
- approve the control frameworks and any changes made;
- approve regulatory risk control reports;
- oversee the proper execution of controls.

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 meeting is chaired by the Chief Executive Officer and composed of two Executive Vice-Presidents[1] and the heads of audit, risk management, compliance and permanent controls as well as the representative of Group risk management. Where the agenda demands, the Committee may also call in the head of legal affairs, the head of finance, the head of information systems or 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 Audit and Internal Control Committee met four times in 2017. The Risk Committee received a detailed analysis at each meeting.

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

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

1 In the second half of the year the Executive Vice-President for Development stood in for the Executive Vice-President for Finance, within his scope.

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

Operational risk

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 operational risks was thus set at 0.5% of the Bank's consolidated regulatory capital.

Pursuant to BPCE's guidelines, the Audit Committee meeting on 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	€3.40 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
31 December 2016	€3.60 million

The process thus provides for immediate reporting to the Bank's executive management and Board of Directors and to the *Autorité de contrôle prudentiel et de résolution* of any loss that is provisioned or definitive of more than 0.5% of capital on operational risks, in accordance with Article 98 of the order of 3 November 2014 on BPCE's internal control and decisions.

One incident relating to operational risks was declared in 2017 under this process. This incident concerned an estimated €4 million and related to a fraud in home loans.

Credit risks

Banque Palatine is subject to the Groupe BPCE order on credit risks of 2 December 2015, which sets an alert threshold of 2% of capital. This threshold, calculated on the basis of capital at 31 December 2016, is therefore €14.4 million.

No incident was declared in 2017.

Permanent control

The Groupe BPCE system

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 procedures, particularly with respect to functions, are set out in the Group risk and compliance charters and other texts, approved by the BPCE management board on 7 December 2009, last updated March 2017.

The central risk management, compliance and permanent control and financial security division (RC²S)

The RC²S division, created in October 2017, reports functionally to the Chief Executive Officer of Banque Palatine and functionally to Group RCPCD.

Like the Group RCPCD, the division deals with all types of risk, credit, financial, operational and non-compliance risks as well as cross-Group management activities and permanent risk control. In accordance with Article 75 of the order of 3 November 2014 regarding internal control, it provides for the measurement, monitoring and control of risks.

The RC²S division includes risk management and compliance divisions. In risk management, Banque Palatine applies all principles of the Group's risk, compliance and permanent controls charters. RC²S independently controls the correct application of standards and methods of risk measurement, including limits and delegation frameworks. It makes sure risk policy principles are respected within the framework of its second-level permanent controls.

The workforce 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).

Risk appetite system

The risk appetite is the Bank's risk strategy, in a specific context, to generate recurrent and resilient returns while offering the best service to its customers and maintaining its solvency, liquidity and reputation.

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

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

The system is based on:

- the definition of the risk profile, which ensures the coherence of 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;
- governance integrated into the Group's governance bodies which are responsible for its creation and review and in the event of a major incident;
- a full operational inclusion with cross-cutting systems for financial planning.

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

- credit risk, created by its dominant activity of retail and corporate lending, is managed through risk policies which are in most cases common to all Group entities, supplemented by Banque Palatine's own risk policies for its specific business lines. These risk policies are reinforced by measures such as concentration limits by counterparty, country and 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.

Banque Palatine:

- 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.

In 2017, no breaches were recorded.

Risk measurement and monitoring

The risk management division:

- proposes Banque Palatine'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 (Group standards and methods are defined by BPCE);
- 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 workforce managers and the Board of Directors), contributes to the legal or regulatory reports and alerts the workforce 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).

The risk management division has 18 employees in 4 departments. Their main tasks are:

Credit risk management department:

- carry out daily dialectic analyses of cases presented to the Banque Palatine umbrella committee;
- carry out ex-post controls of other cases and a number of themed controls approved by the Coordination committee for internal control functions;
- propose modifications to risk policy;
- develop risk culture by leading a number of training programmes;
- control the correct application of the Group's rating system for corporate customers;
- analyse the main sensitive cases on the watch list and report on its most important work to the Watch List Committee and quarterly forecasts.

Reporting and steering department:

- produce reports on the loan book for the Audit and Internal Control Committee and Risk Committee;
- contribute to legal and regulatory reports;
- calculate and analyse risk-weighted assets (RWA) each quarter and report these to executive management.

Operational risk department:

- map operational risks;
- report major incidents to the Operational Risks and Security Committee (ORSC) and propose action plans for efficient risk management procedures that reduce observed risk;
- calculate COREP (Common Solvency Ratio Reporting) of operational risk.

Financial risk department:

- control results from the dealing room and positions taken by the room with commercial and interbank counterparties;
- perform a second-level control of ALM;
- carry out the second-level controls required by the different regulations (SRAB, Volcker, Lagarde, EMIR, etc.) that frame dealing room activities.

All these departments are overseen by the head of risk management working under the supervision of the central head of risk, compliance, permanent controls and financial security. The latter 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.

Credit and counterparty risks

Selection and decision-making process

The Executive Management Committee, on proposal of the Audit and Internal Control Committee and in line with the defined risk appetite, approves Banque Palatine's credit risk policy, sets internal ceilings and credit limits, approves delegations of authority, and examines large exposures and the results of risk measurement.

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.

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.

Within Banque Palatine, the credit risk department integrates a rating monitoring service, which checks at local level that the rating system has been correctly applied by the network and business lines.

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;
- 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 workforce 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.

Banque Palatine has a commitments department - part of the delegated executive management for development which has a second say on loan requests processed by the Bank's operational arms. 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.

The credit risk department scrutinises major proposals from the Development Credit Committee and all Credit Committee proposals, except where they are subject to a circularisation procedure (used where the request is minor or technical in nature).

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, where appropriate, to the Bank's Credit Committee;
- 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.

The delegation system mainly consists of six tiers of delegation, the last being the "Credit Committee" of Groupe BPCE subsidiaries.

BPCE's Executive Management Committee, at its meeting on 3 July 2017, delegated new and expanded lending powers to Banque Palatine. These delegations form part of the global framework for limits, current or future caps and freezes, and rules on internal and regulatory ceilings in Groupe BPCE and at Banque Palatine. They are broken down by segment and rating. The Bank was informed of these new delegations on 10 July 2017.

New IFRS 9

The European Commission adopted the new IFRS 9 "Financial instruments" on 22 November 2016 and it will apply to financial statements from 1 January 2018, except for provisions relating to financial liabilities designated at fair value through profit or loss, which have been early adopted in Groupe BPCE financial statements since 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.

In view of the far-reaching changes made by IFRS 9, Groupe BPCE conducts its implementation work through a programme-mode organisation framework that involves all affected business lines and support functions. Since 2015, the management of the IFRS 9 programme has been structured around a Strategic Committee, which is cross-functional including the risk and finance departments and meets four times a year with most of the members of the BPCE Executive Management Committee. The Strategic Committee oversees the guidelines and decisions, defines the schedule of implementation and consolidates the programme's budget.

Internal organisation of risk monitoring

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.

The risk management division produces and analyses a quarterly watch list. The results are reported up to the Watch List and Provisions Committee. It checks that sensitive or doubtful cases are reviewed in a timely manner.

Finally, the risk management division analyses annual cost of risk, which allows it to identify trends and take remedial action, particularly in the field of risk policy.

Work done in 2017

In 2017, Banque Palatine continued its work to embed the Groupe BPCE corporate rating system. At 31 December 2017 it had a rating level among the best in the Group and above the regulatory requirement of 95%.

Work to prepare for implementation of IFRS 9 was carried out under a dedicated project led by the accounting department. Specific work was done to factor in the specific architecture of Banque Palatine's IT systems and its retail rating models, which are currently different from those used by Groupe BPCE. All this work was done in close collaboration with Groupe BPCE.

The risk management division also established an appraisal-based detection system for cases of forbearance by providing a change management service for all those affected. The system complements the Bank's long-standing automatic detection alerts.

Also, Banque Palatine's risk management policy was updated to include policies issued by Groupe BPCE with specific risk policies proposed for activities not covered by Groupe BPCE. Updates included risk policies on personal loans, home loans, first-call guarantees, the media/audiovisual sector, general principles for corporate loans and loans to real estate professionals.

Finally, work was done to improve COREP production, including efforts to make reconciliation of accounting items more reliable.

The Bank managed to improve its cost of credit risk for the year. The sections on credit risk provisions give a more detailed breakdown of the position.

Market risks

Decision-making committees

The decision-making committees are the Audit and Internal Control Committee (see above) and the Finance Committee.

The Finance Committee, which meets at least every month, is tasked with:

- deciding the specific implementation methods for programmes defined by the ALM Committee for market transactions where it is responsible for execution (timing, level, breakdown, etc.) including transactions in the securities portfolio;
- reviewing the execution of past plans and amending them as necessary, reporting to the ALM Committee;
- examining market conditions and indicators (rates, cash spreads, etc.);
- reviewing major transactions with customers and deciding, where appropriate, to arrange cover;
- monitor liquidity risk and rate management;
- manage regulatory ratios, BPCE ratios and monitor compliance with internal limits;
- take allocation decisions for the HQLA securities reserve, creditworthiness reviews, responsibility for creditworthiness having now passed to the Credit Committee;
- managing and monitoring the LBF/Volcker procedures, including reviewing any significant quarter-on-quarter change in indicators with an analysis from the risk management division;
- monitoring trading portfolio business, including calculations of VaR sent by the risk management division and cash monitoring;
- addressing problems in financial management in the framework of Groupe BPCE;
- dealing with any other matters directly or indirectly related to financial activities (accounting treatment, data management, etc.).

Law on the separation and regulation of banking activities

Mapping of market activities is regularly updated. Necessary indicators, in accordance with Article 6 of the order of 9 September 2015, are calculated quarterly. All the work is collected by Groupe BPCE.

At the same time as the work in relation to the French law on the separation and regulation of banking activities took place, the reinforced programme on compliance with the Volcker Rule (sub-section of the American Dodd-Frank Act) was certified on 31 March 2017 for the second time on BPCE's and its subsidiaries' scope (considered as a "small group").

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 2017, 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 (and 4 complementary units in the meaning of the Volcker law). These units are covered by a mandate that defines healthy and prudent management and risk characteristics.

Also, Banque Palatine certified, at BPCE's request, its compliance with the US Legal Entity Management regulations, at 31 December 2017.

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 workforce managers and by the Board of Directors, taking into account the company's equity and, if necessary, consolidated equity and its distribution within the Group adapted to the risks incurred.

The limit system

Trading book limits

Authorised products are defined as those in the Banque Palatine "financial risks" database of 30 June 2016. All instruments in this portfolio are marked-to-market in terms of their results and positions.

Position limits (by currency, intraday or overnight, by product family - currency swaps, spot trades, etc.) are approved by the Audit and Internal Control Committee.

Customer business limit

Authorised products are also defined in the Banque Palatine financial risks database and all instruments in this portfolio are also monitored on a marked-to-market basis.

There is no specific limit for this internal unit as all its transactions come under the trading book. However, individual customer-by-customer authorisations are defined and approved by the Credit Committee. Where the trading unit is responsible for hedging, monitoring indicators for this internal unit allows it to frame the activity of two internal units (trading and customers).

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.

Corporate exposure limits

Every corporate counterparty trading with the dealing room is given a limit, compliance with which is monitored at first and second level.

Sovereign exposures limits

Limits on sovereigns are defined by Groupe BPCE. Banque Palatine draws on the available Group limit for any investments. Monitoring of such uses is presented to the Audit and Internal Control Committee.

Stress limits on held-to-maturity securities (including the liquidity reserve)

The Group sets limits for Banque Palatine as a percentage of capital. It then runs monthly tests of limit consumption based on a number of stress scenarios.

In addition, where there is no set limit, VaR is stress-tested by Groupe BPCE. 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.

Limit controls

Roles and responsibilities

Trading staff 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 financial risk department performs second-level controls.

The final element in the structure is the back office and middle office who report to the banking services division and carry out permanent administrative controls.

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 and brokers. The brokers with which the Bank is authorised to work were approved by the Group RCPCD on 20 September 2011. A new broker was recently approved.

Possible breaches of limits

The risk management division makes sure breaches are rectified and informs the Executive Management Committee and/or the Chief Executive Officer, directly or via the Audit and Internal Control and Finance Committees, and the Board of Directors via the Risk Committee.

Regulatory requirements for market risks

"Market risk" RWA, which measure exposure to market risk (interest rate, currency, option and basis risk, etc.) are calculated by Banque Palatine using software provided by an external publisher. The risk management division carries out some controls on data quality on input and output from the application.

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.

Stress tests are calibrated based on the severity and likelihood of occurring in light of the intentions of the portfolio's management:

- trading book stress tests are calibrated on a 10-day horizon and 10-year likelihood of occurring. They are based on:
  - historical scenarios that mimic changes seen in market parameters during past crises, their impacts on current positions and the resulting profit and loss. They allow managers to gauge exposure of the scope tested to known stress scenarios. Eleven stress scenarios are in place since 2010,
  - hypothetical scenarios simulate changes in market parameters across all activities, based on plausible assumptions about the spread of an initial shock. The shocks are based in turn on scenarios defined using economic criteria (real estate crisis, economic crisis, etc.), geopolitics (terrorist attacks in Europe, regime overthrown in the Middle East, etc.) and others (such as avian flu). The Group runs six theoretical stress tests since 2010;
- banking book stress tests on longer (3-month) horizons to match the investment horizon of the banking book:
  - a fixed-income stress test which uses a mixed hypothetical and historical approach to reproduce an episode of stress on European sovereign issuers (similar to the 2011 crisis),
  - fixed-income stress test calibrated using a mixed hypothetical and historical approach to reproduce an episode of stress on corporate issuers (similar to the 2008 crisis).

These stress tests were defined and applied jointly to the entire Group so that the BPCE's Group RCPCD could establish consolidated monitoring. The other stress scenarios are specific scenarios, applied at Group or at entity level as best reflects the specific risk profile of each portfolio.

Work done in 2017

The financial risk department worked on IT projects, improvements to limit monitoring and regulatory projects.

IT projects

Security was reinforced on transfer of transactions to RCPCD for the calculation of VaR (Scenarisk), reporting on held-to-maturity securities and European regulatory reporting. These data flows were also enriched and the quality of transaction data for risk calculations improved.

The financial risk department steered work to improve the quality of reconciliations between the front office Kondor+ system and the back office ECM.

Risk calculation improvement projects

In 2017, a project was launched to overhaul the way use of counterparty risk limits was calculated, for interbank and corporate customers based on marked-to-market value.

Regulatory projects

The roll-out of SRAB/Volcker regulations and EMIR (pledge of initial margin) continued, notably via the implementation on RCPCD recommendations of Group plans for control of these regulations.

Balance sheet management risks

Decision-making committees

Finance committee

As part of its risk management responsibilities, the finance committee is competent to carry out the tasks described in the section on "Market risk" above.

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.

Under this regulation, the Asset-Liability Management Committee is competent to conduct the following main tasks:

- it sets the terms of the Balance Sheet Management Charter for the Banque Palatine group, subsequently approved by the Executive Management Committee following review by the Risk Committee. It determines the role of the various participants in the overall process of balance sheet management, assigns their responsibilities and delegates the associated powers;
- it designs and carries out monitoring of the overall balance sheet management policy, sets strategic direction and decides on financial and commercial actions. The Finance Committee is responsible for programming these decisions;
- it approves the parameters applied and assumptions made. In doing this, it must consider the business aims (volumes and margins) for future lending, lending rules, behavioural models and embedded options including early redemption and forbearance adjustments;
- it uses internal sale rates calculated by the investment management control department based on national rules;
- it follows and steers regulatory ratios in the context of overall balance sheet management.

Once a quarter:

- it reviews the main commercial and financial assumptions;
- it analyses rate, liquidity and currency risks on a static and dynamic basis, considers whether to update the three-year forecasts for net banking income and monitors limits, including limits on the medium-/long-term portfolio;

- it follows up on financial and commercial decisions taken at the previous Committee meeting.

Once a year, it examines a stress scenario and a number of alternative scenarios.

Work done in 2017

In 2017, the Committee reviewed the deployment of the new ALM limits system introduced by Group BPCE ALM and the strengthening of controls and analyses of preparatory work for finance by the ALM Committee as part of the ALM project run by group ALM and the RCPCD.

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 framework for the Group and 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".

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 also organises the Products and Partnerships Approval Committee.

Within the central risk management, compliance and permanent control and financial security division (RC²S), the compliance functions in Banque Palatine are distributed as follows:

- a compliance department (banking and investment services) whose functions are mainly to ensure compliance with customer protection rules (vulnerable customers, right to account, Eckert law, MiFID II, etc.) and monitoring of market abuse rules (implementation in 2017 at Banque Palatine of the Group's "ALOA" software), transaction filtering, generating daily alerts;
- a financial security service (LAB FT - anti-money laundering and terrorist financing) which works with the Group's behavioural watch system (integrated in the IT system). This service is the main contact for Tracfin, the French governmental body responsible for combating illegal financial activities, money laundering and terrorist financing, with which it conducts regular reviews. In 2017, the main work related to management of alert processing to reduce time-lags.

Finally, RC²S also includes the permanent control department responsible for second-level controls other than computer monitoring by HISS (see IT systems security), credit, accounting and security of goods and persons (see Emergency and business continuity plan).

In 2017, work focussed on implementing a risk by risk approach. At the end of the year, the Bank adopted the Group's sampling standards, whose roll-out will continue in 2018 for a large number of controls.

Controls also took a themed approach, particularly on the duty to advise.

Operational risk

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 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 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 2017

One of the most significant achievements in 2017 was the change to the Group operational risk software, Osirisk. The main areas of deployment were training of the main incident collectors to use the new system and updating the set of procedures, covering both the new functionalities of the software and the associated new Group standards.

In 2017, to continue developing an increasingly relevant approach to risk, a macro-map of non-financial risks was drawn up, based on the operational risk map. The operational risk map approach still uses a process-based approach but is evolving in line with the new Group standards and the use of a new system which has been on line since 16 October 2017.

To continue to manage major risks, the External Fraud Committee met regularly and was strengthened by the creation of a fraud unit. The IT Incidents Committee met regularly over the year and also considered incidents at IT suppliers including essential outsourced suppliers. Finally, half-yearly reviews were held with legal, non-performing loan and special affairs teams.

Climate risks

Groupe BPCE is profoundly aware of its major role in 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 and forms part of the 2018-2020 strategic plan.

Groupe BPCE participates, like all 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 to prepare the institutions' macro-risk maps.

Climate change and corporate and social responsibility are increasingly important themes in the risk management policies of financial institutions and also commercially in terms of meeting customer expectations.

The Group CSR approach has been formalised and validated by the BPCE Executive Management Committee, and includes the reduction of direct and indirect environmental impacts. Steps were therefore taken by Groupe 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 as well as evaluation of their commercial development potential for the Group's banks;
- financing of renewable energies and of thermal renovation, through all the Group's principal commercial networks; Banque Palatine is particularly active in this sector, particularly in PV power.

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.

Banque Palatine is included in the Group policy.

Emerging risks

Groupe BPCE, like other European and French institutions, must confront the risks arising from its environment and pay increased attention to anticipating and managing emerging risks.

The international situation remains an area of concern, despite firmer global economic growth and a more positive trend in emerging markets. Certain regions remain troubled 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 low-rate environment creates a risk to commercial banking activities, particularly in France which has a high proportion of fixed-rate loans in the loan book and for the life insurance business.

The increasing digitisation of the economy as a whole and of banking activities in particular comes with increased risks for the security of information systems and customers. Cyber security is an area of 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 environment is another area being monitored, as banking institutions conduct their business under increasingly stringent requirements and strict supervision, a factor that was particularly important in 2017 for modelling risks.

Emergency and business continuity plan (EBCP)

The Group's EBCP is organised as a subsidiary, managed by Group business continuity (within the compliance, security and operational risks department of Group RCPCD).

The Group head of business continuity (HBC) manages the business continuity department, bringing together the heads of the business continuity plan/emergency and business continuity plan (HBCP/HEBCP) of Banques Populaires, Caisses d'Epargne, IT structures, BPCE, Natixis and other subsidiaries including Banque Palatine.

The HBCP/HEBCP of the Group's institutions report functionally to the Group's HBC. This functional link notably implies that:

- any HBCP/HEBCP appointment is notified to the Group HBC;
- compliance with the charter of risks, compliance and permanent controls is assured.

The Group's security and business continuity unit draws up, implements and develops, as needed, the Group's business continuity policy. 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 COPIL (steering committee), whose duties are to coordinate EBCP work 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.

Bodies and participants in charge of business continuity planning at Banque Palatine

The EBCP Steering Committee defines and validates the EBCP and action plan mechanisms for the current year in accordance with the Group's best practice guidelines.

The HBCEP reports to the head of human resources and services, who sits on the Executive Management Committee which also chairs the Operational Risks and Security Committee (ORSC). The EBCP Steering Committees, integrated into ORSC, meet quarterly. Exceptional meetings may be held where an urgent decision is required. A bimonthly progress review is held by the HBCEP and manager. These reviews notably help with anticipating bottlenecks.

Composition of the business continuity plan mechanisms

Banque Palatine's EBCP consists of the following plans:

- the alerts and crisis management plan which organises alerts and crisis management;
- the internal and external crisis communication plan puts in place crisis communication tools;
- hosting and repopulation plans provide for the equipment and organisation of the backup sites;
- the human impacts management plan manages competences and human resources in the event of a crisis;
- the IT recovery plan gets IT hardware started up again; under the responsibility of BPCE-IT;
- the business line continuity plans describe bypass procedures for each critical activity and for each of the crisis scenarios considered: e.g. IT systems unavailable, premises unavailable, skills unavailable, floods, pandemic;
- the through-life maintenance plan laying down the policy for reviewing cross-functional and business line plans.

Information systems security

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.

Within this framework, the Group's information systems security division (G-ISSD):

- leads the ISS function bringing together: the HISS of parent company affiliates, subsidiaries and IT EIGs;
- carries out the second-level 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 employees, 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).

Legal risks

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 (effective interest rate, Eckert law, consumer loans, mortgages, vulnerable customer offer, unbundling of products, basic banking services, 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;
- participation at subsidiaries' meetings so they can raise issues considered important by regional directors and flag up problems arising with respect to consultations or claims;
- support for network training by interventions during the credit career path.

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 1,820 questions in 2017.

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.

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.

The audit cycle agreed on takes 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 recommendation standard 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 in connection with the implementation of its audit plan;
- implementation within the agreed time frames of the recommendations 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.

He/she 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 quickly report any major incident that comes to their attention. They themselves are aware of the audit plan and receive all the reports issued by the internal audit division.

Work performed in 2017 and future plans

The 2017 audit plan was given the go-ahead by the Group general inspection division (IGG) and presented to the Risk Committee on 2 December 2016. In accordance with this plan and including the key decisions made during the year, the following units were audited:

- 12 units in the auditable head office scope established by the Group general inspection function;
- 15 commercial units in the commercial network;
- Regulatory Volcker rule and MRT audits;
- Palatine Asset Management (wholly-owned subsidiary of Banque Palatine);
- Ariès Assurances (wholly owned subsidiary of Banque Palatine);
- 4 essential outsourced services;
- 1 specific theme;
- 6 cases of fraud/code of conduct-related matters.

The supervisory authorities and IGG did not carry out any specific audit of the Bank in 2017. The Bank was, however, affected by the ECB's bad loans control at Group level.

The 2018 audit plan was given the go-ahead by the Chief Executive Officer and presented to the Risk Committee on 2 December 2017. The plan was approved by the head of the Group general inspection division by post at 16 February 2018. It includes:

- 11 units in the auditable head office scope established by the Group general inspection division;
- 22 units in the commercial network;
- Regulatory Volcker rule and MRT controls;
- Palatine Asset Management (subsidiary of Banque Palatine);
- 6 essential outsourced services;
- 1 assignment covering the Bank's information system;
- 1 specific theme;
- 2 assignments coordinated by the Group general inspection division.

Organisation of internal control at consolidated companies of the Banque Palatine group

The whole internal control system applies to Banque Palatine's consolidated subsidiaries:

- Ariès Assurances, collective social insurer and insurance broker;
- Palatine Asset Management, asset management company.

Palatine Asset Management has a head of compliance and internal control who oversees second-level controls. He reports back to the Palatine Asset Management Audit Committee which includes, as permanent guests, members from Banque Palatine:

- the head of risk management;
- the head of compliance;
- the head of internal audit;
- the head of Group general inspection.

The minutes of the meeting of the Audit Committee of Palatine Asset Management are systematically sent to the Audit Committee and the Risk Committee of the Banque Palatine.

In addition, the head of compliance and internal control attends meetings of Banque Palatine's Operational Risks and Security Committee.

Finally, the Bank's head of information systems security fulfils the same role at Palatine Asset Management.

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.

The preparation and processing of accounting and financial information has, since 3 July 2017, been the responsibility of the accounting, management control, legal affairs and disputes division (C2JC) under the Executive Vice-President for Finance and Development.

Accounting

Main duties of the accounting division:

- preparation of parent company and consolidated financial statements for the Palatine Group in accordance with Groupe BPCE standards;
- production of regulatory reports and ratios;
- accounting frameworks, ensuring compliance with Group accounting standards and guides;
- identification and quantification of the accounting impacts of company projects;
- contribution of expertise for the development of the accounting IT system;
- responsibility for accounts payable 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 "Quality control framework for accounting and financial information" was approved by the Group Internal Control Coordination Committee on 9 June 2016. This is a single unified framework and applies to all Groupe BPCE entities in the consolidated supervisory scope, replacing the Group's old Accounting and Regulatory Review Charter.

To comply with the deadlines set by the Group, in December 2017 the C2JC division presented a restructuring project that would put accounting review under the direct authority of the central head of C2JC and include the appointment of a separate head of accounting. This removes accounting review from the accounting department's purview and imposes a strict separation of accounting production and review.

Application of the control framework to accounting and financial data

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 processes and 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. The system was deployed in 2014 and is now fully on-stream. It was upgraded to a new version in 2016. 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. The Group Committee for Oversight of Financial Review is conducting a review to log requests for future developments to the Comptabase tool and automation of certain controls.

Second-level controls

The intermediate stage of the system, called "second-level control" is organised and implemented by a specialist dedicated department: review. Review conducts second-level independent permanent controls to enhance the reliability of processes and reinforce the quality of accounting and regulatory disclosures, in connection with the other permanent control functions.

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.

As from 1 January 2018, the head of review reports:

- hierarchically, to the central head of C2JC;
- 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.

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, in February 2016 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.

In 2017, financial review implemented new reporting (briefing report Flash report and PILCOP regulatory sheet) in order to obtain even more precise accounting and regulatory information on the Group's institutions.

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, Development and Finance.

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.

Risk management

Risk and compliance culture

In carrying out their different tasks, Groupe BPCE's entities are guided by the Group's Internal Control Charter and Charter of Risks, Compliance and Permanent Controls. These charters specify in particular that the supervisory body and the workforce managers of each institution, including Banque Palatine, 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.

In general, the risk management and compliance division:

- takes part in training days for risk management and compliance functions;
- enhances its regulatory expertise, notably by receiving and circulating regulatory training documents and taking part in regular sessions in the Bank's various departments;
- contributes to decisions taken by the dedicated risk management committees at Group level;
- benefits from the annual training programme run by BPCE, in which its employees can take part, and which is complemented by internal training programmes;
- prepares the macro-risk map for the institution, assessing its risk profile and identifying the main high-priority risks;
- disseminate the risk and compliance culture and share best practices with the other Groupe BPCE institutions.

Banque Palatine macro-risk map

The macro-risk map is a response to regulation, specifically the Order of 3 November 2014 on internal control, whose Articles 100, 101 and 102 require institutions to have a "risk map that identifies and quantifies the risks arising from internal and external factors". Banque Palatine meets this obligation through the "macro-risk map", developed by Groupe BPCE.

Its objective is to make institutions' activities secure and to support their financial profitability and long-term development. By identifying and rating risks, each institution in the Group defines its risk profile and high-priority risks. This risk-based approach using risk management ratings will make it possible to create and follow up on targeted action plans.

The macro-risk map has a key role in the global risk management system:

- it is closely tied into the dedicated risk appetite system as it draws up the risk profile and identifies the high-priority risks within it;
- the risk management system reviewed in the macro-map looks at, among other points, the results from internal control system and by identifying areas of risk, helps it to develop and improve;
- its results and conclusions were approved by the Audit and Internal Control Committee on 23 November 2017. They are consolidated by Groupe BPCE and a summary report is included in various Group documents: mainly the registration document, annual internal control report, ICAAP report and JST meetings.

Main risks to Banque Palatine in 2017

Risk factors for Groupe BPCE

The risk factors presented below concern Groupe BPCE as a whole, including Banque Palatine and 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 these risks, nor those of Groupe BPCE (see annual registration document), that may arise in the course of their activities or from their environment.

The risks below, and other risks that have not been identified to date or are currently seen as not significant, could have a serious negative impact on their business, financial position and/or results:

- risks arising from macro-economic conditions, the financial crisis and the strengthening of regulatory requirements;
- risks relating to Groupe BPCE's 2018-2020 Strategic plan for digital transformation, engagement and growth;
  - the strategic plan will focus on (i) digital transformation to seize ongoing opportunities created by the tech revolution, (ii) engagement with our customers and employees, and (iii) growth of all Groupe BPCE core businesses. As part of the plan, Groupe BPCE announced a set of financial objectives for capital and liquidity ratios and cost reductions,
  - actual results of the Group may vary and this may affect its financial position and the value of its financial instruments;
- risks arising from Groupe BPCE business and the wider banking sector;
  - Groupe BPCE, including Banque Palatine, is exposed to several categories of risk inherent to banking activities: credit, market, interest rate, liquidity and non-financial risks including operational, non-compliance and 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 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;
- 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;
- any interruption or failure of Groupe BPCE's IT systems or those of a third party could lead to losses, notably commercial. Unforeseen events can cause an interruption of Groupe BPCE's activities and lead to substantial losses as well as additional expenses;
- Groupe BPCE's hedging strategies do not remove all risk of loss;
- the risks in relation to reputation, misconduct and legal affairs could weigh on the profitability and business outlook of Groupe BPCE.

Risk factors for Banque Palatine

Aside from the above-mentioned risks, Banque Palatine is also exposed to a number of risks identified by its macro-map:

- credit risk in various markets but most prominently the corporate market. The other main credit risks relate to the retail segment (mainly private banking customers) or the set of bank counterparties that the Bank works with. Concentration risk is one of the risks monitored within credit risk;
- financial risks, chiefly market risks, interest rate risk to the banking book and liquidity risk. The Bank's risk appetite frames these risks using a set of quarterly indicators which are monitored by the Bank's governance bodies;
- non-financial risks, including many of the operational risks (external fraud, credit frontier, non-compliance, etc.);
- finally, other risks, such as solvency or excessive leverage.

Banque Palatine is exposed to a number of other risk factors which are complementary, and sometimes similar, to those of Groupe BPCE:

- the Bank has to be able to meet the targets in its 2018-2020 strategic plan;
- Banque Palatine must maintain a high credit rating. If not, its activities and profitability could be negatively impacted;
- a substantial rise in impairment of assets or a failure to bring down existing impairment charges against the Banque Palatine loan book could harm its operating profit and financial position;
- changes in fair value of Banque Palatine's securities and derivatives portfolios and own debt could negatively affect the carrying amount of its assets and liabilities and hence its net income and equity;
- future events may diverge from the assumptions used by management preparing Banque Palatine's financial statements and could cause unexpected losses in the future;
- Banque Palatine could suffer a fall in fee income during a market slowdown;
- as a result of its business, Banque Palatine is particularly sensitive to the national economic climate.
- major changes in interest rates could harm net banking income or profitability;
- Banque Palatine may also face a shortage of liquidity should any of the Groupe BPCE entities in the financial solidarity mechanism get into financial difficulties.
- Banque Palatine is subject to the European Bank recovery and resolution directive (BRRD): the directive imposes a framework for recovery and resolution of credit institutions and investment firms and may have an impact on their management and, in certain circumstances, the rights of their creditors. Specifically, potential bond investors must consider the risk that they could lose all or part of their investment, including both principal and interest, most notably if the bail-in measures are triggered. If the competent resolution authority decides to impose resolution, this could have a negative impact.

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 minimal Common Equity Tier 1 ratio of 4.5% and a minimal Tier 1 capital ratio of 6%.

Regulatory capital and Basel III capital adequacy ratios

in millions of euros	31 Dec. 2017	31 Dec. 2016
Consolidated equity	820.92	777.21
Perpetual deeply subordinated notes classified as equity	0.00	0.00
Consolidated equity excluding perpetual deeply subordinated notes classified as equity	820.92	777.21
Non-controlling interests		
Common Equity Tier 1 (CET1) capital before deductions	820.06	751.00
Deductions from common equity		
▪ Goodwill		
▪ Other intangible assets	(26.98)	(25.14)
Other prudential adjustments	(5.22)	(3.93)
Common Equity Tier 1 (CET1) capital	787.86	721.93
Deeply subordinated notes		
Other Additional Tier 1 (AT1) capital		
Tier 1 capital (A)	**787.86**	**721.93**
Tier 2 capital	200.00	150.40
Tier Two capital (B)	**200.00**	**150.40**
TOTAL REGULATORY CAPITAL (A + B)	**987.86**	**872.33**
Credit risk-weighted assets	8,834.07	8,562.94
Market risk-weighted assets	0.21	0.58
Operational risk-weighted assets	585.48	580.92
CVA risk-weighted assets	38.29	50.71
TOTAL BASEL III RISK-WEIGHTED ASSETS	**9,458.05**	**9,195.16**
Capital adequacy ratios		
Core Tier One ratio	8.33%	7.85%
Tier One ratio	8.33%	7.85%
Total capital adequacy ratio	10.44%	9.49%

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 €787.9 million includes the following elements:

- share capital, reserves, and undistributed profits: €820 million;
- the OCI on securities classified in the “Available-for-sale” category and social liabilities: €0.9 million;
- prudential adjustments (including goodwill and intangible assets): -€33 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 5.75%.

Banque Palatine does not have Additional Tier 1 (AT1) capital as at 31 December 2017.

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 two eligible fixed-term subordinated note issues in the amount of €200 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	Weighted exposure 31 Dec. 2017	Weighted exposure 31 Dec. 2016
Central governments and central banks	30	34
Public sector entities	3	1
Institutions	89	111
Corporates	6,711	6,565
Retail customers	340	254
Exposures guaranteed by a mortgage on a real estate asset	1,001	978
Exposures in default	495	471
Collective investment undertakings	21	20
Exposures in the form of equities	12	15
Other items	132	112
Credit risk exposures	8,834	8,563
Market risk exposures	0.2	0.6
Operational risk exposures	585	581
CVA risk exposures	38	50
TOTAL AMOUNT OF RISK EXPOSURES	**9,458**	**9,195**
CET1 capital	788	722
CET1 RATIO	**8.33%**	**7.85%**
T1 capital	788	722
AT1 RATIO	**8.33%**	**7.85%**
Total capital	988	872
TOTAL RATIO	**10.44%**	**9.49%**

At 31 December 2017, risk-weighted assets calculated in accordance with Basel III amounted to €9,458 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 2017:

- the Common Equity Tier 1 ratio was 8.33%;
- the Tier 1 equity ratio was 8.33%;
- the total equity ratio was 10.44%.

Leverage ratio

The leverage ratio is an additional measure of risk designed to complement capital requirements. Article 429 of the CRR, which specifies the methods used to calculate the leverage ratio, was amended by the European Commission's delegated rule 2015/62 of 10 October 2014. Banks have had to publish their leverage ratios since 1 January 2015. Integration of the Pillar I requirements is planned as from 1 January 2018.

The leverage ratio is Tier 1 capital divided by exposures, which means on- and off-balance sheet assets, restated for derivatives, securities financing transactions and assets deductible from capital. The minimum leverage ratio is currently 3%.

Banque Palatine's leverage ratio, calculated in accordance with the European Commission delegated regulation of 10 October 2014, was 4.81% at 31 December 2017, based on phase-in Tier 1 capital.

in millions of euros	31 Dec. 2017
TOTAL CONSOLIDATED ASSETS (PUBLISHED)	**14,767**
Adjustment for financial derivatives	99
Adjustment for commitments given (conversion of loan-equivalent amounts of off-balance sheet exposures)	1,537
Adjustments for capital assets	(32)
TOTAL LEVERAGE EXPOSURE	**16,371**

On a fully-loaded basis, *i.e.* without phase-in adjustments, Banque Palatine's leverage ratio would be 4.82% at end-2017 compared to 4.72% at end-2016.

Credit and counterparty risks

Definition

Credit risk is the risk of default by a debtor or counterparty or a set of debtors or counterparties considered to be a single group of related customers as defined in Article 4, paragraph 1, point 39 of EU regulation no. 575/2013. This risk can also result in impairment losses to securities issued by a 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 system for the supervision of credit and counterparty risks

The 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 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.

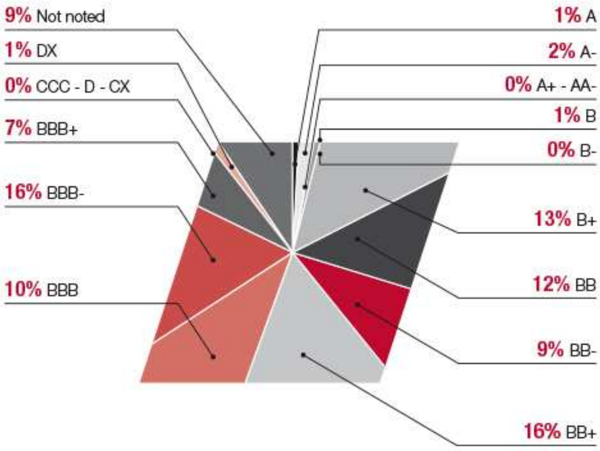
Breakdown of gross exposures by category (credit risks including counterparty risk)

(in millions of euros)	Gross exposures 31 Dec. 2017	Gross exposures 31 Dec. 2016	Weighted exposures 31 Dec. 2017	Weighted exposures 31 Dec. 2016	Weighting rates (as a %) 31 Dec. 2017
Central governments	1,539	1,861	30	34	1.93%
Public sector entities	27	34	3	1	11.40%
Institutions	3,619	4,187	89	111	2.45%
Corporates	8,906	8,841	6,711	6,566	75.35%
Balance sheet	*6,365*	*6,186*	*5,541*	*5,359*	*87.06%*
Off-balance sheet items	*2,541*	*2,655*	*1,170*	*1,206*	*46.03%*
Retail customers	550	430	340	254	61.83%
Balance sheet	*464*	*347*	*312*	*226*	*67.22%*
Off-balance sheet items	*87*	*83*	*29*	*28*	*33.07%*
Exposures guaranteed by a mortgage on a real estate asset	2,444	2,348	1,001	978	40.98%
Exposures in default	695	712	495	471	71.25%
Collective investment undertakings	20	21	21	21	103.81%
Equities	12	10	12	15	100.00%
Other items	230	289	132	112	57.22%
TOTAL	**18,043**	**18,733**	**8,834**	**8,563**	**48.96%**

Monitoring concentration risk

Monitoring of concentration risk by counterparty

Exposures to third parties belonging to groups above €10 million according to internal rating



The concentration of risks is stable while maintaining a good quality of risks.

Concentration of exposures by segment

Breakdown of commercial banking risks at 31 December 2016 using Caisse d'Epargne segmentation

	31 Dec. 2016	
	TOP 10	TOP 50
Individual customers	3%	10%
Corporates	6%	18%
Real estate professionals	16%	38%
Large counterparties	67%	100%

"Disclosure in accordance with IFRS 7."

Breakdown of commercial banking risks at 31 December 2017 using BPCE segmentation

	31 Dec. 2017	
	TOP 10	TOP 50
Retail individual customers	*3%*	*9%*
Retail professionals	*5%*	*15%*
Corporate	*6%*	*16%*

The transition to BPCE segmentation in 2017 means that the concentrations of exposures by segment shown for 2016 and 2017 are not comparable.

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.

  Individual limits take into account the Bank's level of capital and its capacity to generate profits, 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.

Concentration rates monitored based on on- and off-balance sheet exposures

Basel classification	Group name	Gross exposures (in thousands of euros)
CORPORATE	Counterparty 1	100,160
CORPORATE	Counterparty 2	80,022
CORPORATE	Counterparty 3	62,339
CORPORATE	Counterparty 4	59,698
CORPORATE	Counterparty 5	57,246
CORPORATE	Counterparty 6	55,092
CORPORATE	Counterparty 7	50,051
CORPORATE	Counterparty 8	49,422
CORPORATE	Counterparty 9	50,008
CORPORATE	Counterparty 10	50,006
CORPORATE	Counterparty 11	49,205
CORPORATE	Counterparty 12	49,055
CORPORATE	Counterparty 13	48,495
CORPORATE	Counterparty 14	47,564
CORPORATE	Counterparty 15	46,206
CORPORATE	Counterparty 16	46,060
CORPORATE	Counterparty 17	44,850
CORPORATE	Counterparty 18	44,109
CORPORATE	Counterparty 19	43,806
CORPORATE	Counterparty 20	42,210
TOTAL		**1,075,604**

Geographic exposure

The geographic exposure of outstanding loans primarily concerns the Eurozone, and in particular France (89% as at 31 December 2017).

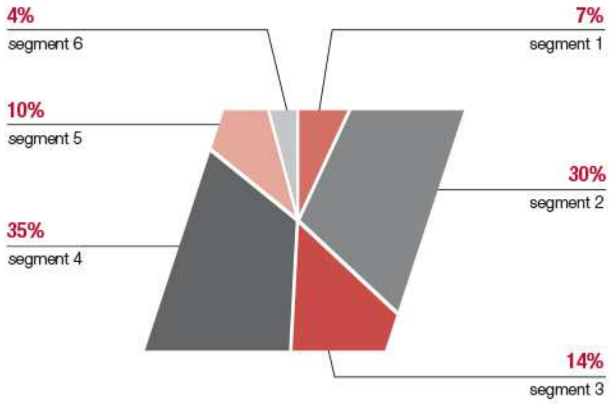
Total country risk exposure was €1,810 million, up from €2,145 million at 31 December 2016. These exposures mostly comprise securities (€1 billion).

The Bank has sovereign risk exposure to the following countries: Luxembourg (€249 million), Italy (€221 million), Netherlands (€221 million) and Austria (€221 million).

The Bank's sovereign exposure totalled €1.46 billion at 31 December 2017 (down by €266 million compared to the previous year as a result of rising customer exposures replacing financial exposures) Aside from French government and equivalent exposures, the main sovereign risks borne by Banque Palatine are the following: Austrian Republic (€199 million), Netherlands (€182 million), Finland (€162 million), Italy (€150 million), Belgium (€112 million) and Ireland (€67 million). These mainly consist of securities that form part of the Bank's liquidity reserve.

Breakdown of exposures to rated corporates by credit segment

Breakdown of credit risk exposures by credit segment (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 Segment 1 is the least risky, with ratings of 3++.

This year the numbers were presented with greater granularity than the previous year where Segments 3/4, as well as Segments 5/6 were combined. In comparative terms, Segment 1 made up 4% of exposures in 2016 rising to 7% in 2017. Segment 2 also improved this year, to 29% vs. 18% in the prior year. There has therefore been an improvement in the top two segments. Note that this data comes from Groupe BPCE's RWA calculation tool.

Loans in forbearance are, logically, distributed more towards the lower credit segments: 29% in Segment 6 and 54% in Segment 4. There are no cases of forbearance in Segment 1 and almost none in Segment 2.

Impaired assets, past due payments and credit risk hedging

Credit risk exposure includes €102 million of past due payments and €308.1 million of impaired assets.

These exposures are shown after deducting €280.6 million of individual impairment and €13.8 million of collective impairment.

The change in individual and collective impairment over the period breaks down as follows:

in millions of euros	Specific impairments	Collective impairment	Total
Balance at 31/12/2016	(301.1)	(13.0)	(314.1)
Charges	(68.9)	(0.8)	(69.7)
Reversals used	52.4	0.0	52.4
Unused reversals	36.9	0.0	36.9
Other changes	0.0		0.0
BALANCE AT 31/12/2017	**(280.6)**	**(13.8)**	**(294.4)**

"Disclosure in accordance with IFRS 7."

Risk profile at 31 December 2017

Doubtful loans and commitments totalled €637.4 million and represent 5.9% of total customer loans, a reduction on the 6.4% recorded in December 2016.

These loans and commitments are covered by specific and collective provisions totalling 46.2% of their outstanding amount. This is a slight reduction on the 48.1% coverage at 31 December 2016.

IFRS cost of risk was €39.5 million, down since 31 December 2016 (€46 million), and 0.42% of the gross loan book at 31 December 2017 vs 0.52% at end-2016.

IFRS provision rate

	2017			2016		
in millions of euros	Loan book - carrying amount (millions of euros)	Provisions - carrying amount (millions of euros)	Provision rate - carrying amount	Loan book - carrying amount (millions of euros)	Provisions - carrying amount (millions of euros)	Provision rate - carrying amount
Impaired loans and advances	0.0			0.0		
Specific impairments		255.8			285.0	
Impaired loans and advances	557.8			561.0		
Securities classified as doubtful loans and advances	6.1			6.5		
DOUBTFUL LOANS ON BALANCE SHEET (CUSTOMERS)	**563.8**	**255.8**	**45.36%**	**567.5**	**285.0**	**50.22%**
Provisions for off-balance sheet commitments		24.5			15.7	
Doubtful commitments given	13.9			14.5		
Doubtful guarantees given	59.7			71.5		
TOTAL DOUBTFUL EXPOSURES, ON- AND OFF-BALANCE SHEET	**637.4**	**280.2**	**43.96%**	**653.5**	**300.7**	**46.02%**
Impaired AFS securities	0.0	0.0		0.0	0.0	
Collective impairment		13.8			13.0	
Other assets		0.4			0.4	
TOTAL DOUBTFUL EXPOSURES (INCL. SECURITIES) + COLLECTIVE PROVISIONS	**637.4**	**294.4**	**46.19%**	**653.5**	**314.1**	**48.06%**

Banque Palatine's consolidated provision rate is 46.19%.

Collective provisions at 31 December 2017

The methodology applied by the risk management division to calculate provisions against performing exposures is based on:

- Groupe BPCE methodology and ratings for customers shared with other Group entities;
- NET ratings produced by the Caisse d'Epargne rating system or Banque de France ratings, or, failing this, internal ratings.

Risk mitigation techniques

Providers of sureties

Taking guarantees (or risk mitigation techniques) into account represents one of the important factors in reducing capital requirements.

Our institution is responsible for the system to oversee the undertaking of guarantees, their validity, and their registration. The registration of guarantees follows procedures in force. We are in charge of the safe-keeping and archiving of our guarantees, pursuant to the internal procedures in force.

The departments responsible for granting guarantees carry out first-level controls.

The cross-cutting divisions, including the risk management division, perform second-level controls on the validity and registration of the guarantees.

In 2017, taking into account collateral received for guarantees and sureties obtained by Banque Palatine in the course of its credit business, and taking into account the purchase of sureties, made it possible to reduce exposure to credit risk and hence capital requirements.

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. The specificities of each major area of group business are factored in when risk parameters are calibrated. Tests cover all portfolios subject to credit and counterparty risks, irrespective of whether weightings are calculated by the standardised or internal ratings-based approach. Banque Palatine applies the standardised approach. They are carried out on the basis of detailed information framed by the information that feeds into COREP group prudential reporting and the risk analyses of the portfolios. They integrate the following hypotheses on the change in the credit quality of the portfolio:

- migration of counterparty ratings on the basis of migration matrices, with impact on RWA for assets using the standardised or IRB approach and expected loss for those using the IRB approach only;
- 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.

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 equities, but for Banque Palatine more importantly securities held in the liquidity reserve.

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 transactions on products generating market risk, whatever their accounting classification.

Activities falling within this scope are not included in the ALM function.

Within this scope, the market risk function carries out the following tasks, defined in the Group Charter of Risks, Compliance and Permanent Controls:

- 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);
- cross-discipline analysis and back-testing 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 (value at risk), stress tests, etc.;

- 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.

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

The financial 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 by the financial risk department, provides a comprehensive and consistent picture of all the activities.

Market risk monitoring concerns the following segments: Corporate and investment banking (capital markets) and financial business (liquidity reserve and medium- and long-term investments). The customer segment is monitored by the ALM risk department.

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 half-year on the "Lagarde" report recommendations using a control grid prepared centrally.

The market risk monitoring system is accordingly based on qualitative and quantitative risk indicators. The frequency of monitoring of these indicators varies according to the financial product monitored. Qualitative indicators chiefly comprise the list of authorised products, behavioural indicators and content of legal documents.

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 daily 99% 1-day VaR on the Bank's trading book;
- calculates daily sensitivities by risk category, on the Banque Palatine trading scope.

Daily VaR calculation according to the "Monte Carlo" method

Segment	Sub-segment	VaR at 31/12/2016	VaR at 31/03/2017	VaR at 31/06/2017	VaR at 31/09/2017	VaR at 31/12/2017	Change in VaR between 31/12/2016 and 31/12/2017
Capital markets	Currency, interest rates	€49,436	€33,859	€18,962	€14,029	€12,378	(75%)

The VaR is an overall indicator of market risk which measures maximum potential loss over a given time frame for a defined confidence interval, in accordance with the regulatory requirements related to internal control.

Banque Palatine's VaR is very low. This is in part the result of systematic hedging of all customer transactions. VaR has fallen sharply since June 2017 thanks to market conditions and no asset breaching (except technically) its limit in 2017.

Balance sheet management risks

Definition

Structural balance sheet risks translate into a risk of immediate or future loss, related to changes in commercial or financial parameters and the balance sheet structure of banking book activities.

Structural balance sheet risks have three main components:

- **liquidity risk** is the risk that an institution will be unable to meet its commitments or unwind or offset a position due to market circumstances or specific factors, within a fixed time and at a fair price (order of 3 November 2014 on 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.

Limits for and monitoring of balance sheet management risks

The financial risk department 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:

- applying the Group level limit system internally;
- 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.

Banque Palatine controls are formalised 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 under the management of 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

The institution manages its balance sheet independently within the standardised Group ALM framework, set by the Operational Group ALM Committee and approved by the Group Risk Committee or by the Strategic Group 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 Banque Palatine, liquidity risk is the responsibility of the Asset-Liability Management Committee and Finance Committee. These committees monitor liquidity risk and take financing decisions, the Finance Committee acting on delegation from the ALM Committee.

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.

The scope of balance sheet management includes all on- and off-balance sheet transactions. 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.

Banque Palatine has various sources of funding from its customer business (credits), in descending order of importance:

- customer deposit accounts;
- issues of negotiable certificates of deposit;

- bonds issued by BPCE;
- customer savings in non-centralised regulated savings accounts, other savings plans and accounts and term deposits;
- where necessary, centralised market refinancing at the Group level optimising the resources brought into the Bank, including through the TLTRO programme (Targeted Longer-Term Refinancing Operations).

Monitoring liquidity risk

Static liquidity risk is measured by the liquidity gap. The liquidity gap for a given period (t) is equal to the difference between the assets and liabilities for period (t). It is calculated using average assets for period (t).

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;

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.

Limits are reviewed and adjusted annually. Where a breach occurs, the risk management division informs the Executive 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. Executive management monitors the Bank's liquidity through a number of committees: the Finance Committee, the ALM Committee and the Audit and Internal Control Committee. The Risk Committee is also kept informed of its liquidity risk exposure every quarter.

Over the last financial year, our institution respected its limits.

Monitoring interest rate risk

Our institution calculates:

- a regulatory indicator with a mandatory limit: SOT (Supervisory Outlier Test) 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 with mandatory limits:
  - on a static basis, a fixed-rate gap limit system.

    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 four-year period.

Over a management horizon (a rolling four-year period), the Bank measures the sensitivity of our results to possible movements in interest rates, business forecasts (new business and changes in customer behaviour) and sales margins.

In 2017, the fixed-rate gap limit was breached but a remedial plan was shared with Groupe BPCE and should bring it gradually back within its limit during the first half of 2018.

Operational risk

Definition

The definition of operational risk is given in point 52 of paragraph 1 of Article 4 of EU regulation no. 575/2013: "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 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 entities consolidated or controlled by the Bank (Ariès Assurances and Palatine Asset Management);
- 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 Banque Palatine relies on a decentralised system of correspondents deployed throughout the Bank. The operational risk department leads and trains its operational risk correspondents.

The operational risk department provided permanent second-level control of the operational risk management division in 2017. In 2018, these controls will be centralised at Groupe BPCE level and the local department of Banque Palatine will provide first-level controls.

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:

- Banque Palatine has opted for a decentralised system;
- the workforce managers are informed of major incidents through two channels:
  - the Audit and Internal Control Committee which restores the major elements of the Operational Risks and Security Committee,
  - any alerts triggered under Article 98 of 3 November 2014.

The Operational Risks and Security Committee (ORSC) of Banque Palatine meets quarterly and is chaired by a member of the Executive Management Committee (head of resources and services). It has five permanent members including the chairman and a representative from the Group risk management division's operational risk department is invited to attend.

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 identified incidents and controls follow-up of the resulting action plans. It reviews the contribution made by the risk department to the permanent controls plan, follows up on implementation of the Emergency and Business Continuity Plan (EBCP) and makes any decisions required to enhance the framework.

The head of operational risk reports to the Banque Palatine head of risk management. He/she is responsible for the different elements of the operational risk system: mapping, incidents, indicators, action plans, and reporting within the scope concerned. He/she also participates in the internal control framework of Banque Palatine.

In this role, he/she has to:

- deploy among users the Group methodologies and tools, with necessary adjustments arising from the specific characteristics of certain institutions, subsidiaries and business lines, applied in conjunction with Group RCPCD;
- formalise or update procedures;
- guarantee the quality of data inputs to the operational risks system;
- check the completeness of data collected, mainly via accounting reconciliation of losses and provisions for incidents arising from operational risks;
- control the business lines and functions in implementing corrective actions and/or action plans;
- carry out a periodic review using an operational risk management tool of the status of incidents, progress of action plans and their recording in the operational risks tool;
- ensure regular updating of the risk indicators and track changes so that they can trigger the necessary actions in the event their worsening;
- periodically update the risk map for presentation to the Committee;
- 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).

On these issues, he/she acts as contact point for the Group operational risk department.

Since 16 October 2017, Banque Palatine has been using the Group's new OSIRISK system to apply the methodologies of Group RCPCD and collect the information necessary to effectively manage operational risks.

This system makes it possible to:

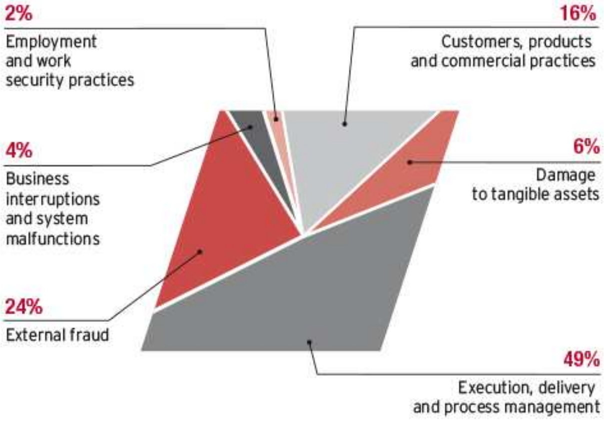
- identify and evaluate operational risk on an ongoing basis, making it possible to define Banque Palatine's risk profile;
- conduct the daily collection and management of incidents generating or liable to generate a loss;
- update the rating of risks in the risk map and monitor the action plans.

Banque Palatine also produces reports and a quarterly operational risk dashboard, all of which are presented to the Committee every quarter.

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.

In this context, more than 2,279 incidents were detected and collected by Banque Palatine in 2017.

Some validated incidents (occurring in 2017 or earlier) are still being dealt with and are broken down by Basel type as follows:



Exposure to operational risks

In 2017, the annual amount of COREP losses and provisions for the Group (Banque Palatine and subsidiary Palatine Asset Management) totalled €7,253,428. At 31 December 2017, capital requirements for covering operational risk were €51 million.

The duties of the operational risk department of the 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.

Legal risks

The inventory of loans being processed by the non-performing loans division at the end of 2017 was 602 loans subject to recovery in the gross amount of €208.4 million. New loans in 2017 represented 302 loans totalling €105 million, broken down as follows: 250 loans to private individuals for a total of €52.8 million and 52 loans to companies for a total of €52.2 million.

Within the Bank, the inventory of loans in dispute at the end of 2017 was 119 loans broken down between 82 subpoenas totalling €34 million, and 37 claims filed by lawyers seeking a total of €3,683 million.

New loans in dispute in 2017 include 20 subpoenas amounting to €2,703 million and 27 claims amounting to €0.488 million.

The supervisory and special affairs department tracked and managed 1,178 loans at the end of 2017 totalling €420 million including 72 new loans in 2017 totalling €37 million.

Emergency and business continuity plan – EBCP

Monitoring and steering

A detailed progress update is given at the quarterly ORSC meeting.

There are two regular annual operations:

- a through-life maintenance campaign by all the business line correspondents makes sure that business line planning is monitored;
- a second-level business continuity permanent controls campaign, organised by the Group Safety and Business Continuity Division (SBCD-G), conducted by the HBCP and registered in the Group's PILCOP tool.

A half-yearly report is produced, based on a questionnaire about Group best practice rules, using the Group's reporting software (EasyReport). It reviews the indicators and refocuses the action plan.

Highlights of the year and areas for improvement identified

In 2017, the improvement and reinforcement of the EBCP system continued by embracing the best possible practices, in accordance with Groupe BPCE's guide to best business continuity practices.

The highlights included:

- running, on 19 March 2017:
  - a scenario simulating the unavailability of the IT system: "Application Recovery Plan". This test of the system for restoring IT activity was the first since the Bank migrated its IT operations to the Group's BPCE-IT entity in October 2016. At the time, many essential applications were validated without problems. Nevertheless, BPCE-IT identified an action plan to reduce the downtime before applications were back up and running,
  - a crisis management exercise simulating the unavailability of the IT system, led and coordinated simultaneously at multiple sites (Anjou office, Val de Fontenay office and BPCE-IT site);
- running, on 19 October 2017:
  - the EBCP exercise simulating unavailability of premises, "users evacuate head offices", in which users have to leave the workplace and pick up again using the IT equipment at the back-up sites in Noisy-le-Grand and Val de Fontenay (for employees at the Anjou head office). Around 70 people took part, including 54 at the Noisy-le-Grand site,
  - a crisis management exercise simulating the scenario of unavailability of premises. This exercise validated the crisis management and communication tools;
- running an exercise, on 12 December 2017:
  - using a scenario of unavailability of premises, this time covering users of the regulated real estate professions middle office, and the Palatine et Vous call centre. Users were successfully transferred to the back-up site at the Saint-Lazare branch;
- continued work to implement the human resources guidelines for the EBCP. The guidelines have two aims: to create a system for managing movements of BCP correspondents and to allow management of scenario 3, unavailability of employees, by incorporating the map of key competences. Drafting of business line business continuity plans following closure of the site for automated management of the system plans,
- annual review of the business line impact analyses (BIA) for 37 of the Bank's critical activities.

The action plan for 2018 also includes:

- replacing the head of Emergency and Business Continuity Plans who will be transferred in 2018;
- training the new head of Emergency and Business Continuity Plans through a knowledge and training placement at the Group department;
- continuing to improve monitoring of EBCPs at external service providers of critical activities, based on work done by the Group to monitor its own suppliers;
- conducting a business recovery plan exercise simulating "Unavailability of IT systems" in coordination with BPCE-IT, with recovery of Bank activities from the back-up site. This exercise will involve final users:
- going ahead with a business continuity plan exercise simulating "Unavailability of premises" with a transfer of users and the resumption of activity on the back-up site's IT infrastructure, with user involvement;
- running a crisis management exercise simulating the scenario of unavailability of key competences;
- raising awareness of business continuity among new employees;
- deploying the SBCD-G EBCP tools, currently going through a selection process.

Information systems security (ISS)

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. Changes made in 2017 reassigned responsibilities for carrying out controls. From now on, the Group's "IT factories" will be responsible for implementing and controlling the ISSP in their institutions, instead of the financial institutions themselves.

At end-2016, Banque Palatine's IT operations were outsourced to a factory run by the Group (BPCE-IT). As a result, all controls over IT security are delegated to the expert departments of BPCE-IT who are clearly identified and segregated from the operational teams.

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. In 2017, the methodology was further improved by deploying 2 central tools for operational risks and IT security which will be able to consolidate their results.

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 2017, the system was further matured and industrialised winning the "CERT" label allowing it to be internationally recognised. This gain in visibility allows secure exchanges with any other "CERT" certified institution worldwide.

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.

1 Authentication of customers for remote banking and online payment transactions; Secure internet access; 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; Security of IT facilities.

2 Operation of the Groupe BPCE ISS function, ISS Permanent Control, classification of IS-sensitive assets.

Financial Stability Forum recommendations concerning financial transparency

In accordance with recommendations made by the Financial Stability Forum regarding financial transparency, Banque Palatine did not have any exposure at 31 December 2017 or at any time in 2017 to risks relating to CDOs, monoline exposures, CMBSs, RMBSs or special purpose entities.

Leveraged buyouts

At 31 December 2017, Banque Palatine had 128 files amounting to €620 million. This is an increase on the prior year due to the growth of the business and a change in accounting method; unused portions of LBOs and classic credit lines of LBO target companies were included in the total.

The LBO loan book is monitored by a dedicated department and made up 5% of the Bank’s corporate loan book at 31 December 2017.

Doubtful loan rates fell to 11.5% (from 18.3% the previous year) giving a coverage rate for doubtful loans of 66.6% (vs. 72% the previous year).

Cost of risk on LBOs, which has always been negative in prior years, turned positive this year as borrowers’ circumstances improved allowing the reversal of some provisions. Also, the total volume of new provisions for LBOs was exceptionally low in 2017, consistent with the fall in doubtful loan rate explained below. As a result, following a cost of LBO risk of €5.8 million in 2016, the Bank enjoyed a net reversal of €5.5 million in this business during 2017.

5

NOTES TO THE MANAGEMENT REPORT

1 Report on the employee-related, environmental and social information

Introduction

Groupe BPCE's sustainable development strategy

Groupe BPCE is a decentralised and multi-brand cooperative group. Its role is to act as a universal bank and to offer banking and insurance products to individual customers, associations and professionals, companies and communities as close as possible to the needs of the regions and the economy.

Groupe BPCE, through its business model, generates various employee-related, environmental and social impacts on the regions. It contributes 20% of the financing of the French economy[1].

By putting CSR into its strategy for 2018-2020, Groupe BPCE reasserts its wish to be a responsible banker and insurer in its operations and its business relations, and to accept its role as the second biggest source of finance for the French economy and of its regions.

This view is expressed through four strategic priorities:

- to be the most committed banking and insurance cooperative with customers and regions;
- to be a leading bank with regard to green and responsible growth;
- to give concrete expression to our cooperative and CSR commitments in our internal practices;
- to be an exemplary bank in its relations with stakeholders.

Banque Palatine's sustainable development

strategy

Banque Palatine's social responsibility strategy reflects the overhaul of its commitments in 2008. Compliance requirements are strictly applied consistent with the sustainable development policy of BPCE, of which Banque Palatine is a wholly-owned subsidiary.

Apart from compliance, Banque Palatine, a human-scale bank, uses its social responsibility as a springboard so that its particular features take root and are cultivated, with three principles:

- first of all human: maintain a sustainable and bespoke relationship with customers and employees;
- support: support customers as a financier and also as a true partner, beyond the business of banker;

1 20.7% of the share of the loan market for all non-financial customers (source BDF – T3 2016).

- collective working: favour co-construction and collective intelligence to incite creativity, pro-activity and enrich the solutions offered.

The year 2017, a period for transition and the construction of a new strategic plan for the 2018-2020 period, was an opportunity to question our social responsibility approach. Consideration given by employees, coming from various business lines, led us to consolidate our approach for 2018 in five areas:

- guarantee the ethics and transparency of our practices, but taking care to act responsibly and embodying a bank which keeps its promises;
- support the players in the real economy by committing ourselves with medium-sized businesses and by encouraging socially responsible investment;
- nurture diversity on a daily basis, by taking care of our human capital, ensuring that our gender mix bears fruit and by making a commitment with regard to disability;
- take care of the environment by mobilising to reduce our environmental footprint and by encouraging the transition towards a more sustainable economy;
- cultivate our commitments in the City, by supporting the arts and letters, by strengthening our partnership for equal opportunities and by acting together with the senior executives of medium-sized companies with regard to philanthropy.

This latter commitment will be put into practice, even more so, by launching the Fondation des ETI at the beginning of 2018: Banque Palatine, the METI (movement of medium-sized companies), and about 10 such companies wishing to join forces with us to make entrepreneurship an instrument to serve social integration better. This collaborative foundation will be housed by the Fondation Entreprendre, a recognised general interest player on subjects relating to entrepreneurship, which will guarantee the transparency and legitimacy of our action.

The 2017 non-financial report, developed in the following pages, is presented in accordance with the French regulatory requirements: workforce-related information, environmental information and social information.

Workforce-related information

As part of the strategic plan, the Group has also developed a committed and responsible human resources approach, which takes part in the sustainable development of BPCE. For instance, it has chosen to implement three priority actions in favour of professional gender equality, the employment of disabled persons and equal opportunities. Actions to improve employee relations, occupational health and safety and anti-absenteeism complement this approach.

The human resources policy supports the "Impulsions" 2014/2017 strategic plan and is in line with three main aims:

Developing skills:

- in the commercial network and the business line divisions, with a view to customer satisfaction with training courses specific to the technical nature of the business line and the posture in order to embody our signature "The Art of Being a Banker", to the best;
- by a managerial training programme, run over three years, set up in February 2015 to support the managers in their managerial role to transform their individual effectiveness into collective effectiveness, in an economic climate subject to numerous changes.

Securing support:

- by establishing in 2017 a collaborative and participative Quality of life at work approach, with the aim of setting up actions to improve the quality of life in the workplace and the work-life balance.

Modernising:

- by investing in the Val de Fontenay head 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;
- by supporting the change in teams, as projects such as the migration of the investment securities tool are particularly concerned.

Workforce

The Banque Palatine workforce decreased in 2017: 1,215 employees, 93.3% of whom are on indeterminate contracts (ed: 1,244 employees at 31 December 2016). This change in the workforce is in line with the commitment to keep to a strategic plan with a comparable workforce.

Women are still in the majority and represent 52.7% of the total workforce. This indicator has been stable over the last three years. The proportion of managers rose again in 2017 to 66.4%, from 64.4% in 2016.

Work-study contracts continued with 43 young employees on apprenticeships or professional development contracts, four more than at 31 December 2016.

Breakdown of workforce by contract type, status and gender

Due to Banque Palatine being present only in France, the breakdown by geographical area is not indicated.

nr = not relevant / na = non available / nm = not material

	31 Dec. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Total permanent and fixed-term staff including those on work-study programmes	1,215	26	1	1,244	27	11
Total permanent and fixed-term staff (not including work-study and internship programmes)	1,172	26	1	1,205	26	1
Number of permanent employees	1,134	26	1	1,145	26	1
Permanent employees as a % of the total workforce	93.33	100	100	92.04	96.30	100
Fixed-term employees, including those on work-study programmes	81	0	0	99	1	0
Fixed-term employees as a % of the total workforce	6.67	0	0	7.96	3.70	0
Total managers	807	26	0	801	26	0
Managers as a % of the total workforce	66.42	100	0	64.39	96.30	0
Total non-managerial employees	408	0	1	443	1	1
Non-managerial employees as a % of the total workforce	33.58	0	100	35.61	3.70	100
TOTAL FEMALE EMPLOYEES BREAKDOWN BY AGE CATEGORY:	**640**	**8**	**1**	**658**	**9**	**1**
18 to 25	44	0	0	49	1	0
26 to 30	85	0	0	97	0	0
31 to 35	106	1	1	92	1	1
36 to 40	83	1	0	86	2	0
41 to 45	75	1	0	69	1	0
46 to 50	44	1	0	57	1	0
51 to 55	103	3	0	110	2	0
56 to 60	86	1	0	85	1	0
61 years and over	14	0	0	13	0	0
Women as a % of the total workforce	52.67	30.77	100	52.89	33.33	100
TOTAL MALE EMPLOYEES BREAKDOWN BY AGE CATEGORY:	**575**	**18**	**nr**	**586**	**18**	**nr**
18 to 25	29	1	nr	36	1	nr
26 to 30	85	2	nr	78	2	nr
31 to 35	84	0	nr	86	0	nr
36 to 40	70	1	nr	73	1	nr
41 to 45	72	3	nr	70	4	nr
46 to 50	63	2	nr	64	2	nr
51 to 55	71	4	nr	85	4	nr
56 to 60	70	3	nr	69	3	nr
61 years and over	31	2	nr	25	1	nr
Men as a % of the total workforce	47.33	69.23	nr	47.11	66.67	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 2017 financial year, the total number of people recruited on permanent contracts was 90, while the number of people recruited on fixed-term contracts was 74. This shows that the volume of hires decreased by 30% compared to 2016, consistent with the workforce numbers at 31 December 2017.

The majority of these recruitments on permanent contracts were at management level (67% of permanent recruitments in 2017 against 57% in 2016). The same trend applies to recruitments on fixed-term contracts with 23% of such contracts at management level against 20% in 2016.

The proportion of permanent recruitments by gender continues to develop in women's favour. Their proportion of recruitments rose from 46.5% in 2016 to 54.4% in 2017.

By age, the breakdown was unchanged in 2017 compared to 2016. Most permanent contracts are still given to employees under 30 (54.4%). In contrast, hirings of employees over 40 slowed down.

In 2017, 11 new jobs were created under the strategic business development plan, and five of these new permanent employees were taken on from Groupe BPCE. These figures are explained by a landing of the 2014-2017 strategic plan and therefore particular attention paid to our commitments to the workforce.

Banque Palatine has continued its development and reinforced its role as a dynamic economic player in its business sector and in its core business (medium-sized companies and senior executives). In parallel, its recruitment policy favours a strategy of a presence on the social networks and co-option, synonymous with our employees' strong commitment to sponsoring applicants:

- co-option: over the 2016-2017 period, 18 recruitments, of whom 11 were on permanent contracts. Out of all the sponsorships, only one did not succeed (*i.e.* 5%) and on the employee's own initiative. This element confirms the importance of the qualitative and committing system;
- participation in trade fairs in France: one fair in Paris (Dauphine) and three in the provinces (Rouen, Lyon 2 University & IAE (university management school) in Caen);
- publication of vacancies: advertisements appear on the Group portal and increasingly on Linkedin; they are also passed on by our ambassadors or the managers directly concerned by recruitment. Jobs requiring business or finance expertise are circulated on specialised sites such as Efinancialcareers or Jobanque.

	31 Dec. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Total number of managers hired on permanent contracts	60	1	0	72	2	0
Total number of managers hired on fixed-term contracts	17	0	0	21	0	0
Total number of non-managerial employees hired on permanent contracts	30	0	0	55	0	0
Total number of non-managerial employees hired on fixed-term contracts	57	0	0	84	1	0
Total number of women hired on permanent contracts	49	1	0	59	0	0
Total number of women hired on fixed-term contracts	50	0	0	71	0	0
Total number of men hired on permanent contracts	41	0	0	68	2	0
Total number of men hired on fixed-term contracts	24	0	0	34	1	0

Breakdown of departures by contract, reason and gender

The number of departures from Banque Palatine decreased in 2017 in line with the number of recruitments: 101 departures of permanent contracts compared to 138 in 2016.

Banque Palatine recorded 29 retirements in 2017, *i.e.* the same number as in 2016.

Resignations are increasing, 7 more than in 2016. In parallel, Group mobilities dropped from 35 in 2016 to 14 in 2017.

The number of redundancies dropped in 2017 to return to the 2015 level.

	31 Dec. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of employees on permanent contracts leaving Banque Palatine	101	1	0	138	3	0
of which number of people retiring	29	0	0	29	0	0
People retiring as a proportion of total permanent staff	2.56	0.00	0	2.53	0	0
of which redundancies	6	0	0	18	2	0
Redundancies as a proportion of total permanent staff	0.53	0.00	0	1.57	7.69	0
Average length of service of permanent employees leaving Banque Palatine	13.70	5.60	0	12.90	15.97	0
DEPARTURES OF PERMANENT FEMALE STAFF BY REASON	**52**	**1**	**0**	**60**	**1**	**0**
Resignation	15	0	0	10	0	0
Termination	5	0	0	9	0	0
Transfer within the Group	4	0	0	12	0	0
Retirement	16	0	0	16	0	0
Voluntary redundancy	9	1	0	9	1	0
End of probation period	3	0	0	3	0	0
Other reason	0	0	0	1	0	0
DEPARTURES OF PERMANENT MALE STAFF BY REASON	**49**	**0**	**nr**	**78**	**2**	**nr**
Resignation	16	0	nr	14	0	nr
Termination	1	0	nr	9	2	nr
Transfer within the Group	10	0	nr	23	0	nr
Retirement	13	0	nr	13	0	nr
Voluntary redundancy	5	0	nr	8	0	nr
End of probation period	3	0	nr	11	0	nr
Other reason	**1**	**0**	**nr**	**0**	**0**	**nr**

Composition of and changes in remuneration

The average basic salary was broadly stable compared to 2016. To be noted, the increase in average non-management women's salaries (+1.1%). Median salaries are also stable. This stability of the basic and median salaries, despite substantial staff turnover during the past three years, confirms that new hirings are being made at the right remuneration level, and also that existing employees are seeing their salaries rise thanks to the Bank's salary increases and support measures.

Salary peripherals substantially increased in recent years. For example, amounts relating to the variable portion increased by more than 15% since the new system was set up for all Banque Palatine employees.

Amounts distributed as incentives, shareholding and employer's contribution are also rising, particularly due to the employer's incentive contribution being paid into the PEE and/or the PERCO as from 2015.

in thousands of euros	2017	2016	2015	2014	2013
Budget for increases (general and individual)	520	755	742	990	731
Profit-sharing, incentive plans and employer's contribution (paid during the year indicated)	4,919	5,496	5,742	4,199	2,624
Variable portions	5,940	6,066	5,151	4,756	4,348
TOTAL PAYMENTS	**11,379**	**12,317**	**11,635**	**9,945**	**7,703**

In 2017, employees working the full year once again 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 2017 the individual employee statement included information on the passport of training courses carried out over two years, on the "apetiz" digital lunch voucher system, benefits for employees from the staff agency with the CESU (cheques for universal employment services), and a reminder of useful contacts (mutual, personal protection, works council, housing promotion scheme, etc.). The change in remuneration between 2013 and 2016 is also given, in this way creating a four-year trend.

	31 Dec. 2017			31 Dec. 2016		
Indicators	BP	PAM	Ariès	BP	PAM	Ariès
Average basic salary for men on permanent contracts, "managers" (in thousands of euros)	58	68	nr	57	66	nr
Average basic salary for men on permanent contracts, "non-managerial" (in thousands of euros)	33	0	nr	33	0	nr
Average basic salary for women on permanent contracts, "managers" (in thousands of euros)	51	68	nr	51	65	nr
Average basic salary for women on permanent contracts, "non-managerial" (in thousands of euros)	32	0	43	32	0	42
Median basic salary of men on permanent contracts "managers" (in thousands of euros)	53	60	nr	53	65	nr
Median basic salary of men on permanent contracts "non-managerial" (in thousands of euros)	32	0	nr	33	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	43	32	0	42
Year-on-year change in median basic salary for male "managers" on permanent contracts, as %	1.00	0.92	nr	1.00	0.96	nr
Year-on-year change in median basic salary for male "non-managerial staff" on permanent contracts, as %	0.99	nr	nr	1.01	nr	nr
Year-on-year change in median basic salary for women "managers" on permanent contracts, as %	1.00	1.01	na	1.01	0.99	na
Year-on-year change in median basic salary of women "non-managerial staff" on permanent contracts, as %	1.01	nr	1.03	1.01	0	1.02

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 2017, 81 employees on permanent contracts had adjusted working hours, 91.4% were women, making up 7.1% of all employees on permanent contracts. This is an increase of five employees on 2016, a growth of 6.6%.

Structure of permanent employees working part-time by gender and status

	31 Dec. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Breakdown of female permanent employees on the payroll at 31/12 by working hours (% of full time)	74	3	nr	69	4	nr
20%	0	0	nr	0	0	nr
30%	0	0	nr	1	0	nr
40%	1	0	nr			
50%	11	0	nr	14	0	nr
60%	4	0	nr	3	0	nr
70%	2	0	nr	0	1	nr
80%	47	1	nr	44	1	nr
85%	9	2	nr	1	0	nr
90%	0	0	nr	6	2	nr
Breakdown of male permanent employees on the payroll at 31/12 by working hours (% of full time)	7	0	nr	7	1	nr
20%	0	0	nr	0	0	nr
30%	0	0	nr	0	0	nr
40%	0	0	nr	0	0	nr
50%	3	0	nr	3	0	nr
60%	1	0	nr	2	0	nr
70%	0	0	nr	1	0	nr
80%	3	0	nr	1	0	nr
90%	0	0	nr	0	1	nr
Number of women on permanent contracts working part-time, non-managerial	39	0	nr	38	0	nr
Number of women on permanent contracts working part-time, managers	35	3	nr	31	4	nr
Number of men on permanent contracts working part-time, non-managerial	1	0	nr	4	0	nr
Number of men on permanent contracts working part-time, managers	6	1	nr	3	1	nr

Overtime (hours)

For the third year, the overtime (hours) are down.

Between 2015 and 2017, there was a decrease of 45%.

	31 Dec. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Overtime (hours)	7,172	42	nr	8,701	0	nr
Number of persons concerned	173	1	nr	204	0	nr

Absenteeism

The overall rate of absenteeism at Banque Palatine was 5.04% in 2017, after two years at 4.93%. This change is mainly linked to the increase in maternity leave which was up 13% in 2017.

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. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
% absenteeism: days of absence/(days worked × employees on the payroll at 31/12)	5.04	3.47	nr	4.93	1.75	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, wishing to upgrade, and a training budget equal to almost 6% of payroll costs in 2017 (almost 29,611 hours of training delivered in 2017 against 26,765 in 2016), Banque Palatine continues to invest in developing the skills of its employees.

The Bank's training efforts in 2017 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;
- pursue 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.

Integration of new employees:

- provision of a digitised welcome booklet, then 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 during the last quarter of 2017 to better inform employees about the personal training account, personal training leave, recognition of experience gained and competence statements, and to provide information about these systems to employees.

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;
- implementation of a new "Develop the management of the social climate" training, enabling managers to gain insight into their role as players in the social climate and employee relations;
- "The Art of being a Manager": this development programme was launched for the second year running in December 2016, ending in September 2017. This programme focuses on the identification, validation and development of future managers and concerns eight employees;
- "The first 100 days of a manager taking up their post": support for new managers when taking up their post in the form of three four-hour coaching sessions, allowing them to better understand and prepare for the role of manager.

1 This monitoring focuses on absences relating to collective agreements (sickness, maternity, accidents).

Development and maintenance of skills

Corporate market

An eventful year with, in 2017, the overhaul of the offer for the corporate market:

- new modules were therefore implemented by internal experts: “products and services offer”, “financing and the risk approach”;
- the training course on the “Relational approach in the capture and loyalty-creation phase” for new business assistants and corporate business relationship officers, and the “Service excellence” training course for the reception function was implemented in one region, the other regions will be trained in 2018 and 2019;
- a new format of training course on “Knowing how to negotiate and to develop one’s leadership” was run (one day’s training for business assistants and corporate business relationship officers with assessment beforehand and afterwards to firmly root what was learnt);
- the support is continuing in 2018, with updated contents and teaching methods, training sessions dedicated to the sales interview and telephone canvassing with a new element on “acquiring and making our senior executives loyal”.

Private banking market

Internal experts are increasingly called upon to support employees in the private customer segment by setting up:

- a training session dedicated to the new CNP offer on the outstanding amount due, run by the marketing department and the CNP;
- the commercial approach to tax exemption, run by commercial methods and asset engineering;
- training sessions dedicated to wealth-management techniques (property law and taxation);
- “Customer knowledge” training for all private banking customer assistants.

Furthermore, specialist training in going into more detail in the sales interview (Horizon 360) and active negotiation/recommendation for new recruitments are continuing.

Lastly, a new Academ’In course is offered: pilot run by the experts in this division and the individual customer credit management department so that the sector’s new sales staff can understand, from a practical point of view, the organisation and specific nature of the division and the department.

The support is continuing in 2018, with new elements, such as the MOOC on the exhaustiveness of credit files.

Training programme for the banking services division

In December 2017, the **“banking services division training programmes”** were set up, following the collaborative workshops with volunteer employees from this division and managers.

The aim is to give employees a clearer view of the training offer. To do this, programmes were identified for each “business line function”: loans, payment services and flows, savings standards and investment securities market.

The following were identified by function:

- mandatory training (regulatory, tools);
- business line training (cross-functional training, basic, intermediary and advanced).

Skills development training

Since 2016, the Bank has undertaken a training approach leading to certifications:

- comprehensive approach to wealth management then BACHELOR branch wealth management adviser: 11 employees who attended this training took the BACHELOR branch wealth management adviser examination in June 2017 (BAC + 3 level diploma) and 9 of them obtained the diploma;
- comprehensive approach to the corporate market training: 4 employees out of 6 succeeded, with internal certification co-certified by the CFPB, after this training;
- training for the customer services officers likely to become private banking customer officers (ACP), in connection with the implementation of “Branch prospects”: 20 private banking customer assistants attended a training course of 6.5 days during the first half of 2017 to enable them to learn what is required for the ACP function.

  In 2018, eight of them will take part in a training course that will enable them to take the written and oral examinations for the BACHELOR branch wealth management adviser diploma;
- training programmes for private banking branch managers likely to become combined branch managers. The three employees who took this rich course alternating between face-to-face training (26 days), immersion, e-learning and virtual class obtained certification co-certified by CFBP.
- Tools modernisation

  Furthermore, two training programmes were set up to support employees as part of the investment securities migration and the modernisation of the SAGE X3 budget monitoring tool.
- Regulations

  Lastly, under the real estate credit directive, support for the employees concerned was the flagship action in 2017.

Training hours

Indicators	31 Dec. 2017 BP	31 Dec. 2017 PAM	31 Dec. 2017 Ariès	31 Dec. 2016* BP	31 Dec. 2016* PAM	31 Dec. 2016* Ariès
Average hours of training per employee, "managers"	28	30	nr	26.2	9.5	nr
Average hours of training, "non-managerial" staff	18	0	nr	21.6	0	nr
Average number of hours of training per employee	24	24	nr	24.8	9.5	nr
Average number of hours of training by gender						
Men	27	33	nr	28	11.3	nr
Women	22	12	nr	21.7	5	nr

* Change in accounting method en 2016: professional development contracts are no longer recognised 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 PAM earned CICE tax credits of €1,067,216 and €8,962, respectively, from remuneration paid in 2016, which were deducted from their corporate income tax.

IT investments

Following the pilot study carried out at the end of 2016 in one of our branches in Lyon, the project to digitise customer files (Indigo) was implemented during 2017.

Commercial development

The qualitative content system on a digital platform was renewed, to calculate performance and encourage close communications with company managers. To assess its relevance prior to implementation, a test system was set up in 2017 for six months.

Training

With the extension of the GPEC Palatine Agreement, and in continuation of the actions undertaken, training encourages professional career development and maintains employees' employability.

In line with these ambitions, the following training actions were defined in particular:

- *the relational approach for senior executives* in the acquire and make loyal phase, to support the improved skills of our corporate market sales staff, on the attitude to take with senior executives;
- training for *upward-moving customer service officers*, to support the employees concerned by the private banking customer assistant's job within the context of implementing branch prospects;
- training for *combined branch managers*: from the private banking customer market to the corporate market, to encourage inter-market development opportunities, through the creation of a dedicated course co-certified by the CFPB and that of the related mentors.

Recruitment

The continued promotion of the employer's image through:

- the renewal of the LinkedIn licences;
- access to the Jobteaser platform;
- implementation of a partnership with Kudoz: mobile application with the aim of putting young talented people in contact with employers, to develop our recruitment pool;
- Banque Palatine's participation in the "grandes écoles" and universities' challenge on 10 June 2017 based on four themes: the employer brand, recruitment, disability and relations with schools.

Career management

A second promotion of "The Art of being a Manager" was launched at the end of 2016, and continued in 2017. It meets a loyalty-creation and development target, by helping expert employees become managers.

Employee relations

Organisation of employee-management dialogue

2017 was a particularly good year for employee relations. Ten agreements were signed during the year.

- Banque Palatine incentive plan agreement 2017/2018/2019 of 15 June 2017

  The objective is to continue associating the employees with the Bank's results by selecting criteria representing the collective effort and in line with the company's strategic objectives. The criteria selected are simple elements accessible to all employees, namely the cost/income ratio, GNP, the cost of risk and the conquest of both markets. A rider, dated 7 December 2017, revising the agreement, was issued with regard to financial year 2018, to take into account the uncertainties linked to the IT changeover in terms of both timetable and resources allocated and to exclude the incentives cost/income ratio criteria.

- Rider to the Banque Palatine profit-sharing agreement of 18 May 2017.

  The aim of this agreement is to update the previous agreement of October 2013 to take into account the provisions on employee savings in the Act of 6 August 2015 concerning growth as well as its implementation decree and the existence of a PERCO negotiated on 20 October 2016.

- UES Banque Palatine agreement on a supplementary pension plan of 23 May 2017.

  The aim of this agreement is to compensate the capping of the basic supplementary pensions by revising the contribution rates to the supplementary pension plan. This revision should enable the employees to benefit from a more satisfactory and balanced replacement contribution rate.

- Agreement to extend UES Banque Palatine mandates of 20 November 2017.

  The terms in office of the members of the Works Council, the personnel representatives and the members of the CHSCT expired on 20 January 2018, pursuant to the pre-election agreement of 19 November 2015. As organising new elections in January 2018 was complex, in view of the regulatory uncertainties, the aim of this agreement is to ensure that the operation of the personnel representative bodies is consistent and continuous.

- UES Banque Palatine QVT (quality of life in the workplace) agreement of 23 November 2017.

  Several years ago, Banque Palatine implemented actions to improve the quality of life in the workplace and the work-life balance. Another stage was reached on 23 November 2017, when the first agreement for the development of quality of life in the workplace was signed with all the trade unions. The provisions of this agreement are the outcome of a collective and participative process in which all employees were associated *by means of* an online questionnaire and the organisation of joint working groups by site. The agreement is comprised of 44 measures based on five themes:

  - **organising the work and managing change** (sharing the strategy, encouraging taking over the procedures, encouraging work in co-construction and in networks, providing tools for load analysis, involving the stakeholders in change projects, etc.);
  - **professional and personal development** (increase the visibility of professional careers, enable the employees to apply for courses leading to diplomas, encourage maintaining the link with and return to the company after a long absence, etc.);
  - **labour relations and the managerial system** (stimulating the managerial community and sharing good practices, setting up a system for assessing empowering managerial skills, allocating a hospitality budget by division, contributing to accomplishing solidarity projects, etc.);
  - **the economic climate and health in the workplace** (developing nomadic tools or areas, creating awareness on psychosocial risks and well-being, etc.);
  - **the work-life balance** (promoting the right to switch off, simplifying the flexible hours system, testing four-day working and teleworking, etc.).

The signing of this agreement supports the signature of four other specific agreements:

- **an agreement on flexible hours:** this agreement adjusts the current system of flexible hours providing the employees with more flexibility in terms of times of arrival and departure while harmonising the rules applicable in the departments for more fairness. This new system also provides for the possibility, for employees who have accumulated a credit of working hours (in compliance with the limits set by the agreement) of recovering this credit of working hours by half-days or full days up to a limit of four per year;
- **an agreement on donating days:** this agreement extends this legal provision to employees who have a dependent child (even one of more than 20 years), a spouse, a civil partner, a common-law spouse or an ascendant suffering from a serious illness, a disability or victim of a particularly serious accident. Donations are limited to five days per calendar year by donating employee. The duration of the absence granted in respect of donations will be limited to a maximum period of 30 working days (continuous or discontinuous) with an employer's contribution of 20%;
- **an agreement on an experimental full-time four-day week:** this agreement provides for an experiment of a four-day working week of 36 hours per week lasting 12 months;
- **an agreement on the details of the exercise of the right of free expression:** this agreement organised the recurring expression times in the company through team meetings on the content, the conditions for exercise and organisation of the work with the aim of defining the actions to be implemented to improve working conditions, organisation of the activity and quality of service.

All the provisions shall come into force on 1 January 2018.

Collective bargaining agreements

As a minimum, each agreement includes a review clause. Furthermore, in order to monitor the actions, specific indicators, or assessment, are systematically provided for.

For the Quality of life agreement, apart from the indicators provided for, an *ad hoc* committee shall meet twice a year to review the actions. A dedicated collaborative space shall be set up as well as an annual survey so that the quality of life in the workplace is part of a continuous improvement process.

For the incentive plan agreement, a dedicated committee monitors results and meets once a year. The incentive plan forms part of the overall remuneration policy and helps promote commitment by giving employees a share in the Company's value. An annual review is also conducted with staff representatives to study changes in investment behaviours.

Occupational health and safety

Workplace accidents, occupational illnesses

After a substantial decrease in 2016, the number of workplace accidents is stable, going from six in 2016 to seven in 2017. No occupational illness was reported or recognised in 2017.

	31 Dec. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of accidents at work recorded during the year with and without lost time	7	0	0	6	0	0
Number of fatal accidents recorded during the year	0	0	0	0	0	0
Number of work days lost	7	0	0	37	0	0
Severity rate	0.003	0	0	0.020	0	0
Frequency rate	3.45	0	0	2.83	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

On 21 December 2017, the executive management signed a new agreement on professional gender equality with the social partners.

This agreement, as an extension of previous agreements, sets out the actions and objectives for growth in the following areas:

- recruitment;
- professional training;
- professional development and career path;
- effective remuneration;
- work-life balance;
- awareness-raising and communications.

It extends the provisions of the previous agreement and sets up new measures to strengthen the Bank's professional equality policy in terms of quality of life in the workplace process, such as:

- long-term sustainability of the agreement by the body examining individual situations;
- maintaining employees' remuneration when on paternity leave;
- developing so-called employee development training programmes and setting up training specific to the return from maternity leave;
- a partnership with a network of nationwide day-care centres to facilitate employees' access to this type of care (the "*Les Petits Chaperons Rouges"* system will be presented in January);
- the increase in the employer's contribution to the CESU cheques (change from 80 to 90%).

All these provisions shall come into force on 1 January 2018.

It should also be noted that the Bank set up the universal employment services cheque (CESU) through a collective agreement on 25 November 2016. This system is 80% financed by the employer, *i.e.* €1,464 net per year per eligible employee. It concerns employees:

- who are parents of children under eight, with the aim of participating in the childcare costs incurred;
- who are disabled according to the DOETH definition (mandatory declaration of the employment of disabled workers).

It enables participation in the financing of the following services:

- childcare for children under eight in the home and outside the home (day-care centre, day nursery, kindergarten, extra-curricular child-minding, outdoor centre for children under six);
- assistance services for disabled employees.

After a transition period in January 2017 to move gradually to the CESU cheque instead of the day-care centre allowance, in 2017, 238 employees took advantage of it.

	2017	2016
Gross average amount paid (in euros)	1,417	1,156
Gross median amount paid* (in euros)	1,786	903

* *Approximate*

Hence, the CESU allowed:

- an increase of 23% in the average amount (recalculated as gross) and almost 98% for the median amount (recalculated as gross);
- a reversal of the trend in 2017: the median amount, the symbol of fair distribution, is greater than the average amount.

It should be noted that a new agreement increasing the employer's contribution to the CESU bringing it to 90% was signed by means of an addendum on 21 December 2017 and will come into force on 1 January 2018.

It should not be forgotten that AFNOR awarded Banque Palatine a three-year Gender Equality at Work Certification on 20 October 2016. The award of this certification recognises the actions set up in recent years and is an opportunity for the Bank to embed a long-term culture and improve its current systems to promote equality in the workplace.

Actions in 2017 notably included:

- giving all the Bank's employees Sheryl Sandberg's book "Lean In: Women, Work, and the Will to Lead". An interview with the female human resources manager should be added, to illustrate the priority nature that diversity represents, which contributes to our performance and our ability to transform and to innovate;
- the continuation of the study on salary differences, according to the method defined in the equality at work agreement. Salary increases where there were differences with no objective reasons started in December 2017 and come to an amount of almost €50,000;
- she also decided to continue applying the provisions of the salary catch-up following maternity or adoption leave, but recognising that parental leave is mostly taken by women, she decided to extend these provisions to full-time parental leave up to a maximum of 12 months.

The Banque Palatine women's network

Set up in 2010, about 50% of the women in the Bank are members of the Banque Palatine women's network, "Palatine au Féminin". Beyond securing support, the network enables the women to create an ideas laboratory with regard to promoting equality in the workplace. This is a link with the HR policies by initiating considerations on women's careers, such as the compatibility of professional activity and private life.

In September 2017, the network held a discussion breakfast with Catherine Maunoury, 10 times French champion and twice world champion of aerobatics.

	31 Dec. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Permanent contract male/female ratio, non-managerial (average male salary/average female salary)	1.02	nr	nr	1.04	nr	nr
Permanent contract male/female ratio, managerial (average male salary/average female salary)	1.14	0.99	nr	1.13	1.13	nr
Number of women employees taking parental leave in the last year	7	0	nr	7	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	4	0	nr	3	0	0
Number of men employees returning to work after parental leave	1	0	nr	0	0	nr

Major efforts in support of disabled people

For four years now Banque Palatine has been taking concrete steps to promote employment of people with disabilities.

On this basis, it provides fully confidential local support to respond to employees' requests, with a view to Recognition of the Status of Disabled Worker (RQTH) with new declarations recorded in 2017. 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 and facilitate acquiring any type of equipment to adapt the entire workstation as well as possible.

In terms of action, over a three-month period (October to December 2017), Banque Palatine set up a partnership with **Made In TH**, a player specialised in disability in the workplace and referenced at BPCE. An Ambassador of this company, himself recognised as a disabled worker, has kept his office on the Val de Fontenay premises (which has the greatest number of employees). His presence was all the more marked during the European Disability Employment Week. He was available to employees of the Bank to discuss all subjects relating to disability, to answer their questions and to propose personalised support. This ambassador, from outside the company, assured them of absolute confidentiality.

For two years now, Banque Palatine has been recruiting persons recognised as RQTH under various contracts (permanent, fixed-term and trainees) and in different business line divisions (commercial network, support functions).

The objective is to increase the actions' visibility and to integrate the concept of disability as a whole.

Following its qualitative diagnosis conducted between January and March 2015, in 2018 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.

	31 Dec. 2017			31 Dec. 2016		
Indicators	**BP**	**PAM**	**Ariès**	**BP**	**PAM**	**Ariès**
Number of employees with disabilities excluding ESAT	45	1	0	44	2	0
% of employees reported as disabled excluding ESAT/total workforce (permanent)	3.97	3.85	0	3.84	7.69	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 2017, this partnership continued 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, we invite employees to become a sponsor of these young graduates, to help them in their vocational integration, through meetings of about two hours per month (simulated job interview, redesign of their CV and application letter, building a career plan, etc.). These sponsorships make it possible to transfer experiences, raise the awareness of these young people of our professions, and introduce them to the working life.

18 Banque Palatine employees signed up to be sponsors, supporting 36 young graduates.

International Labour Organization

In 2017, Groupe BPCE renewed its support for the Global Compact (United Nations Global Compact) and its ten principles, relating to respect for human rights, international working standards, environmental protection and prevention of corruption. It obtained the Advanced level, which is the highest level of differentiation in the United Nations Global Compact, and in this way expressed its intention to continue to take these principles into consideration when implementing its strategy, in its corporate culture and the exercise of its businesses.

Groupe BPCE's growth is pursued in accordance with fundamental human and social rights wherever it does business.

As part of their international activities, each of the Group's entities ensures compliance with the rules on freedom of association and working conditions.

In accordance with the signature and commitments made under the Global Compact, each Group entity shall abstain from using forced and compulsory labour, or child labour in the meaning of the International Labour Organization conventions, even if local laws permit it.

As part of its purchasing policy, Groupe BPCE refers to its sustainable development policy and its support for the Global Compact and the founding texts, the Universal Declaration of Human Rights and the international conventions of the International Labour Organization (ILO).

Suppliers undertake to comply with these texts in the countries where they operate, by signing contracts with a specific clause referring to them.

Furthermore, one of the commitments of the Global Compact refers to respecting Human Rights.

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 the Group's environmental footprint in its own operations is one of the pillars of its CSR strategy for 2018-2020: the Group has set itself the objective of a 10% reduction in its carbon emissions by 2020.

This intention is reflected by a robust and proven system for Group environmental reporting and the many campaigns to raise awareness of good practices. With this in mind, three working groups were set up in 2017, with the sustainable development managers and experts in the business line functions concerned by:

- paper use;
- mobility;
- waste electrical and electronic equipment (WEEE).

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 2012/27/EU relating to energy efficiency, was enshrined in Act No. 2013-619 of 16 July 2013. 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 sets thresholds beyond which a legal entity must carry out an energy audit and Decree No. 2014-1393 and its implementation 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 was 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. This was reflected when the Val de Fontenay buildings were being modernised by changing from fluo compacts to the more energy-efficient leds, for lighting in corridors, offices and conference rooms. Furthermore, automatic light detectors were installed on the landings and in the toilets. Lastly, for switching on the lights, clocks were installed to work from 7.30 a.m. to 9 p.m.

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.).

With regard to environmental information, it was decided from now to ensure that the information is correct. Consequently, environmental information is provided for a period from 1 November 2016 to 31 October 2017. Nevertheless, for this first year, with regard to certain indicators, it was impossible to transmit the information for the period 1 November 2015 to 31 October 2016, and so as to be able to make a comparison, information at 31 December 2016 was used which includes an extrapolation over two months.

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.

Furthermore, a driving booklet, produced in-house, was given to users of company and/or fleet vehicles.

	31 Oct. 2017			31 Oct. 2016			31 Dec. 2016		
Indicators	BP	PAM	Ariès	BP	PAM	Ariès	BP	PAM	Ariès
Petrol consumed by company cars (in litres)	4,162	3,679	nr	4,699	4,158	nr	4,521	4,142	nr
Petrol consumed by fleet cars (in litres)	1,709	nr	nr	33	nr	nr	36	nr	nr
Diesel consumed by company cars (in litres)	35,714	nr	nr	39,038	nr	nr	39,371	nr	nr
Diesel consumed by fleet cars (in litres)	61,154	nr	nr	71,457	nr	nr	68,227	nr	nr
Business travel in private cars (km)	182,010	nr	nr	212,397	nr	nr	210,325	nr	nr
Average grams of CO_2 per km for company and fleet cars	93	nr	nr	na	nr	nr	96	nr	nr
Business travel by train (km)	3,059,820	nr	nr	na	na	na	3,006,761	nr	nr
Business travel by air, short-haul (km)	761,776	nr	nr	na	na	na	761,740	nr	nr
Business travel by air, medium- and long-haul (km)	19,680	nr	nr	na	na	na	26,051	nr	nr

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 to allow remote conferencing.

Continuing optimisation of travel planning in partnership with service providers remains a permanent priority to reduce greenhouse gas 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.

The corporate travelling plan (PDE) or mobility plan encourages the use of transport modes other than the private car. Its implementation is encouraged by the public authorities. It has a large number of advantages for employees and companies.

Banque Palatine is in line with this approach for the two central sites with more than 100 employees on each one. The analysis of accessibility and the survey carried out in October 2017 on commuting enabled us to study alternative solutions for more economic and more ecological travel.

Some actions are already in place: repayment of cycling mileage allowances, driver's booklet, travel policy, fleet of clean vehicles.

In 2018, other actions will be carried out as an extension of the corporate travel plan:

- teleworking;
- a site for employees on car pooling, traffic info, Citymapper (urban travel mobile application and route calculations) and Géovélo (cycle route calculation);
- increased amount paid for transport season tickets for employees in the two head offices.

Sustainable use of resources

Measures for the prevention, reduction or removal of water-air-soil pollution, noise and light pollution

As Banque Palatine is a service-based business, it is not concerned by issues relative to noise pollution and ground use. Furthermore, 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.

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

Total water consumption fell by 2,212 m^3 (0.80%) in one year.

Banque Palatine Group indicators	31 Oct. 2017	31 Oct. 2016
Total water consumption (m^3)	275,234	277,446
Total water consumption per m^2*	8.92	9.00
Total spending on water (in thousands of euros)	8.28	7.26

* *This figure corresponds to the amounts of bills paid directly by Banque Palatine. Water consumption included in building charges is not recognised.*

Raw materials consumption

Better management of printing and the use of EDM, brought into general use over the network in 2017 and planned for head office in 2018, explains why the number of reams of paper used continues to decline. The paper used is now entirely recycled or certified.

Banque Palatine Group indicators	31 Oct. 2017	31 Oct. 2016	31 Dec. 2016
Total paper consumption (tonnes)	50.94	na	79.60
Total paper consumption per employee (kg)	40.94	na	53
Of which total consumption of recycled paper or FSC or PEFC-certified paper (tonnes)	50.94	na	65.29

Energy consumption

Total electricity consumption continues to fall, which is a positive and virtuous trend.

On the other hand, with regard to gas consumption, a new method of calculation was set up, more realistic and based on the actual data invoiced. A satisfactory comparison is impossible to make due to this change. It will only be next year that changes in our gas consumption can be monitored.

Since 2016, 99% of the network's branches and the two head offices have changed over to green energy. 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.

Banque Palatine Group indicators	31 Oct. 2017	31 Oct. 2016	31 Dec. 2016
Total final energy consumption (kWh)	3,561,155	na	3,454,172
Total energy consumption per heated/occupied m^2 (kWh)	115	na	116.8
Total natural gas consumption (kWh)	151,403	na	64,826
Total electricity consumption (kWh)	3,409,752	na	3,389,346
Share of renewable energy in total final energy consumption (blue meters) (kWh)	3,141,681	na	3,238,300

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.

Expenditures in 2017 increased by 2% due to cleaning days as part of the work to repair the 11 trays in the administrative head office.

Banque Palatine Group indicators	31 Oct. 2017	31 Oct. 2016
Total spending on cleaning services	807	790

Pollution and waste management

Resources used to prevent environmental risks and pollution

For 2017, 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

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.).

Furthermore, 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.

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.

Waste generated by the cafeterias in the two head offices is recycled following the installation of Canibal machines. When disposing of their waste, employees are given the chance to win: either a different prize depending on Canibal’s partnerships, or the possibility of making a donation to replant a tree.

Voluntary contribution centres were set up to repair trays in the administrative head office which was a step farther toward selective sorting, traceability and recycling of this waste. In fact, the sorting process is even more refined: paper, other waste, goblets, small cans/bottles, toner. So that this implementation is even more virtuous, Banque Palatine is working with an adapted business (EA), the company TRIETHIC, which collects waste other than household waste and, if necessary, sorts the bags collected again.

As a result, all the waste produced is recycled.

Banque Palatine Group indicators	31 Oct. 2017	31 Oct. 2016
Total spending on waste management services by provider (in thousands of euros ex-VAT)	113	85
Total Ordinary Industrial Waste (OIW) (tonnes)	523	523
Total waste produced by the bank (tonnes)	1,151	427.16
Total recycled waste (tonnes)	1,674	950

In accordance with the provisions of Decree 2005-829 of 20 July 2005, all electrical and electronic equipment waste generated by Banque Palatine activities is recycled by the company RECYCLEA.

Banque Palatine Group indicators	2017	2016
Total recycled WEEE waste (tonnes)	4.3	2.8

Recycling

The volume of recycled cartridges and toner started to decrease in 2017 having risen by 35% between 2015 and 2016. This reduction shows the more exact control of the printing services and the virtuous start to printing lesser volumes.

The ambition of Banque Palatine is still to recover and recycle all cartridges and toner waste generated by the Company making Banque Palatine a positive contributor to the circular economy.

Banque Palatine Group indicators	31 Oct. 2017	31 Oct. 2016
Number of recycled ink and toner cartridges (kg)	300	374
Number of neon fluorescent tubes collected	1,791	2,342
Batteries collected (kg)	14	0

Preventing and managing climate risks

Aware of its major role in the prevention of ESG risks, Groupe BPCE has included it in its strategic plan for 2018-2020. In 2016, after having included CSR and climate risks in the general credit risk policy and the environmental risk in the macro risk map of the Group's institutions, the BPCE Group confirms its commitment by aiming at the integration of ESG criteria in its sectoral risk policies.

With this in mind:

- the Group has made it one of its ambitions in the "financing a responsible economy" project;
- climate risks and green finance were the subject of a national risk and compliance function day in the presence of recognised experts (Prudential control and resolution authority – ACPR, French Banking Federation, Banque de France, members of the Group of experts in the European Commission High level expert group – HLEG, and Finance for tomorrow Paris Europlace, etc.);
- four working groups made up of experts from the risk management, compliance and permanent control divisions, (DRCCP) and the CSR in the various institutions of the Group were set up to draw up an action plan on the following subjects:
  - extreme weather events: a questionnaire being formalised to identify the consequences of such an event both beforehand and afterwards,
  - integration of ESG risks in credit monitoring by means of criteria specific to the various sectors financed,
  - identification and monitoring of green assets within the risk monitoring information system,
  - global governance of climate risks through the Group's institutions.

This work will supplement the analysis of the risks relating to the duty of care and the Sapin 2 Act.

Furthermore, in the framework of Article 173 of the energy transition law, BPCE began work to strengthen its role in reducing its environmental impacts.

Consequences for climate change of business activity and the use of products and services

Groupe BPCE 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 complexes**,
  - 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.

Inclusion of climate change in stress tests

The Group took part in a market exercise run by the general directorate of the Treasury and the ACPR (Prudential Control and Resolution Authority) in response to Article 173-V of the Act 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 very low level of exposure to high-vulnerability climate risk.

Greenhouse gas emissions

The Group's objective with regard to the fight against climate change is to reduce its greenhouse gas emissions by 10% between 2018 and 2020.

To monitor that the processes undertaken with precise objectives are being carried out, from 2013, the sustainable development division has strengthened the robustness of its tool dedicated to establishing the Group's 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).

After six years of carbon data collection on a stable repository common to all the companies in the Group, the methodology allows the following to be provided:

- an estimate of the greenhouse gas emissions per company;
- per item: energy, purchases of goods and services, movement of people, capital and others;
- per scope[1]. However, direct emissions caused by bank products and services are excluded from the analysis;

Each year, the Group, as a whole and for each of its entities, has stable reference indicators which are used to establish local plans to reduce greenhouse gas emissions and the impetus for national measures.

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.

Banque Palatine Group indicators	31 Oct. 2017	31 Oct. 2016
Scope 1: direct combustion of fossil fuels plus leaks of refrigerant gases (in CO_2 eq tonnes)	292.16	301.79
Scope 2: electricity consumption and the heating network (in CO_2 eq tonnes)	187.88	217.84
Scope 3: all emissions other than use (in CO_2 eq tonnes)	4,679.19	4,348.68

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.

In 2017, the harvest produced 40 kg of honey compared with 18.6 kg in the previous year which proves that the hives have adapted well to their environment while the annual national production of honey was considered disastrous due to weather conditions. A laboratory analysis of the honey produced showed once again that the bees were mainly foraging from plants such as chestnut (*aesculus*), tree of heaven (*ailanthus*), elder and linden blossoms which justified this honey being designated multi-flower.

1 The GHG Protocol divides the operational scope of the GHG emissions of an entity (or organisation) as follows: scope 1: direct emissions caused by the 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.

Responses to social issues

Local impact

Groupe BPCE deems that CSR is not limited to affirming good intentions and practices. It would like to undertake a global approach in relation to its business lines to make it a factor for differentiation and performance.

The territorial impact of Banque Palatine is reflected in its national presence through its 50 branches and two head offices, for which local recruitment is favoured when positions are not covered by internal recruitment.

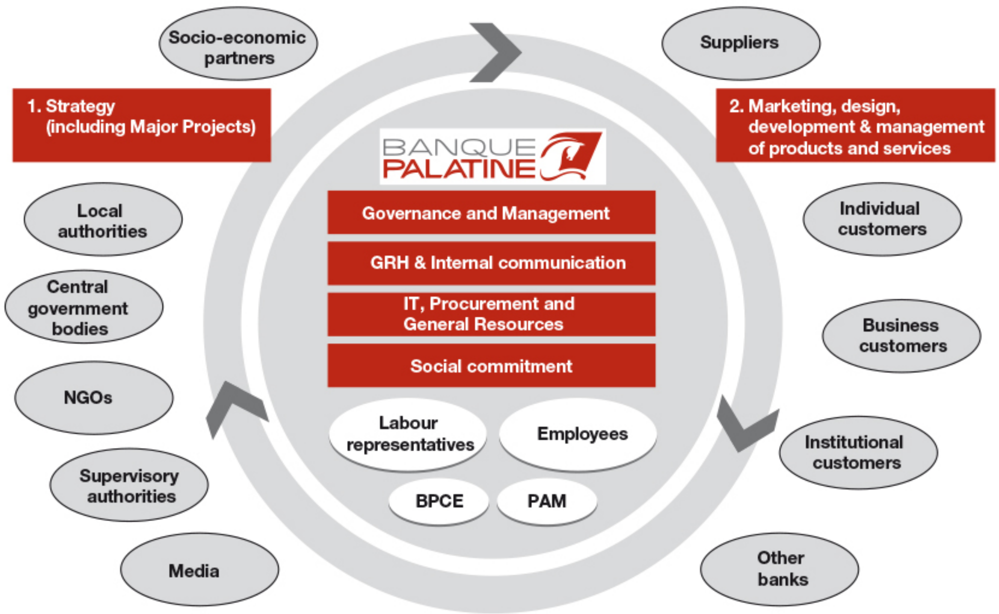
Moreover, its banking solutions are deployed through the entrepreneurial fabric created by its corporate customers.

Relations with stakeholders

Dialogue with the stakeholders is at the heart of Groupe BPCE's CSR approach: it made it one of the objectives of its strategic plan for 2018-2020.

Extensive work was carried out in 2016 to identify the major social challenges, the stakeholders and their expectations to ensure that they have indeed taken the Group's CSR issues into account as well as actions in the CSR approach. This exercise enabled major social challenges to be highlighted that have an impact on the banking activity in France for the Group's key stakeholders through a wide national, European and international documentary review.

Banque Palatine's main stakeholders are as follows:



Medium-sized businesses

For many years now, Banque Palatine has undertaken to participate in consideration on an ecosystem which would be more favourable to medium-sized businesses.

Supporting the development of medium-sized businesses and assisting the emergence of new international leaders are priorities for Banque Palatine.

In 2012, it set up the Palatine medium-sized business circle for the purpose of coordinating a community of senior executives of medium-sized companies, creating opportunities for the discussion of current topics by means of dinners and events.

Furthermore, it has set up two weekly programmes:

- on LCI, Ambitions Entrepreneurs;
- on BFM Business, DEFI ETI.

Each month, it publishes a survey on the level of confidence of SMEs and medium-sized 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 particularly with political decision-makers.

Socially responsible investing

The aim of the principles for socially responsible investing is to help institutional investors incorporate environmental, social and corporate governance considerations (including corruption prevention) in the investment decision-making process and in the practices relating to the assets, and consequently, to improve the beneficiaries' returns on investment in the long term.

Groupe BPCE is already offering a wide range enabling savings to refocus on a more responsible economy.

Groupe BPCE is a historic leader in SRI in which it has considerable expertise. It has the capacity to propose an extremely diversified offer to all its customers and has set itself an ambitious objective: to increase its SRI outstandings by 50% by 2020 as part of its strategic plan.

Responsible investment at Palatine Asset Management

The inclusion of environmental, social and governance criteria in the analysis and choice of investment in three theme funds certified SRI (Palatine Or Bleu, Palatine Actions Défensives Euro, Palatine Entreprises Familiales ISR) enables a better identification of value-linked risks and opportunities, but also to combat global warming (managing risks linked to the climate and contribution to financing the green economy). These three funds obtained the new SRI certification in 2017, supported by the public authorities, replacing the Novethic certification obtained since 2009.

Climate risks are now a worldwide preoccupation with both physical and financial risks that weigh on society as a whole.

Palatine Asset Management (PAM) employees are convinced that climate change, according to the current scientific hypothesis, derives from human greenhouse gas emissions and that a reduction in these emissions would limit climate change by restricting the process of global warming to 2°.

PAM has for many years been taking steps to improve 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.

Today, while all stock selection at PAM is based on analysis of "good practice" in strategy, financial management and good governance, two equity funds (Palatine Or Bleu and Palatine Entreprises Familiales ISR) and the diversified fund (Palatine Actions Défensives Euro) also transparently incorporate environmental, social and governance criteria in their investment decisions.

These three funds all have publicly available SRI investment policies and transparency codes which are available on the PAM website.

All three were SRI certified by Novethic from 2009 to 2016 and in 2017 were certified SRI by Ernst & Young. This ensures that savers have better visibility of SRI products, while guaranteeing that their management is based on sound methodologies with a requirement for substantial transparency and high-quality information.

Generally speaking, 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 them to lay special emphasis on certain non-financial issues, such as environmental and social impacts, in their analyses and decisions.

Managers engage in frequent dialogue with companies through regular meetings with companies' management teams which help them refine their analyses.

PAM 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. The voting policy is available on its website.

Since the end of 2016, to comply with Article 173, and especially section 6 of the TEPCV (*Transition Energétique Pour La Croissance Verte*) Act which for the first time obliged companies to report on their management of climate-related risks, the environmental impacts of the investments are published in reports at 31 December 2017:

- three SRI funds with outstandings of €30.1 million, *i.e.* 0.7% of total outstandings;
- Uni Hoche, a French large corporates equities fund with net assets of more than €500 million;
- Ocirp Actions, a euro zone equity fund within the framework of our customer relations;
- Palatine Moma, a short-term money market fund with net assets of more than €500 million;
- Palatine Institutions, a money market fund with net assets of more than €500 million.

Carbon footprint measurements of investments incorporate companies' carbon emissions (scope 1 + First Tier Indirect). This is presented compared to revenue to gauge the operational efficiency of companies in the same sector. Similarly, the proportion of investment dedicated to solutions focused on a low-carbon economy is also calculated (the measurement of the proportion of "green" versus fossil investments) to concentrate on the least polluting sectors – renewable energies, energy efficiency, etc.

PAM does not aim to concentrate on sectors with low carbon issues, but rather to select those companies most committed to reducing carbon emissions.

Since 2017, PAM's non-financial reporting is enriched by three additional performance indicators comparing the position of each portfolio in relation to its benchmark indicator:

- social (average percentage of women on the executive committees);
- governance (average percentage of independent directors);
- human rights (percentage of companies which have signed the United Nations Global Compact).

These responsible practices are incorporated into the SRI funds to optimise financial performance, reduce climate risks and seize opportunities related to the transition towards a lower carbon economy.

Innovation and product development

In 2012, Groupe BPCE was the first to sign an agreement with the European Commission to organise the financing of the energy transition in the regions.

BPCE identified green growth functions and quantified their potential so that players' expectations and their development model could be better known, and to provide them with the most relevant solutions. These functions have been developing for more than 20 years and have strongly accelerated in recent years. They have in common: a high level of jobs that cannot be relocated; strong integration into the local economic fabric, including a large number of VSEs, SMEs and medium-sized companies; a high level of technological requirements and investment; significant development prospects, often greater than those of traditional activities.

Since 2010, Banque Palatine has been involved in financing green growth. In 2017, it invested €59.5 million, mostly as part of a consortium, in green power giving it installed capacity of 17.22 MW of wind power and 8.06 MW of photovoltaic power.

Partnerships and cultural sponsorship

Banque Palatine has adopted an approach to support the employment of young graduates from disadvantaged areas or social backgrounds. Through the non-profit association NQT (*Nos Quartiers ont des Talents*), Banque Palatine proposes that its employees become "mentors" of young jobseeker graduates, from disadvantaged areas or social backgrounds.

Eager to encourage social and geographic diversity within higher educational institutions, since 2010 Banque Palatine has forged a partnership with the School of Political Science under the Priority Education Agreements.

The two institutions are committed to diversified recruitment taking social and geographic criteria into account. Banque Palatine provides assistance in the form of grants and tutorials to deserving pupils.

It also proposes:

- having several of the Bank's managers serve on the panels selecting pupils from priority education areas;
- tutoring of pupils from the priority education agreements by the Bank's managers;
- proposing work placements;
- setting up presentations of business lines for pupils.

Support for the arts

Ever year since 2011, Banque Palatine has been supporting the annual "*Quinzaine des Réalisateurs*" event, organised by the Société des Réalisateurs de Films (SRF), during the Cannes Film Festival.

Among the various films selected by the Cannes Film Festival, the "*Quinzaine des Réalisateurs*" since it was set up in 1969, stands out by its freedom of spirit, its non-competitive nature and its concern to be open to the public.

For Banque Palatine, this is a way of contributing once again to encouraging talent and diversity in film.

Banque Palatine is a partner of the "*Printemps du Violon*", the first festival devoted to this instrument. The world's greatest violinists came together for a week to share their passion and celebrate the violin. "*Le violon dans tous ses états*" programme included a concert each evening as well as conferences and workshops about the violin. Classical as well as jazz, tango and gypsy music.

Sub-contractors and suppliers

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.

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).

As part of the responsible procurement policy, the Group's suppliers undertake to comply with the standards and regulations in force with regard to CSR and to pass on these commitments to their own suppliers and sub-contractors.

Responsible procurement policy: the *Agir* approach

In September 2012, BPCE Procurement launched the "*Agir ensemble pour des achats responsables"* ("Working together for responsible procurement") project. This responsible procurement approach 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.

The initial phase of the diagnosis has enabled, on the one hand, measurement of the degree of maturity of the companies in the Group with regard to responsible procurement and, on the other hand, to identify CSR risks and opportunities by procurement category. A panel of suppliers was also questioned and invited to take a stance with regard to CSR.

Following the BPCE diagnosis, a responsible procurement policy was drawn up by a working group comprised of the real estate & services, sustainable development and human resources divisions of Groupe BPCE and the consultancy and services to members, real estate purchases and general resources and legal departments of BPCE Achats.

Disability policy: the PHARE approach

Since July 2010, the procurement department has been pursuing BPCE Group's corporate social responsibility ambitions through the PHARE (*Politique Handicap et Achats REsponsables*, disability and responsible procurement policy) programme. It 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 sub-contracting certain activities to the protected and adapted sector (*Secteur du Travail Protégé et Adapté*, 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 2017.

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.

Indicators	31 Dec. 2017 BP	PAM	Ariès	31 Dec. 2016 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)	0.039	0.059	nr	0.029	0.058	nr

Fair commercial practices

In accordance with internal control measures and the Group's legal compliance charter, the compliance, security and operational risks division of Groupe BPCE has set up several controls under its financial security and ethics frameworks.

Anti-corruption

The prevention of corruption is part of a financial security system that reflects the commitment of Groupe BPCE, as a member of the United Nations Global Compact. Since 16 September 2017, the provisions of the Sapin 2 Act provide a regulatory framework for the anti-corruption combat with preventive and repressive arms.

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.

At Banque Palatine, 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 2017, 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;
- establishing relations with third parties/intermediaries (customer/intermediary insight, commercial practice ethics, transparency of the legal structure, lack of any known links of interest between the third party and a public official (PPE);
- procurement policy, selection of suppliers, consultants, etc.;
- prevention and management of conflicts of interest;
- gifts, benefits, invitations, travel, donations, expense claims;
- selection of intermediaries and financial partners;
- confidentiality;
- employee training and awareness-raising for professional ethics;
- internal whistle-blowing system;
- control systems;
- monitoring and reporting.

Training in anti-money laundering policies and procedures

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:

- for the financial security part:
  - procedures on the efforts to combat money laundering and terrorist financing and internal and external fraud (including appendices dedicated to cheques and transfers),
  - an AML/TF training programme,
  - 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.);
- as regards conduct:
  - internal rules, the compliance and conduct charter,
  - training by e-learning on the essentials in professional ethics,
  - a whistle-blowing procedure for employees.

At the end of 2017, an initial exercise mapping exposure to risks of corruption was carried out on the instruction of Groupe BPCE and in accordance with the principle of a simple map enabling an expert assessment to be made on the basis of:

- exposure to risks of corruption according to the various categories of third parties in contact with the Bank;
- customer segments focusing on certain categories of customers identified as sensitive;
- external third parties such as consultants, suppliers, business partners, intermediaries, etc.;
- the effectiveness of the system in controlling risks according to the existence of procedures aiming at reducing exposure to risks of corruption.

On a scale of 1 to 4, the overall assessment of the risk control systems was graded 2 (Effective) and the general assessment of the exposure to risks of corruption was graded 2 (Average).

Corruption, which is defined as the activity by which a person offers or accepts an unjustified benefit in exchange for an act pertaining to the latter's function is fraudulent behaviour, contrary to ethics and may incur severe criminal and administrative penalties.

Groupe BPCE condemns all forms of corruption and in all circumstances. In this context, it is a signatory to the United Nations Global Compact, the tenth principle of which relates to the action "against corruption in all its forms including extortion and bribery".

Banque Palatine Group indicators	2017	2016
Proportion of employees who have received anti-money laundering training from the entity (excluding ALD)	72	72

Security policy set up with regard to customers

The policy on information systems security (PISS-G) gives material form to the Group's security requirements. It includes an ISS framework backed by the Group permanent control and compliance risk Charter, with 430 rules under 19 themes and 3 organisational instruction documents[1]. It is subject to an annual review as part of a continuous improvement process. The 2017 review of the PISS-G in particular took account of legal and regulatory changes (law on military programming, new directive on payment services, European data protection regulations) and changes in the Group's organisation and governance.

The ISS risk mapping framework was strengthened in 2017 with:

- the operational opening of the Archer Group ISS risk mapping platform to Group institutions;
- convergence of standards within the ISS function;
- dovetailing with Operational Risks;

The Group security division (DS-G) also took over the management of the Group's programme implementing European regulatory requirements on the protection of personal data (RGPD) for which 12 projects were identified (overall organisation and standards, equipped construction of a uniform register of treatments, taking RGPD requirements into account in projects, training and awareness-raising, etc.).

On 1 September 2017, the DS-G created, defined, implemented and changed the Group's ISS policies. It ensures permanent and consolidated control of the ISS as well as a technical and regulatory ISS watch. It initiates and coordinates Group projects to reduce risks in its field; As a player in the permanent control framework, the Group security director reports to the security compliance and operational risks division. Furthermore, within BPCE, the Group security division is in regular contact with the internal audit division.

Several actions were continued in 2017, to improve the systems to combat cybercrime:

- reinforced controls for access to applications;
- reinforced detection of flows and atypical events in the information systems (detection of cyberattacks);
- raising employees' awareness of cybersecurity (Serious Game training campaign - IS security, phishing, reception of new employees, etc.).

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. In addition, the Bank relies on permanent surveillance methods for its sites' security to adapt to constant changes in the threat.

In 2016, the Bank decided to industrialise its computer operations by entrusting them to a specialised subsidiary of the Group: BPCE-IT which enables security to be included when designing the technical bases.

1 Operation of the Groupe BPCE ISS function, ISS Permanent Control, classification of IS-sensitive assets.

Quality policy

Banque Palatine, like the wider BPCE Group, has put customer satisfaction at the heart of its strategy. Listening to customers (the customer's voice) and the systematic measuring of the quality of the customer relationship were restructured to assess all the customers' expectations and to translate them into coordinated action plans, particularly as part of the management of major processes.

Its motto "The Art of Banking" therefore conveys a novel approach based on listening to customers, optimising processes and motivating all staff to serve end-customers.

By abiding by and using the Groupe BPCE's Excellence Model, the Banque tends to have an overall approach which mobilises all the Bank's units and therefore all its employees. Therefore, listening to the internal customer (employees), is also at the core of improving internal supplier customer relations, particularly in a cross-group approach to the main customer processes.

With regard to relations (customers), the quality approach concerns the coordination of actions which tend to make customer service commitments effective and assessment of their gradual implementation. In this way, guaranteeing and improving excellence in relations are at the core of Banque Palatine's "quality of service" commitments. In 2016, four customer service commitments were adapted and communicated to customers. In 2017, a large number of actions were undertaken, particularly with the network, so that the generalisation of the commercial organisation, based on the adviser/assistant two-person team (on both markets) becomes good practices seen by the end-customer as a "differentiating" element.

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.

All these efforts are used to build improvement plans in each market and business line. Banque Palatine then defines its ambitions as regards customer service quality.

Furthermore, like any service company, the Bank must have full control over the whole of its production processes (particularly: lending, flows, electronic publishing, payment services, IT and internet services, etc.) and develop them in line with customer expectations.

In 2017, the Bank carried out:

- one survey of private banking customers and one survey of "business" customers (November 2017);
- one survey of the various categories of senior executives;
- several waves of regular surveys of new customers and per market (carried out in January 2018 on those who became customers in 2017);
- monthly surveys of lending processes (business/private customers) and life insurance (scope: Generali Vibrato policies);
- five annual surveys of the company's specialised business lines: real estate, dealing room, regulated real estate professions, international and Palatine Asset Management (market survey).

By using the TS-I indicators ("Very satisfied – unsatisfied" customers) and NPS (recommendation indicators), the Bank has relevant tools enabling a comparison to be made with other institutions including those in the Group.

Main indicators	2017	2016
Annual barometer of private customer satisfaction (score out of 10)	6.9	7.1
TS-I	-2	na
NPS (Net Promoter Score) annual private customer survey	-8	na
Annual barometer of business customer satisfaction (score out of 10)	7,5	7,4
TS-I	+12	na
NPS (Net Promoter Score) annual business customer survey	+10	na
Annual barometer of mid-sized company managers' satisfaction (score out of 10)	7.6	7.6
TS-I	+15	na
NPS (Net Promoter Score) annual private customer survey	+11	na

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.

	31 Dec. 2017			31 Dec. 2016		
Indicators	BP	PAM	Ariès	BP	PAM	Ariès
Number of branches/sales outlets/business centres	50	1	1	51	1	1
Total floor space of the entity's buildings (m^2)	30,840	408	10	31,364	408	10
Total floor space of the entity's administrative buildings (head office) (in m^2)	14,527	408	10	14,527	408	10
Total floor space of the entity's branches and business centres (in m^2)	16,312	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
% 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 strategy, 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 2017 to 31 December 2017.

Reporting scope

In 2017, the CSR reporting scope included, apart from Banque Palatine, its wholly-owned subsidiaries: Palatine Asset Management and Ariès Assurances.

Details on workforce-related data

- Total staff figures are a snapshot at 31 December 2017 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 2017 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 (permanent contract): this is the theoretical gross annual salary taken into account. Variable remuneration is not taken into account in the calculation. The headcount figure used is the number of people on permanent contracts at 31 December. Corporate officers are not included in the indicator.
- Absences 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 development department's quarterly activity report.

Details on environmental data

- Paper consumption: data were obtained for the period from November 2016 to October 2017. All paper consumed is in A4 format and the calculation procedure is unchanged.
- Water consumption is estimated from the financial amounts and at an average price of €1.02 per m^3.
- Energy consumption: data were obtained for the period from November 2016 to October 2017. 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 were obtained for the period from November 2016 to October 2017.
- Waste: some data are now accessible with the new service provider TRIETHIC.

2 Table of the results of the last five financial years

R. 225-102 of the French Commercial Code

in thousands of euros	2013	2014	2015	2016	2017
▪ **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	471,678	498,169	495,554	543,001	542,453
Income before tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	120,618	133,810	128,578	114,673	69,948
Income taxes	(18,706)	(21,864)	(25,675)	(19,441)	(21,497)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	37,729	53,505	50,734	50,555	52,514
▪ Dividend payments[2]	19,396	39,602	27,748	-	-
▪ **EARNINGS PER SHARE (in euros)**					
Revenues	17.51	18.49	18.39	20.16	20.14
Income after tax, employee profit-sharing, but before depreciation, amortisation, and impairment and provisions	3.63	3.93	4.77	4.26	1.55
Income taxes	(0.69)	(0.81)	(0.95)	(0.72)	(0.80)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	1.40	1.99	1.88	1.88	1.95
Dividend per share[2]	0.72	1.47	1.03	-	-
▪ **EMPLOYEE DATA**					
Average headcount	1,185	1,193	1,202	1,213	1,170
o/w managerial	*758*	*770*	*767*	*781*	*793*
o/w non-managerial	*427*	*423*	*435*	*432*	*377*
Total payroll	62,822	64,478	66,008	68,138	66,166
Amount of employee benefits during the period	30,936	32,474	33,214	34,213	34,918

(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 Information on payment periods

(Article L. 441-6-1 of the French Commercial Code)

Invoices received and unpaid on the closing date of the financial year that are due	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total (1 day and over)
Number of invoices concerned	127	162	25	15	35	237
Total amount, inclusive of VAT, of the invoices concerned	502,112	512,006	210,111	75,371	73,119	834,240
Percentage of the total amount of purchases, inclusive of VAT, for the financial year	0.74%	0.70%	0.31%	0.11%	0.11%	1.23%

Invoices issued which were paid late during the financial year	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total (1 day and over)
Number of invoices concerned	10,955	3,093	676	316	643	4,728
Total amount, inclusive of VAT, of the invoices concerned	43,743,103	14,661,417	2,767,220	2,016,368	4,574,313	24,019,318
Percentage of the total amount of purchases, inclusive of VAT, for the financial year	64.55%	21.64%	4.08%	2.98%	6.75%	35.45%

4 Appropriation of income

Sources	
Net income	€52,513,784.94
Carried forward	€180,911,197.54
TOTAL	**€233,424,982.48**
Appropriations	
To the statutory reserve	€2,625,689.25
Carried forward	€230,799,293.23
	€233,424,982.48

5 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: 7,822
- Total amount of deposits and assets in these accounts: €101,710,843,20
- Number of accounts whose deposits and assets are deposited with the Caisse des dépôts et consignations: 0
- Total deposits and assets deposited with the Caisse des dépôts et consignations: €749,398.56

6 List of branches

PARIS			
Auteuil branch	65, rue d'Auteuil	75016	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-Clemenceau	92400	Courbevoie
Levallois branch	76, rue du Président-Wilson	92300	Levallois-Perret
Neuilly branch	100, avenue Charles-de-Gaulle	92200	Neuilly-sur-Seine
Nogent-sur-Marne branch	1, avenue de Lattre-de-Tassigny	94130	Nogent-sur-Marne
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
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-Clemenceau - 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 Lazare-Carnot	31000	Toulouse
NORD			
Lille branch	56, boulevard de la Liberté	59000	Lille
NORMANDIE			
Caen branch	12 rue Ferdinand-Buisson	14280	Saint-Contest
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	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 combined general meeting of 22 May 2018

First resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the report by the Board of Directors, the report on corporate governance and the report by the Statutory Auditors on the annual financial statements for the 2017 financial year, the general meeting approves the annual financial statements showing earnings of €52,513,784.94.

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 €64,062.82 and gave rise to a tax charge of €22,056.83.

Second resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the reports by the Board of Directors and the report by the Statutory Auditors on the consolidated financial statements for the 2017 financial year, the general meeting approves the consolidated financial statements showing earnings of €45.882 million.

Third resolution

The General Meeting, voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, approves the appropriation of the earnings for the 2017 financial year, as proposed by the Board of Directors:

Net income	**€52,513,784.94**
Carried forward	€180,911,197.54
TOTAL	**€233,424,982.48**
To the statutory reserve	€2,625,689.25
Carried forward	€230,799,293.23
TOTAL	**€233,424,982.48**

Following this appropriation, the balance of the legal reserve is €49,801,798.52 and the balance carried forward is €230,799,293.23.

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
2014	26,940,134	€39,601,996.98 euro	€1.47*
2015	26,940,134	€27,748,338.02 euro	€1.03*
2016	26,940,134	-	-

* *Not eligible for the 40% rebate.*

Fourth resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, 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

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the report on corporate governance, the General Meeting approves the principles and criteria for determining, distributing and allocating fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2018, to be awarded to Mr Pierre-Yves Dréan, in his capacity as Chief Executive Officer.

Sixth resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the report on corporate governance, the General Meeting approves the fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2017, to be awarded to Mr Pierre-Yves Dréan, in his capacity as Chief Executive Officer.

Seventh resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the report on corporate governance, the General Meeting approves the principles and criteria for determining, distributing and allocating fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2018, to be awarded to Mr Bertrand Dubus, in his capacity as Executive Vice-President.

Eighth resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the report on corporate governance, the General Meeting approves the fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended on 31 December 2017, to be awarded to Mr Bertrand Dubus, in his capacity as Executive Vice-President.

Ninth resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the report on corporate governance, the General Meeting approves the fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended on 31 December 2017, to be awarded to Mr Thierry Zaragoza, in his capacity as Executive Vice-President.

Tenth resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the report on corporate governance, the General Meeting approves the principles and criteria for determining, distributing and allocating fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2018, to be awarded to Mr Patrick Ibry, in his capacity as Executive Vice-President.

Eleventh resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, after hearing the report on corporate governance, 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 2017 to all members of staff who are regulated persons, which amounted to €8,789,846.

Twelfth resolution

Voting in accordance with the quorum and majority requirements applicable to Extraordinary General Meetings of Shareholders in accordance with the provisions of Articles L. 225-129-2, L. 225-129-6 and L. 225-138 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code, having heard the report by the Board of Directors and the special report by the Statutory Auditors, the General Meeting:

1. grants the Board of Directors the authority to decide to issue, in one or more instalments, on its sole deliberations, in the proportions and at the time it deems suitable, equities reserved for the company's employees (or former employees);
2. decides to remove the preferential subscription right of shareholders to shares issued by virtue of this authorisation, to the benefit of the company's employees;
3. sets at 26 months, as from this day, the validity period of this authorisation and formally acknowledges that this authorisation deprives of effect any prior authorisation having the same purpose;
4. decides to set at 1% of the share capital on this day, the capital increase that could be carried out in this way, *i.e.* a capital increase of a maximal nominal amount of €5,388,020 by the issue of 269,401 new shares;
5. decides that the share price shall be set in accordance with the provisions of Article L. 3332-20 of the French Labour Code;
6. decides that the Board of Directors shall have all powers to implement this authorisation within the limits of and under the aforementioned conditions and in particular to:

   a) set the number of new shares to be issued and the date of their entitlement to dividends,

   b) on the special report by the Statutory Auditors, set the issue price of the new shares and the deadlines for employees to exercise their rights,

   c) set the deadlines, terms and conditions for payment of the new shares,

   d) recognise the completion of the capital increase(s) and modify the articles of association accordingly,

   e) carry out all the operations and formalities made necessary by the capital increase(s).

Thirteenth resolution

Voting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, the General Meeting gives full powers to the bearer of a copy or excerpt of the minutes of this general meeting to complete the publicity formalities laid down in the law.

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French Société Anonyme with capital of €538,802,680 A member of the BPCE Group - Registered office: 42, rue d'Anjou - 75382 Paris Cedex 08 - Tel: + 33 (0)1 55 27 94 94 - Administrative Offices: Le Péripole - 10, avenue Val de Fontenay - 94131 Fontenay-sous-Bois - Cedex Tel: + 33 (0)1 43 94 47 47 - Registered in the Paris Trade and Companies Register under entry number 542 104 245 RCS Paris - CCP Paris 2071 - BIC BSPFFRPPXXX - Swift BSPF FR PP - Intracommunity VAT number: FR77542104245 - Member of the French banking federation (Fédération Bancaire Française) and covered by the French deposit guarantee and resolution scheme (FGDR - Fonds de Garantie des Dépôts et de Résolution) - Insurance intermediary registered with Orias, number 07 025 988 - Holder of professional card "Transactions on buildings and business goodwill without receiving funds, instruments or securities" no. T12620 issued by the Préfecture de Police de Paris,- guaranteed by the Compagnie Européenne de Garanties et Cautions (CEGC) - 16 rue Hoche - Tour Kupka B - TSA 39999 - 92919 La Défense cedex - www.palatine.fr

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