BANQUE PALATINE
L'Art d'être Banquier

FINANCIAL REPORT

2019

GROUPE BPCE

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

ANNUAL FINANCIAL REPORT 2019

Banque Palatine, the bank for medium-sized companies and their leaders and private banking, has been supporting entrepreneurs both personally and professionally for more than 240 years. It uses its expertise with SMEs and medium-sized companies. Its network of 46 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 supports over 13,000 companies and more than 61,000 individual customers.

Wholly owned by Groupe BPCE, 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.

STATEMENT FROM THE PERSON RESPONSIBLE

Christine Jacglin, Chief Executive Officer of Banque Palatine SA.

Having taken every reasonable measure for this purpose, I declare that to the best of my knowledge, the information contained in this annual financial report is accurate and does not omit any material fact.

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

Paris, 23 April 2020

Chief Executive Officer

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BOARD OF DIRECTORS' REPORT

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1 Management report

Economic environment

In 2019 global growth should not exceed 3%. Just as in 2018, the year was marked by the dominance of political issues that regularly triggered anxiety among investors and fears of another global economic downturn.

Top among these were trade tensions between the United States which arose on multiple occasions over the course of the year until the publication of the "Phase 1" agreement secured *in extremis* in December. Negotiations are set to continue in 2020.

In the United States, GDP grew by 2.1%, down year-on-year in the third quarter of 2019, compared with 2.9% in the previous year. Globally, job creation was down on 2018 and unemployment continued to fall, before settling at under 4%, as shown by the latest statistics for the month of November, in which it stood at 3.5%. Underlying inflation stood at 2.1%, bolstered by the price of services, whereas prices of basic products were only slightly affected by recent increases in customs duties.

In China, as a result of falling foreign demand and despite stimulus measures by authorities, growth was also down to 6% year-on-year in the third quarter of 2019, compared with 6.3% in 2018.

In the Eurozone, global growth continued at a moderate rate as shown by the Composite PMI (Purchasing managers index), which stood at 50.9 points in December. However, there was significant divergence between the manufacturing sector which entered recession (indeed the index measuring the growth of the sector stood at 46.3 points, well below its neutral zone), and the service sector which saw increased growth compared with last year.

In the Eurozone, Gross Domestic Product grew by 1.2%, down year-on-year in the third quarter, with domestic demand remaining high.

In France, growth showed a degree of resilience.

As revealed by data published by Eurostat, Germany and Italy experienced the lowest growth rates in the zone. Germany is showing signs of vulnerability in a context of falling exports. Moreover, industrial production is falling there as a result of low automotive production, which fell by 9% over the year, its lowest level in 20 years.

For its part, Italy's growth has been stagnant since 2018 and is not set to increase in the immediate future according to the European Commission's economic forecasts, updated in autumn. However, globally, the unemployment rate in the Eurozone was down slightly over the year reaching 7.5% at the end October, that is the lowest rate since July 2008. Core inflation (excluding volatile items) only moved slightly settling at 1.3% in November, far below the 2% target set by the European Central Bank, leading it to take new easing measures at its meeting on September 2019.

In the United Kingdom "Brexit" was put back once again. The multiple shifts and the absence of agreement affected economic activity as evidenced by manufacturing and services PMIs which contracted by 50 points. In the third quarter GDP was down slightly year-on-year to 1.1%.

On 12 December early parliamentary elections were held in the United Kingdom. Boris Johnson won a resounding victory and as such is set to implement "Brexit". The United Kingdom withdrawal agreement should be signed no later than 31 January 2020. Over the following eleven months, negotiations will be held to determine the framework of the future relationship between the United Kingdom and the European Union.

In this difficult context, equity markets nevertheless achieved record performances in 2019, of over 20% for the main indices like the Euro Stoxx 50, which was up by almost 25%, to 3,745 points, and Nasdaq which was up 35.2% over the year to 8,973 points, a record high. Asian equity markets have not been left behind and have also achieved remarkable performances, such as the Chinese CSI 300, which was up 36.1% and, to a lesser extent, the Japanese index Nikkei 225, which ended the year with a performance of 18.2%.

Gold, an asset that is a safety haven for investors, has benefited from global uncertainty as well as low rates, reaching $1,517, up 18.3%

With regards oil, OPEC exporters met on a number of occasions in the year and decided to further reduce their production which has already been falling for a number of years. The objective was to bolster the price of the barrel, in the face of pressure from vigorous American production of tight oil and reduced global demand. As such, the price of a barrel of Brent has now increased by almost 23% to $66 a barrel.

Interest rate trends

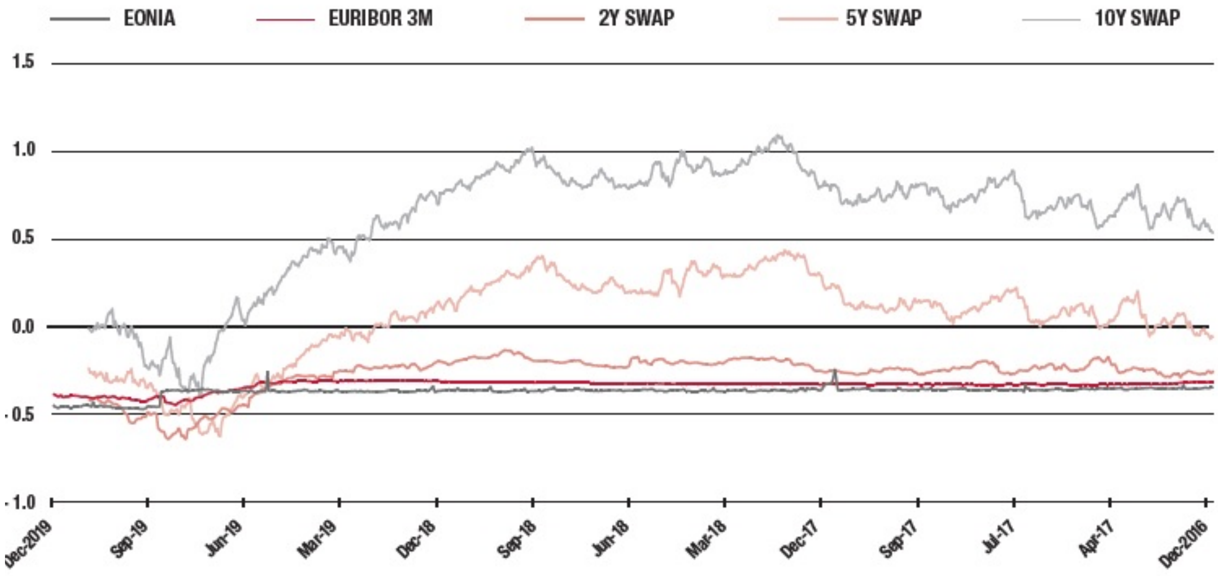
Almost all central banks implemented flexible monetary policies in 2019 with falling rates across the Board.

With 2018 marked by the normalisation of the US Federal Reserve's monetary policy (four rate increases in the year and continued efforts to reduce its balance sheet), in 2019 it performed a U-turn with three cuts of 25 basis points each. Now, markets are expecting a return to the status quo in 2020.

In the Eurozone, Mario Draghi marked the end of his term of office by emphasising his accommodating monetary policy. At its meeting on September 2019, the European Central Bank voted to reduce the deposit rate by a further 10 basis points to -0.50%. Moreover, the Central Bank has introduced a tiering system to lessen the impact of negative rates on bank profitability and resumed its asset purchase programmes, with €20 billion in net purchases per month for a period that is yet to be determined.

Christine Lagarde has chaired ECB since 1 October. At the first meeting she did not call into question previous decisions but announced a global review of monetary policy by the Governing Council which is set to conclude in late 2020.

Euro interest rate trends since the beginning of 2017



2019 was split into two periods for the rates market with rates falling overall on both sides of the Atlantic.

The first phase, from January to September, involved a sharp drop in money market rates driven by the increasingly flexible policies of the central banks as a response to the absence of inflationary pressure and rather morose global growth forecasts. As such, in April, the German ten-year bond yield slipped into negative territory for the first time since 2016, marking a historic low of -0.72% at the end of August. Moreover, for the first time since the 2008 crisis, the American rate curve reversed in September.

The second phase began at the end of the year. It took the form of an increase in rates following the dissipation of certain concerns around global growth, the progression of Sino-American negotiations and the latest "Brexit" developments.

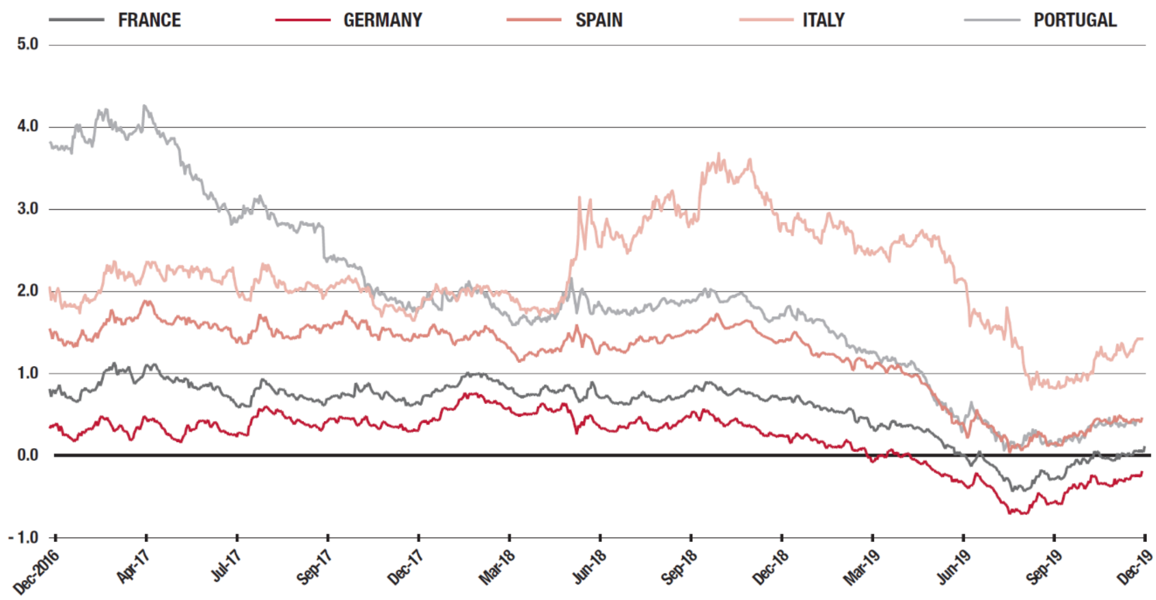
The T-note rate, which was hovering around the 2.5%-3% range in 2018, has now fallen below 2% to 1.92%.

In the Eurozone, the situation is identical with reduced sovereign bond yields and a flattening of spreads in peripheral countries.

At 31 December 2019, the Bund reached -0.19% whilst the OAT was at 0.12% and the ten-year Spanish bond at 0.46%.

In terms of swaps, other than a reduction of 63 basis points on the 10-year swap to 0.13%, we saw a flattening of the curve, since the 2-year yield lost just 12 basis points, bringing it to -0.36%.

Yields on the main 10-year Eurozone government bonds



Key figures of Banque Palatine (in consolidated figures)

Ratings at 31 December 2019

	Moody's	Fitch Ratings
Short-term rating	P-1	F1
Long-term rating	A1	A+
Outlook	Stable	Stable

Financial condition

in millions of euros	31/12/2019	31/12/2018
Equity attributable to equity holders of the parent	1,037.3	863.9
Tier 1 capital	1,000.8	850.3

Prudential ratios

	31/12/2019	31/12/2018
Core Tier 1 ratio	9.20%	7.99%
Tier 1 ratio	10.22%	9.05%
Total capital adequacy ratio	12.26%	11.18%

Consolidated income statement

in millions of euros	31/12/2019	31/12/2018
Net banking income	333.3	331.5
Gross operating income	70.7	79.0
Net income	18.4	23.4
Cost/income ratio	78.78%	76.16%

Activities

in millions of euros	31/12/2019	31/12/2018
Total assets	14,730.3	15,170.9
Customer loans	9,714.7	9,008.1

Cost of risk

in millions of euros	31/12/2019	31/12/2018
	49.0	41.4

Significant events

BPCE Group highlights

Ten years after its creation, the BPCE Group has continued to strengthen its universal cooperative banking model. In terms of strategic advances, in 2019 the BPCE Group acquired 50.1% of the capital of Oney Bank, thus boosting its potential to expand into specialist financial services, and particularly payments.

The extended industrial partnership between the BPCE Group and La Banque Postale was also a major step forward with agreements signed on CNP Assurances (extension of trade agreements and shareholder agreements) and the main terms of the planned merger of asset management activities. The project's goal is to bring together within Ostrum Asset Management, euro rate and credit management and expertise, as well as the insurance management arms of Ostrum Asset Management and LBP Asset Management, thus consolidating around €435 billion in assets under management (on the basis of figures at 30 June 2019), with an ambition to create a market player that is fully compliant with the principles of socially-responsible investment (SRI).

Following the divestment of Banque des Mascareignes, the Group divested investments held by BPCE International in Africa to the Moroccan group Banque Centrale Populaire (BCP). These divestments are part of the Group's strategy to refocus on expanding its operations into priority sectors and regions.

Plans to integrate the activities and teams of the Crédit Foncier within the Group have been implemented in line with the agreed processes and timescale.

Finally, the creation of the Solutions and Financial Expertise (SEF) segment within BPCE was finalised. This segment consolidates the Natixis business units (Factoring, Leases, Guarantees, Consumer loans and Securities Custody), with those of Crédit Foncier (Socfim and CFI) and Pramex International.

In order to boost its collective efficiency, the 8,000-strong BPCE Community was formed. The purpose of this collective is to offer a better response to businesses within the Group that are seeing a profound and lasting transformation of their business lines, whilst providing an ever more effective response to stricter regulations. The remit of this collective, which is made up of BPCE SA, BPCE-IT, IT-CE, i-BP, BPCE Achats and the Financial Solutions and Expertise segment, is four-fold: (i) to develop a strategic vision and prepare for the future; (ii) to act as a Retail community; (iii) to pool resources where they are most needed and (iv) to ensure the Group's long-term performance.

In terms of the Group's digital transformation, 2019 was marked by the launch of a new "Digital inside" scheme managed by and for all business lines. This scheme was a proven success with the digital ratings agency D-rating ranking Banques Populaires and Caisses d'Epargne first among so-called traditional banks in terms of their use of digital channels as well as their performance.

In terms of sustainable finance, the BPCE Group implemented a large number of initiatives. To give its development greater meaning, interconnectedness and coherence, and align it with the best standards, a group head of coordination was appointed for these activities.

Moreover, the BPCE Group and Natixis signed the Principles for Responsible Banking and committed to strategically align their activities with the United Nations' Sustainable development Goals and the Paris Climate Agreement. As such, they joined a coalition of 130 banks worldwide, representing over $47 trillion in assets that have made a commitment to play a key role in working towards a sustainable future.

In addition, the BPCE Group has adopted a Code of Conduct and Ethics aimed at all of its employees. Its objective is to provide employees with decision-making assistance when faced with a doubt which makes it difficult to identify the long-term interest of the customer or business.

Finally, in line with its cooperative values, the BPCE Group has committed to help restore Notre Dame cathedral in Paris.

Highlights of the year for Banque Palatine

Governance

The following changes took place in 2019:

At its meeting on 8 February 2019 the Board of Directors reappointed Pierre-Yves Dréan as Chief Executive Officer and Bertrand Dubus and Patrick Ibry as Executive Vice-Presidents, and made them effective managers.

At its meeting on 21 October 2019, the Board of Directors noted the resignation of Pierre-Yves Dréan as Chief Executive Officer, effective from 6 November 2019, and appointed Christine Jacglin as his replacement. At the same meeting, the appointments of Bertrand Dubus and Patrick Ibry as Executive Vice-Presidents were confirmed. Christine Jacglin, Bertrand Dubus and Patrick Ibry were made effective managers.

At its meeting of 13 December 2019 the Board of Directors duly noted the resignation of Bertrand Dubus as Executive Vice-President, effective from 8 November 2019.

The Board of Directors and the Board Committees are composed of:

Board of Directors

Christine FABRESSE	Chairman
Maurice BOURRIGAUD	Director
Sylvie GARCELON	Director
Bruno GORÉ	Director
Sylvia GRANDEL	Employee-elected Director
Bernard NIGLIO	Director
Marie PIC-PÂRIS ALLAVENA	Director
Guillemette VALANTIN	Employee-elected Director
BPCE	Director represented by Stéphanie CLAVIÉ
Caisse d'Epargne Grand Est Europe	Director represented by Christine MEYER-FORRLER

Audit Committee			**Risk Committee**
Bernard NIGLIO	Chairman	Marie PIC-PÂRIS ALLAVENA	Chairman
Maurice BOURRIGAUD	Member	Maurice BOURRIGAUD	Member
Christine FABRESSE	Member	Christine FABRESSE	Member
Sylvie GARCELON	Member	Sylvie GARCELON	Member
BPCE	Member represented by Stéphanie CLAVIÉ	BPCE	Member represented by Stéphanie CLAVIÉ

Appointments Committee			**Remuneration Committee**
Christine FABRESSE	Chairman	Christine FABRESSE	Chairman
Bernard NIGLIO	Member	Bernard NIGLIO	Member
Marie PIC-PÂRIS ALLAVENA	Member	Marie PIC-PÂRIS ALLAVENA	Member
Caisse d'Epargne Grand Est Europe	Member represented by Christine MEYER-FORRLER	Caisse d'Epargne Grand Est Europe	Member represented by Christine MEYER-FORRLER

At 31 December 2019, the percentage of female Directors was 62.5%. The composition of the Board of Directors respects the Copé Zimmermann law.

Banque Palatine: the leading bank for medium-sized companies and their senior executives

Banque Palatine continues its commitment to medium-sized companies and develops its relationship with their senior executives, supported in particular by targeted communication which enhances its position through several events and appearances:

- organisation of the activities of the Cercle Palatine of medium-sized companies, which in 2019 included:
  - lunches with senior executives of medium-sized companies in Paris and in the regions,
  - an evening discussion in Paris and online using Webex, on the theme of Cybersecurity,
  - an evening discussion in Rennes on the topic of business transfers,
  - a dinner held to celebrate International Women's Day, with thirty business leaders in attendance and Chloé Bertolus, head of maxillofacial surgery at Pitié-Salpétrière hospital as guest of honour;
- sponsorship and contribution to the Défi ETI broadcasts on BFM Business, in which 37 Banque Palatine experts participated with senior executives of medium-sized companies;
- the gala for awarding the Grand prizes for Banque Palatine medium-sized companies and BFM Business, which brought together 200 senior executives and was broadcast live on BFM Business;
- a new corporate media campaign in the 2nd and 3rd quarter of 2019 promoted a new visual in high-end illustration. The campaign was rolled out through: BFM Business (radio and TV), Radio classique, *Le Figaro*, *Challenges* magazine and *Les Echos*;
- finally, every third Thursday of each month and in partnership with Challenges, the publication of "Banque Palatine Observations on small and medium-sized companies", which measures the levels of confidence, investment and employment in small and medium-sized companies. 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.

In addition, in 2018, the Banque created *Fondation Palatine des ETI, mécènes ensemble* (philanthropists together) under the auspices of the *Fondation Entreprendre,* in order to maintain its unique position as partner of medium-sized companies and as "player in the real economy". The mission of this foundation is to spread the entrepreneurial commitment to service through better social integration and to share the resources of medium-sized companies in the field of philanthropy.

In 2019, the Foundation chose its lines of action at its first meeting of the Steering Committee made up of senior executives at medium-sized companies and experts. The Foundation raised €209,000 in donations from 36 medium-sized companies and awarded €130,000 in funding to 5 associations. These were selected by donors from medium-sized companies through an online vote and approved by the Executive Committee of the Foundation. They work to promote entrepreneurship in disadvantaged regions or to support ex-offenders.

This Foundation is driven by a collective effort and has a strong collaborative approach.

Continuation of the new strategic plan, Envol

Banque Palatine continued work on the five strategic orientations in its plan, Envol 2018-2020:

- accelerate development and adapt the distribution model;
- strengthen operational efficiency;
- support our human capital and aim for excellence;
- strengthen our commitment to society;
- develop synergies within the Group.

In particular, 2019 was marked by the following achievements:

- the Pégase project, launched in March 2018 and aimed at transforming Banque Palatine's information system, was ramped up;
- new products and services were rolled out across the two markets, specifically:
  - a wealth management service is now offered to private customers,
  - ePalatine Suite was launched for corporate customers,
  - synergies were established with Natixis to complete the Bank's corporate product range;

- the private customer market has undergone new segmentation;
- Banque Palatine has upgraded its sales system, strengthening *PalatineEtVous,* which is now made up of two teams, dedicated to the remote management of a section of Palatine's customer base;
- continual improvement processes and the use of RPAs have been extended to improve operational efficiency and service quality.

Activities in 2019

Commercial banking

Corporate market

In 2019, an eventful year both nationally and internationally, Banque Palatine successfully continued the expansion of its activities into the market of medium-sized companies:

- the conquest of the core target – businesses with more than €15 million in revenue – continued at a sustained pace with 323 new customer relationships. Thus, from 2013 to 2019, the number of "core target business" customers increased 38%, from 1,988 to 2,753;
- with its full range of financing solutions, Banque Palatine continues to support medium-sized businesses. Loans outstanding to business customers grew by 6.8% to €7,860 million. Income from financing was dynamic in all types of loans (equipment, real estate, acquisition and LBO). It reached €2,065 million, up 5% compared with 2018, attesting to the drive to support business development and investment;
- Banque Palatine again confirmed its position in arranging financial solutions (structured loans, LBO, EuroPP, real estate, financing of senior executives) with 38 transactions arranged, generating fee income of more than €100,000, for a total of €10.4 million;
- loans to companies based on their balance sheet resources remained relatively stable at €9,864 million, reflecting the strategy of adjustment of liabilities in the lasting context of negative interest rates.

Growth in activity in the corporate market rests on a personalised approach to its customers, through national network of 30 agencies spread out over 5 regions (Greater West, Southern Mediterranean, Eastern Centre, North Western Paris, Paris Centre and Eastern Paris) and its expertise, which make it possible, together with the specialised business lines of the BPCE Group to offer a tailored and complete range of products and services.

The following significant events took place in 2019:

- sustained activity in the real estate market with global output (loans and GFA sureties) of over €896 million and an increase in the number of transactions of generation and co-generation of loans, which generated more than €6 million in fees;
- the development of 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;
- continuing the development of the "audio-visual cinema" subsidiary created 10 years ago, which reached the level of net banking income of €6 million. The Bank draws in particular on its ability to bring together various players in the sector (production companies, Directors) by drawing on synergies within the BPCE Group, a long-standing financial backer of cinema and the audio-visual industries;
- sustained business of the corporate finance division which generated nearly €11.5 million in fee income. The syndication platform was ramped up with an increase in the amount invested, standing at €778 million in 2019 (compared with €708 million in 2018);
- a high output of documentary credits, which reached €1,396 million in 2019 (up 15%);
- continued international expansion thanks to its Italian, Belgian, German and Luxembourg desks;
- a trading room which is still very active with 174 new direct entrants in 2019, which the Bank supported primarily on topics of hedging risks and interest rates.

Banque Palatine has also continued to develop synergies with BPCE and Natixis's specialist business lines: Natixis Partners, BPCE Lease, BPCE Factor, Natixis Interépargne, Natixis Intertitres and CEGC.

Private banking market

2019 saw the introduction of new segmentation of the private customer market with the ramping up of the Bank's operations in this market.

The threshold for accessing services on offer for private customers is set at €100,000 in investments or net revenue of €100,000 per fiscal household. These criteria only apply to company Directors who represent a specific segment.

Gaining these customers has resulted in 2,252 new accounts being opened. The net stock of customers (new segmentation and company Directors) is up 1.3% year-on-year.

The net increase in financial and balance sheet resources has been confirmed, with total savings deposits of €4,935 at the end of 2019, up 9% compared with 2018. Net inflow was €242 million in 2019 compared with €202 million in 2018 (up 19.8%).

Outstanding real estate loans were up 9.8% to €1.71 billion at the end of 2019, compared with a 6% increase in the market as a whole.

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

- a national network of 32 branches dedicated to these customers;
- around 101 wealth management advisors and 17 private bankers;
- digital services: a website and mobile app and paperless processes for customers who can sign electronically (life insurance, investment advisory);
- its specialist business lines consisting of wealth management specialists, real estate experts 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 UCIs, EMTN issues, SOFICA, real estate, individual and student financing, asset advances and financing of senior executives),
  - the BPCE Group (SCPI offer, Natixis Luxembourg partnership, real estate offer in property and income tax planning iSelection/Crédit Foncier, Natixis payment services),
  - external partners (Private Equity, UCIs, SCPI, life insurance, Girardin products, real estate, carer services).

The quality of service, especially customer relationships, is the strength of Banque Palatine's private banking offering. Many training sessions were held to provide our private banking customers with the best possible advice, as well as training our advisors to provide excellent customer service.

Financial activities

Financial year 2019 was again marked by an unfavourable interest rate context.

In this environment, Banque Palatine invested €373 million over the year, mainly in Eurozone sovereign bonds during the first half. At the end of 2019, the value of the portfolio stood at €1,630 million. This portfolio's objective is to constitute the liquidity reserve of the Liquidity Coverage Ratio (LCR). As this portfolio is eligible to be posted as collateral against central bank financing, these securities represent a secure source of funding for the Bank.

The Bank's financial strategy is in line with the regulatory ratios set by the Group. The Liquidity Coverage Ratio (LCR) remained above 100% throughout 2019.

The Bank's financing is assured by customer deposits thanks to a complete range of investment products. The ratio of loans to customer deposits was close to 100% at the end of the year. The Bank therefore has a substantial customer deposit base giving it significant scope for commercial development. Indeed, although loans outstanding are continuing to increase, the capital adequacy ratio has been maintained at a high level all year.

In 2019, 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. Through its careful management of its balance sheet, 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's balance sheet is favourably exposed to any rise in rates.

Business review of principal subsidiaries

Asset management – Palatine Asset Management

The offer of Palatine Asset Management is diversified and covers the range of financial market segments: equity, money market, bond, or diversified funds and mandates. It includes funds specialised in certain segments of the stock markets such as small- and mid-cap, thematic funds and SRI (Socially Responsible Investing) funds.

Palatine Asset Management was managing €4.04 billion in assets at the end of the year, up 29%. Monetary UCIs recorded a significant increase in deposits (+€784 million). Outstanding bonds were up by €35 million (+5%). Outstanding bonds were up by €69 million (+5%).

In 2019, stock markets saw record growth, essentially due to more flexible monetary policies from the end of 2018 with an improved political climate (trade agreement between the United States and China; the British parliament passing a Brexit agreement). However, this market upturn is not due to a significant improvement in the profits of companies but an assessment of their value. Institutional investors maintained a wait-and-see approach, particularly for regulatory reasons. Liquidity is very good.

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 2019.

Consolidated and parent-company balance sheet

Consolidated balance sheet

The consolidated balance sheet reached €14,730 million at 31 December 2019, down €441 million compared with 2018.

On the assets side, loans and advances due from customers totalled €9,715 million, up €707 million, whereas loans and advances due from credit institutions were down €1,216 million.

On the liability side, amounts due to customers were €9,493 million, an increase of €351 million, as a result of the increase in customer demand accounts. Amounts due to credit institutions decreased by €300 million.

These developments reflect the new structure of the Bank's balance sheet aimed at reducing the financial balance sheet in favour of the commercial balance sheet.

Equity stood at €1,037 million, up €173 million as a result of the capital increase of €150 million in September 2019.

Parent-company balance sheet

As at 31 December 2019, the parent-company balance sheet was €14,713 million, or an increase of €526 million with respect to 31 December 2018.

Loans and advances due from credit institutions were down €1,217 million, whereas loans and advances due from customers were up €700 million.

On the liability side, amounts due to customers increased by €344 million, while amounts due to credit institutions decreased by €300 million.

Property, plant and equipment and intangible assets, amounted to €123 million as at 31 December 2019, unchanged compared to the previous year. Intangible assets amounted to €95 million, reflecting the goodwill of the banking service businesses contributed by Crédit Foncier de France in 2008.

Subordinated debt was €303 million, in line with the financial year 2018.

The Bank's share capital was up €150 million to €688.8 million.

Consolidated and parent-company earnings

Consolidated earnings

Net banking income reached €333.3 million, an increase of 0.5% or €1.8 million compared to 31 December 2018.

The net interest margin was €220.4 million, an increase of 0.5% or €1.0 million, compared to the financial year 2018. It was supported by the strength of consumer loan production, of which the outstanding amount increased by 7.8% over the previous financial year, which made it possible to offset the decrease in the average return on customer funds. The decrease in the cost of financial resources as well as in the hedging of the institution's exchange rate risk also contributed to the progression in the net interest margins.

Net commissions were €95.8 million, compared to €92.8 million in 2018, *i.e.* an increase of 3.2% resulting from the actions taken to expand the product range and improve customer relations.

Net gains and losses on financial instruments at fair value by income increased by €1.9 million, as a result of the activity supported by the customer dealing room. To recap, gains and losses on instruments at fair value through equity amounted to a €5.0 million gain in 2018, as a result of an advance on a liquidation gain from an investment account.

Finally, net income from other activities was -€0.2 million, compared to -€2.3 million in 2018, having benefited from the profits from the divestment of commercial premises and posted miscellaneous expenses relating to Palatine Asset Management.

Total operating expenses came to €262.6 million, up €10.1 million or 4.0% compared with 2018. This increase resulted from the continued costs associated with the migration to a new information platform (€58.9 million), compared with €32.6 million in 2018.

At 31 December 2019, gross operating income came to €70.7 million, down by €8.3 million (-10.5%) giving a consolidated cost/income ratio of 78.8%, compared to 76.2% in 2018.

The annual cost of risk came to €49.0 million in 2019, up €7.7 million from its 2018 level. The financial year 2018 saw a reversal of provisions amounting to €16.3 million, linked in particular to the improved ratings of counterparties affected by Stages 1 and 2.

The share in net income of associates came to €0.6 million, generated entirely by Conservateur Finance, down 16.2% on 2018.

In 2019, exceptional income of €7.4 million was recorded under gains and losses on other assets, linked to the profits from the disposal of a property in use. To recap, an exceptional expense of €3.1 million linked to the valuation of Ariès Assurances had been recognised at 31 December 2018 under the item "Variation in the value of goodwill".

IFRS consolidated net income at 31 December 2019 came to €18.4 million, compared with €23.4 million in 2018.

Parent company earnings

Net banking income in 2019 reached €317.4 million, an increase of 2.1% compared to 31 December 2018.

The net interest margin is unchanged due to the strength of customer loan production and the decrease in the cost of Bank refinancing, offsetting the reduction in average yield of customer funds.

Income from variable revenue securities fell €3.9 million, taking into account the dividends received in the course of the year which were lower than during the preceding year.

Net commissions increased €6.7 million, or 9.5%, reflecting the development of the Bank's new services and solutions aimed at medium-sized companies and their Directors.

Other net operating income increased by €1.5 million due to the divestment of non-operating premises in 2019.

Total operating expenses rose by €10.3 million to €254.5 million, with continued costs following the migration to the new information system platform (€58.9 million).

The cost of risk was down €41.2 million compared with 2018, to €45.5 million at the end of 2019. In 2018 an additional provision of €32.8 million was recorded due to the alignment of the method of determining its collective provisions with the French standards on the method of assessing expected credit losses (resulting from IFRS 9).

Income before tax increased by €49.0 million to €25.9 million at the end of 2019.

At 31 December 2019, net income was a €22.5 million profit, compared with a €23.1 million loss in 2018.

Results of the subsidiaries

Palatine Asset Management recorded net income of €5.4 million in 2019, down €1.9 million compared with 2018.

Ariès Assurances' net income totalled €0.2 million in 2019, unchanged compared with 2018.

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.

Declaration of extra-financial performance

Given the declaration made by BPCE, the parent company, Banque Palatine does not have a regulatory requirement to file an extra-financial declaration.

Nevertheless, since Banque Palatine included in its Envol 2018-2020 strategic plan a strategic orientation regarding the commitment of Banque Palatine to society, it was decided to make a voluntary extra-financial declaration.

Five-year financial summary

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

Events after the reporting period

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 2019.

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 2019

At 31 December 2019, 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 extravagant expenses

In accordance with the provisions of Article 223 *quater* of the French Tax Code, the financial statements for the year ended 31 December 2019 include €85,327.03 in non-tax-deductible expenses.

Accordingly, the tax charge incurred as a result of these expenses amounted to €29,378.10.

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 was given powers to increase capital as set out in the additional report appended to this report.

Research and development activities

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

Resolutions

The Board of Directors presented to the general meeting of shareholders the management report, the report on corporate governance, the parent-company and consolidated financial statements for 2019 as well as the appropriation of income, which appears in the appendix to this report.

Pursuant to Article 47 of Act 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
2016	26,940,134	-	-
2017	26,940,134	-	-
2018	26,940,134	-	-

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 for the 2020 financial year to the Chief Executive Officer and the Executive Vice-Presidents by virtue of their position, as well as their total remuneration for the financial year 2019, are submitted to the general 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.

Since the terms of office of Directors will end at the annual general meeting called to approve the 2019 financial statements, a proposal is made to shareholders to reappoint Maurice Bourrigaud, Christine Fabresse, Bruno Goré, Marie Pic-Pâris Allavena, BPCE and to appoint Caisse d'Epargne Provence Alpes Corse.

A proposal is also made to shareholders to amend a number of Articles of Association in order to modify the term of office of Directors and streamline monitoring of the Bank's operations.

Outlook

The viral pneumonia epidemic COVID 19, which has spread from China to Europe since January 2020 but the length of which is currently unknown, poses a risk of a severe economic downturn. In particular, potential consequences of prolonged economic lockdown on the value chain in the affected areas and any spread of the health crisis to the services industry is likely to result in economic collapse, at least for the first half of 2020.

In this unusual context, Banque Palatine will take any action needed to support its customers, whether medium-sized companies or senior executives.

Banque Palatine will also continue to implement its strategic plan, Envol 2018-2020. One of its main outcomes this year will the completion of the Bank's IT transformation plan, Pégase.

Banque Palatine will thus benefit from a new, more integrated and more digital information system. Community-led and scalable, it will allow IT maintenance and capital expenditure costs, relating both to technological and regulatory changes, to be pooled.

A new strategic plan, setting out Banque Palatine's medium-term objectives, will be drawn up this year in consultation with employees and customers.

2 Additional report appended to the Board of Director’s management report for 2019

Given business expansion and the impact of regulatory changes, at its meeting on 19 June 2019 the Extraordinary General Meeting voted to:

- transfer its decision-making powers in relation to capital increases to the Board of Directors for a period of 12 months from the meeting date thereby authorising it to carry out one or more capital increases, by issuing ordinary shares, to be paid up by cash transfer, with the preferential subscription rights of shareholders maintained;
- set an overall cap on capital increases under this authorisation of a maximum notional amount of €150 million.

In accordance with the powers vested by the extraordinary general meeting, the Board of Directors met on 19 May 2019 and decided to increase the share capital of Banque Palatine according to the following conditions:

Amount/currency

The total issue amount at par, and therefore excluding share premiums, is €150 million, corresponding to the sum of the number of new shares to be issued, *i.e.* 7,500,000 shares, multiplied by the new share subscription price at its par value, *i.e.* €20.

As such, the share capital will be increased from €538,802,680 to €688,802,680.

Preferential subscription right

The preferential subscription rights attached to existing shares will remain the same with one existing share giving an entitlement to 0.278395051784078 new shares with a €20 par value.

This subscription right is transferable under the same conditions as the shares themselves.

Subscription period

The subscription period for exercising preferential subscription rights to new shares will be open from 5 July 2019 to 27 September 2019 inclusive.

Period for trading preferential subscription rights

The preferential subscription rights trading period will be open from 8 July 2019 to 25 September 2019 inclusive.

a) Irreducible subscription

The entitlement to subscribe new shares will be reserved for:

- holders of existing shares;
- and, where applicable, any assignees of preferential subscription rights.

b) Reducible subscription

Whilst holding their irreducible subscriptions, shareholders or assignees of their preferential subscription rights may subscribe the number of new shares they wish on a reducible basis, in addition to the number of new shares arising from exercising their preferential irreducible subscription rights.

If irreducible and reducible subscriptions do not absorb the capital increase in full, any shares not subscribed may be freely allotted, in full or in part. However, under no circumstances may they be offered to the public.

The capital increase may be limited to the amount of total subscriptions received provided that this amounts to at least three quarters of the capital increase approved by the general meeting.

Should the number of shares not subscribed amount to less than 3% of the capital increase, the total capital increase may, in any circumstances, automatically be limited to the amount of subscriptions received.

Procedure for exercising the preferential subscription right

In order to exercise their preferential subscription rights, shareholders will receive a subscription order form to be returned to Banque Palatine, between 1 September 2019 and 27 September 2019 inclusive, and pay the relevant subscription price by bank transfer into a Banque Palatine account the details of which are stated on the subscription order form.

The preferential subscription right must be exercised by beneficiaries by the expiry date or the entitlement will be lost.

Beneficiaries may waive this right by notifying the company by recorded delivery letter.

Right attached to new shares

Upon creation, the new shares will be subject to all of the stipulations of Banque Palatine shares and to the laws and regulations in force.

New shares will be fully paid up upon subscription through cash payments.

New shares will be created with dividend rights from the date on which this capital increase is finalised.

New shares vesting date

New shares will be created with dividend rights from the date on which this capital increase is finalised.

On 20 September 2019, the Chief Executive Officer of Banque Palatine received the subscription order of BPCE for the reducible and irreducible subscription to the full capital increase and the resulting depositary certificate. On 19 June 2019, having been authorised by the Board of Directors, the Chief Executive Officer:

- closed the subscription period in advance;
- noted the finalisation of the capital increase after issuing the depositary certificate for BPCE funds;
- made the relevant amendment to Article 6 of Banque Palatine's Articles of Association, entitled "Share capital", as follows:

Article 6 – Share capital

The share capital is €688,802,680. It is divided into 34,440,134 fully-paid up shares worth €20 each.

As such, the powers given to the Extraordinary General Meeting on 19 June 2019, were exercised in full by the Board of Directors.

3 Board of Directors' report on corporate governance

FY 2019

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 *et seq* 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 2019.

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 2019 financial year.

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

It was submitted in advance to the Remuneration Committee and the Appointments Committee on Thursday 6 February 2020, 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

The AFEP-MEDEF Corporate Governance Code for listed companies, updated in June 2018 and including recommendations related to the remuneration of senior executives, is the one to which Banque Palatine refers in this report (http://www.afep.com/en/publications-en/le-code-afep-medef-revise-de-2018/).

Some provisions are not relevant to the context of Banque Palatine, since its share capital is held in its entirety by BPCE. As such, to date only the following provisions have been applied:

- 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 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;
  - ownership of a significant number of Banque Palatine shares by the Directors.

The principle of a gender balance on the Board of Directors and committees has been upheld. At 31 December 2019, the percentage of female Directors on the Board of Directors was 62.5%. The composition of the Board of Directors respects the Copé Zimmermann law.

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 meeting of shareholders	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. The 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 six and no more than 18 of these Directors. They are appointed, reappointed and dismissed in line with the provisions of law and the regulations in force.

They are appointed for a term in office of three years. That said, a Director appointed to replace another Director whose term in office has not yet expired remains in office only for the remainder of his or her 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 or her 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 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 or she resigns, is dismissed or dies.

2.2. Directors

At 31 December 2019, 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 in %

					Attendance rate in %				
Directors	Age	Date of appointment or reappointment	Seniority	Expiry date of appointment	Board of Directors	Risks Committee	Audit Committee	Appointments Committee	Remuneration Committee
Christine FABRESSE, Chairwoman of the Board of Directors, Member of the Management Board and Chief Executive Officer of BPCE in charge of retail banking and insurance.	55 years of age	19/11/2018	1 year	2020	100	100	75	100	100
Maurice BOURRIGAUD, Chief Executive Officer, Banque Populaire Grand Ouest	61 years of age	16/05/2017	10 years	2020	100	100	100	-	-
Sylvie GARCELON, Chief Executive Officer of Casden Banque Populaire	54 years of age	16/05/2017	3 years	2020	83	100	75	-	-
Bruno GORÉ, Chairman of the Management Board of Caisse d'Epargne et de Prévoyance de Normandie	58 years of age	31/07/2018	1 year	2020	83	-	-	-	-
Sylvia GRANDEL, elected by the employees (technical staff)	45 years of age	16/05/2017	2.5 years	2020	83	-	-	-	-
Bernard NIGLIO, Chairman of the Steering and Supervisory Board of Caisse d'Epargne et de Prévoyance Provence-Alpes-Corse	46 years of age	16/05/2017	4 years	2020	100	-	100	100	100
Marie PIC-PÂRIS ALLAVENA, Chief Executive Officer of Eyrolles	59 years of age	16/05/2017	5 years	2020	100	100	-	100	100
Guillemette VALANTIN, elected by the employees (managerial grade staff)	53 years of age	16/05/2017	2.5 years	2020	100	-	-	-	-
BPCE, represented by Stéphanie Clavié, responsible for financial reporting	49 years of age	16/05/2017	3 years	2020	83	100	100	-	-
CAISSE D'EPARGNE GRAND EST EUROPE represented by Christine Meyer-Forrler, member of the Management Board in charge of Businesses and Institutions	49 years of age	31/07/2018	3 years	2020	66	-	-	33	75

Changes to the Board during 2019 financial year

There were no changes on the Board of Directors in 2019.

Terms in office

The list of all the offices held by Directors during the 2019 financial year appears in Appendix 2 to this report.

Ethics

At its meeting on 14 December 2018, the Board of Directors adopted a Directors' Code of Conduct for Banque Palatine.

In accordance with Articles L. 511-51 and L. 511-52 of the French Monetary and Financial Code arising from the transposition of the CRD IV (EU Capital Requirements IV Directive), Directors aim to act at all times with the integrity, skills, competence and experience required to perform their duties, to dedicate sufficient time to the performance of their duties and to respect the rules governing the number of corporate offices held.

Directors shall strive to know the rules of procedure related to the legal form of the company, the regulations related to their function and the internal functioning of the Board, in order to exercise their mandate to the best of their abilities. They are aware of their economic, social and institutional environment, at both the national and international levels. They shall strive to keep up-to-date the knowledge they need to effectively carry out their duties and will participate in training offered to them.

Directors have the duty to intervene and clearly express their points of view and their questions. They will try, as part of the discussions, to convince the Board of the relevance of their positions.

Directors may not solicit, receive or accept a direct or indirect benefit in connection with the mandate that they exercise in the company.

Integrity of Directors

The 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 statement 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 or she may require all individuals taking part in a meeting to sign a confidentiality undertaking.

Directors are prohibited from using, for their own benefit or the benefit of anyone else, the privileged information to which they have access.

If a Director fails to comply with one of his or her 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

Directors strive to avoid any conflict that may exist between their interests and those of the company. They inform the Board, its Chairman and Chief Executive Officer of any conflict of interest in which they may be implicated. In cases where they cannot avoid finding themselves in a conflict of interest, they inform the Board and abstain from participating in the discussion as well as from any decision on the matters concerned.

Directors must therefore preserve in all circumstances their independent judgement, decision and action. Directors may not allow themselves to be influenced by any element that is foreign to the interest of the company, which they are responsible for defending.

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. 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.

2.3. Non-voting Directors

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

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

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 effect, 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 of the Board of Directors and rules of procedure of its committees

The rules of procedure of the Board of Directors 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. They were adopted by the Board of Directors at its meeting on 14 February 2014 and 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 Risk Committee and the Appointments Committee and the recording of its meetings.

The rules of procedure of Board Committees set out the procedures for convening meetings and attendance as well as the duties of Board Committees. They were adopted by the Board of Directors at its meeting on 31 July 2019 to enable Groupe BPCE's Head of Risk Management to attend meetings of the Risk Committee.

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 Social and Economic Committee is represented at Board meetings by two representatives appointed as provided for by the legislation in force.

Banque Palatine's Board of Directors met six times in 2019 and the average attendance rate was 90%.

The main topics covered at the meetings were:

- the reappointment of the Chief Executive Officer and Executive Vice-Presidents;
- the resignation of the Chief Executive Officer and appointment of his or her replacement;
- the remuneration of senior executives;
- the Board of Directors' management report;
- the report on Corporate governance;
- the statement of non-financial performance;
- 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);
- the report on Risk management;
- the decision to increase the share capital having been authorised by the general meeting of shareholders;
- the update on professional and pay equity;
- the follow-up on inspections and discussions with the supervisory authorities;
- the arrangements for calling general meetings;
- the approval of the interim and annual financial statements;
- the review of the quarterly financial statements;
- the approval of the budget;
- the minutes of each of the committees of the Board of Directors;
- the quarterly balance sheet and significant events;
- the authorisation and delegation of authority to carry out issues of debt securities and their use.

2.7. Evaluation of the Board of Directors

The Board of Directors conducts a self-evaluation every year.

The responses of Directors to the Board of Directors' evaluation questionnaire in respect of the 2019 financial year showed overall satisfaction with the standard of the Board of Directors as well as its committees, both in terms of their organisation (composition, information shared with Directors, access to information) and their operations (how well meetings and discussions are organised, relationship with executive management and Board Chairman).

Directors are assigned clear duties. However, it emerged that members were awaiting Banque Palatine's three/five-year strategy in view of its environment and the Groupe BPCE strategy.

Moreover, in order to gain a better understanding of trends in the banking sector in all areas of activity, both in France and overseas, additional information is required, particularly with regards competition and digital technology.

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 cooperative bank networks have each implemented a training programme to which Directors of Banque Palatine have access.

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

3. Operation of 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 head of central risk management, compliance, permanent controls and financial security, his/her deputy as well as the head of internal audit are invited to attend the meetings of the Audit Committee and Risk Committee but cannot vote.

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.

3.1. The Audit Committee

Composition

At 31 December 2019, Banque Palatine's Audit Committee had the following members:

- Bernard NIGLIO – Chairman;
- Maurice BOURRIGAUD – member of the committee;
- Christine FABRESSE – member of the committee;
- Sylvie GARCELON – 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, mainly 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 annual parent-company 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 2019 with an average attendance rate of 85%.

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' management report on the annual and half-year financial statements;
- the review of the draft annual report;
- the review of the budget; the updated budget and the multi-annual plan;
- the first ROE and RWA indicators by unit;
- the financial trajectory of Palatine Asset Management 2019/2022;
- the plans to increase the share capital;
- the office of the Statutory Auditors;
- the supplemental report by the Statutory Auditors' on the financial statements for the year ending 31 December 2018;
- the fees paid to and independence of the Statutory Auditors;
- the presentation of the Statutory Auditors' 2019 audit plan;
- the presentation of the conclusions of the Statutory Auditors regarding the 2018 annual financial statements and the 2019 interim financial statements;
- the presentation and monitoring of a specific litigation file;
- the review of the findings by the Audit Committee of Banque Palatine's fully controlled subsidiary Palatine Asset Management, as regards the accounting-related matters.

3.2. The Risk Committee

Composition

At 31 December 2019, Banque Palatine's Risk Committee had the following members:

- Marie PIC-PÂRIS ALLAVENA – Chairwoman;
- Maurice BOURRIGAUD – member of the committee;
- Christine FABRESSE – member of the committee;
- Sylvie GARCELON – member of the committee;
- BPCE represented by Stéphanie CLAVIÉ – member of the committee.

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, as part of its mission, whether the price of its products and services (mentioned in Books II and III of the French Monetary and Financial Code: financial instruments, savings products, banking transactions, investment services, etc.) 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 2019 with an average attendance rate of 95%.

The main topics covered at the meetings were:

- the quarterly report on risk, compliance and internal audit;
- the review of the report on Risk management;
- the review of the audit division’s audit plan and annual budget;
- the update of the risk appetite system;
- the presentation and monitoring of a specific litigation file;
- the monitoring “customer regulatory matters” indicators as part of the RAF;
- the review of RAF limits;
- the review of the findings relating to the internal control of the Audit Committee of Banque Palatine’s fully controlled subsidiary Palatine Asset Management.

3.3. Appointments Committee

Composition

The committee has a Chairman and three members, all of whom were selected from among the Directors. The Appointments Committee is chaired by the Chairman of the Board of Directors.

At 31 December 2019, the committee’s members were as follows:

- Christine FABRESSE – Chairwoman;
- Bernard NIGLIO – member of the committee;
- Marie PIC-PÂRIS ALLAVENA – member of the committee;
- Caisse d’Epargne Grand Est Europe – member of the committee represented by Christine MEYER-FORRLER.

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 report on Corporate governance;
- 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 be detrimental to the interests of Banque Palatine.

Activities

The Appointments Committee met three times in 2019 with an attendance rate of 83.33%.

The main topics covered at the meetings were:

- the review of the report on Corporate governance;
- the report on the integrity and potential incompatibility of candidates for the positions of Director or Executive Vice-President;
- the review of the draft questionnaire for self-evaluation by the Directors of the Board of Directors.

In 2020, there are plans to implement a new governance framework as a result of the publication on 21 March 2018 of the French versions of two European Banking Authority Guidelines relating to the governance of credit institutions and lenders.

3.4. 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 2019, the committee's members were as follows:

- Christine FABRESSE – Chairman;
- Bernard NIGLIO – member of the committee;
- Marie PIC-PÂRIS ALLAVENA – member of the committee;
- Caisse d'Epargne Grand Est Europe – member of the committee represented by Christine MEYER-FORRLER.

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 remuneration 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 remuneration among the Directors and, where applicable, members of the Board Committees, and the total amount of such remuneration which is put to the vote at the Banque Palatine general meeting of shareholders.

Moreover, the Remuneration Committee also:

- carries out an annual review of:
  - the principles underlying Banque Palatine's remuneration policy,
  - the 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, remuneration received in respect of their work as the Chief Executive Officer or Executive Vice-President.

Activities

The committee met four times in 2019 with an attendance rate of 93.75% to deliberate concerning:

- the review of the variable remuneration of the Chief Executive Officer and of the Executive Vice-Presidents;
- the definition of the criteria calculating the variable remuneration of the Chief Executive Officer and Executive Vice-Presidents;
- the definitive award of portions of deferred variable remuneration under the 2015, 2016, and 2017 variable remuneration;
- the definition of the indicator for monitoring the progress of the Pégase project;
- the update concerning the risk-taker penalty as part of the Bank's information migration and transformation project;
- the integration of the risk appetite system into the variable remuneration of effective managers;
- the review of which employees are classed as regulated persons and their remuneration;
- the review of total remuneration of corporate officers;
- the review of the remuneration section of the corporate governance report;
- the review of remuneration policy;
- the background on the elements of remuneration of the Chief Executive Officer and the Executive Vice-Presidents;
- the information on parts four and five of the report pursuant to Article 266 of the order of 3 November 2014;
- the review of remuneration of the Head of risk management and the Head of compliance and permanent controls;
- the opinion on the civil liability insurance policies taken out by Banque Palatine on behalf of its senior executives.

4. Executive management

At its meeting on 14 February 2014, the Board of Directors opted to separate the positions of Chairman and Chief Executive Officer.

At its meeting on 21 October 2019 the Board of Directors once again opted for this separation and appointed Christine Jacglin as Chief Executive Officer, effective from 6 November 2019, to replace Pierre-Yves Dréan, who had tendered his resignation.

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 or she is appointed for a five-year term. 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 or she 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 or she represents the Bank in its dealings with third parties. The Board of Directors did not set any restrictions on his or her 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 or her power to any authorised representative of his or her choice, with or without the ability to make replacements.

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.

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.

Following a proposal by the Chief Executive Officer, at its meeting on 21 October 2019, the Board of Directors reappointed the two Executive Vice-Presidents, Bertrand Dubus and Patrick Ibry, and confirmed their respective remits.

Bertrand Dubus resigned his position of Executive Vice-President effective from 8 November 2019.

At 31 December 2019, the executive management is made up of:

Members of executive management	Age	Date of appointment	Expiry date of appointment
Christine JACGLIN			
Chief Executive Officer	55 years of age	21/10/2019	06/11/2024
Patrick IBRY			
Executive Vice-President – Finance	56 years of age	14/02/2019	14/02/2024

4.1. Workforce managers

The Board of Directors designated as effective managers within the meaning of Article L. 511-13 of the French Monetary and Financial Code:

At its meeting on 8 February 2019, effective from 11 February 2019:

- Pierre-Yves Dréan, Chief Executive Officer;
- Bertrand Dubus, Executive Vice-President in charge of development;
- Patrick Ibry, Executive Vice-President in charge of finances.

At its meeting on 21 October 2019, effective from 6 November:

- Christine Jacglin, Chief Executive Officer;
- Bertrand Dubus, Executive Vice-President in charge of development;
- Patrick Ibry, Executive Vice-President in charge of finances.

At its meeting on 13 December 2019, the Board of Directors noted the resignation of Bertrand Dubus, effective from 8 November 2019.

At 31 December 2019, Christine Jacglin and Patrick Ibry are the effective 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:

- determining the strategic direction of Banque Palatine;
- accounting and financial information;
- internal control;
- determining equity.

4.2. Executive Management Committee

The Executive Management Committee is composed of members of executive management plus the Director of Human Resources and Services, the Director of Transformation and Strategy, the Head of the Private Banking Market, and Christine Jacglin's Chief of Staff.

5. Agreements

Since it belongs to Groupe BPCE, Banque Palatine participates as a member in the Group's various economic interest groups (EIG). 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 under its control according to the definition under Article L. 233-3 of the French Commercial Code.

The following agreements fall within the aforementioned category:

- Agreements with senior executives:

  The remuneration of Chief Executive Officer Pierre-Yves Dréan and Executive Vice-Presidents Bertrand Dubus and Patrick Ibry were not reviewed upon their reappointment in February 2019. However, they are subject to the following agreements and have the following financial impact on the year:

  For the Chief Executive Officer:

  - covered by the unemployment scheme for Chief Executive Officers (GSC) in the most generous category of compensation;
  - remuneration maintained for 12 months in the event of temporary inability to work;
  - benefit paid in the event of enforced departure from office or retirement;
  - covered by *Garanties de Ressources* (Income security), a defined-benefit supplementary pension scheme for Chief Executive Officers of Banques Populaires banks (including guaranteed spousal income under the scheme);
  - covered by supplementary social security schemes (BPCE Mutuelle mutual health insurance and Klésia supplementary pension scheme);
  - measures to support mobility.

  For Executive Vice-Presidents:

  - covered by supplementary social security schemes (BPCE Mutuelle mutual health insurance and Klésia supplementary pension scheme).

  Upon appointment, the new Chief Executive Officer was covered by the following agreements:

  - covered by the unemployment scheme for Chief Executive Officers (GSC) in the most generous category of compensation;
  - remuneration maintained for 12 months in the event of temporary inability to work;
  - benefit paid in the event of enforced departure from office or retirement;
  - covered by *Garanties de Ressources* (Income security), a defined-benefit supplementary pension scheme for Chief Executive Officers of Banques Populaires banks (including guaranteed spousal income under the scheme);
  - covered by supplementary social security scheme (BPCE Mutuelle mutual health insurance and Klésia supplementary pension scheme);
  - measures to support mobility.

  The former and current Chief Executive Officers and Executive Vice-Presidents of Banque Palatine were also eligible, subject to the same conditions as Banque Palatine's employees, for the defined-contribution pension plan applicable to senior executives (Klésia). This scheme, which was modified following the merger of AGIRC and ARRCO on 1 January 2019, is funded by a contribution of:

  - tranche A remuneration: 10.16% (7.62% payable by Banque Palatine and 2.54% payable by the former Chief Executive Officer, the current Chief Executive Officer and Executive Vice-Presidents);
  - tranche B remuneration: 9.45% (7.09% payable by Banque Palatine and 2.36% payable by the former Chief Executive Officer, the current Chief Executive Officer and Executive Vice-Presidents).

  For 2019, the amount of Klésia contributions (employee and employer) paid by Banque Palatine SA to the Chief Executive Officer and the Executive Vice-Presidents was as follows:

  - Pierre-Yves Dréan, from 1 January to 6 November 2019: €13,263.89;
  - Bertrand Dubus, from 1 January to 31 December 2019: €15,604.56;
  - Patrick Ibry from 8 February to 31 December 2019: €15,604.56;
  - Christine Jacglin from 6 November to 31 December 2019: €2,384.03.

- Agreements with shareholders and their subsidiaries:

  - 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 2019 is €2,600,000;
  - 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 2019 is €345,000.

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 or her 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.

Given business expansion and the impact of regulatory changes, at its meeting on 19 June 2019 the Extraordinary General meeting voted to:

- transfer its decision-making powers in relation to capital increases to the Board of Directors for a period of 12 months from the meeting date thereby authorising it to carry out one or more capital increases, by issuing ordinary shares, to be paid up by cash transfer, with the preferential subscription rights of shareholders maintained;
- set an overall cap on capital increases under this authorisation of a maximum notional amount of €150 million.

In accordance with the powers vested by the extraordinary general meeting, the Board of Directors met on 19 June 2019 and decided to increase the share capital of Banque Palatine by €150 million.

On 20 September 2019, having been authorised by the Board of Directors since 19 June 2019, the Chief Executive Officer of Banque Palatine:

- closed the subscription period in advance;
- noted the finalisation of the capital increase after issuing the depositary certificate for BPCE SA funds;
- made the relevant amendment to Article 6 of Banque Palatine's Articles of Association, entitled "Share capital".

7. Rules and principles governing the calculation of remuneration and benefits

7.1. Remuneration of Directors and Committee Members

Directors receive remuneration on a *prorata* basis in respect of their position on the Board of Directors, Audit Committee, Risk Committee, Appointments Committee and Remuneration Committee.

The total amount of this remuneration 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.

The annual remuneration due is paid in December of each year.

The 16 May 2017 General meeting set the total annual amount of this remuneration at €134,500 for the current year and for the following years until such a time as a new decision is made.

On 31 July 2017, the Board of Directors allocated the amount payable with respect to 2017 financial year, according to the following methods, subject to a continued employment condition:

For the Board of Directors:

- Chairman of the Board of Directors: €31,000;
- Director: €1,500 per meeting subject to a cap of €7,500 p.a.

For the Audit Committee:

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

For the Risk Committee:

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

For the Remuneration Committee:

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

For the Appointments Committee:

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

The Chairman of the Board of Directors and the permanent representative of BPCE receive no remuneration since this is 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.

Directors' remuneration

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

Amounts due in respect of 2018: all remuneration due, on a prorata *basis, in respect of duties performed in 2018, regardless of the date of payment*.

Amounts paid in respect of 2018: all amounts actually paid and received in 2018 (due in 2017 and paid in 2018 + due in 2018 and paid in 2018) in respect of duties performed during the period.

Amounts due in respect of 2019: all remuneration due, on a prorata *basis, in respect of duties performed in 2019, regardless of the date of payment.*

Amounts paid in respect of 2019: all amounts actually paid and received in 2019 (due in 2018 and paid in 2019 + due in 2019 and paid in 2019) in respect of duties performed during the period.

NA: not applicable. * Excluding Chairman's allowance.

	Amounts in respect of 2019		Amounts in respect of 2018*	
Christine Fabresse	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration (corporate office)	€500,000	€500,000	€83,349	€83,349
Variable remuneration	€419,000[d]	€36,330[e]	€72,660[a]	€0
Exceptional remuneration				
Remuneration Board member**	€0	€0	€0	€0
Benefits in kind	€49,146[f]	€49,146[f]	€813[b]	€813[b]
Other remuneration	NA[c]	3,270[g]	NA	€0

** From 1 November 2018.*
*** Paid to BPCE.*
(a) Variable portion in respect of 2018, of which €36,330 was paid in 2019 and the balance (50%) deferred over three years in equal instalments of €12,110.
(b) In respect of a "company car" benefit in kind.
(c) BPCE SA incentive not yet known as of the date of publication of this annual financial report.
(a) Variable portion in respect of 2019, of which €209,800 was paid in 2020 and the balance (50%) deferred over three years in equal instalments of €69.933.
(e) Amount paid in 2019 for the variable portion in respect of FY 2018.
(f) €9,104 in respect of a "company car" benefit in kind and €40,042 in respect of a relocation bonus.
(g) BPCE SA incentive.

	Amounts in respect of 2019		Amounts in respect of 2018	
Maurice Bourrigaud	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration Board member	€11,500	€11,500	€10,500	€10,500
Benefits in kind	NA	NA	NA	NA

Stéphanie Clavié	Amounts in respect of 2019 Due	Amounts in respect of 2019 Paid	Amounts in respect of 2018 Due	Amounts in respect of 2018 Paid
Fixed remuneration	€138,301	€138,301	€114,805	€114,805
Variable remuneration	€41,325	€41,325	€19,016	€19,016
Exceptional remuneration				
Remuneration Board member*	€0	€0		
Benefits in kind	€39	€39	€153	€153
Other remuneration	€2,070**	€18,173**	NA	NA

** Paid to BPCE.*
*** On-call and public holiday bonus, incentive not yet known as of the publication date of this annual financial report for the amounts due.*

Sylvie Garcelon	Amounts in respect of 2019 Due	Amounts in respect of 2019 Paid	Amounts in respect of 2018 Due	Amounts in respect of 2018 Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration Board member*	€52,400	€52,400	€42,000	€42,000
Benefits in kind	NA	NA	NA	NA

** Including Natixis and BPCE of which €7,700 for Banque Palatine.*

Bruno Goré	Amounts in respect of 2019 Due	Amounts in respect of 2019 Paid	Amounts in respect of 2018* Due	Amounts in respect of 2018* Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Board member remuneration*	€7,500	€7,500	€4,500	€4,500
Benefits in kind	NA	NA	NA	NA

** From 31 July 2018.*

Sylvia Grandel	Amounts in respect of 2019 Due	Amounts in respect of 2019 Paid	Amounts in respect of 2018 Due	Amounts in respect of 2018 Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Board member remuneration*	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

** Paid to union.*

	Amounts in respect of 2019		Amounts in respect of 2018	
Christine Meyer-Forrler	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Board member remuneration*	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

** Paid to Caisse d'Epargne d'Alsace then to Caisse d'Epargne Grand Est Europe.*

	Amounts in respect of 2019		Amounts in respect of 2018	
Bernard Niglio	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration Board member	€14,000	€14,000	€13,500	€13,500
Benefits in kind	NA	NA	NA	NA

	Amounts in respect of 2019		Amounts in respect of 2018	
Marie Pic-Pâris Allavena	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration Board member	€14,000	€14,000	€13,500	€13,500
Benefits in kind	NA	NA	NA	NA

	Amounts in respect of 2019		Amounts in respect of 2018	
Guillemette Valantin	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Board member remuneration*	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

** Paid to union.*

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 the Remuneration Committee.

In 2019, the variable remuneration of the Chief Executive Officer and the Executive Vice-Presidents is based on:

- common Group indicators for 2019: cost/income ratio, beneficiary capacity, economic GNB/ETP and CERC (customer deposits);
- areas of improvement: new SMEs with more than €15 million in revenue, new individual customers with more than €100,000 in funds upon first contact, existence and proper implementation of RAF scheme, remaining on-budget in terms of spending on external support, temporary reinforcements and training for the Pégase project, before the end of 2019 the design of the Bank's planned organisational model post-migration;
- 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 amount of variable remuneration is equal to 80% of fixed remuneration when a 100% performance rate is attained. In any event, the variable portion allocated for the financial year may not exceed 100% of fixed remuneration.

With effect from 2012, 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 amount of variable remuneration is equal to 80% of fixed remuneration when a 100% performance rate is attained. In any event, the variable portion allocated for the financial year may not exceed 100% of 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

The tables below show the remuneration paid by Banque Palatine and its subsidiary, Palatine Asset Management, in respect of the offices held on its Board and Audit and Risk Committee.

Amounts due in respect of 2018: all remuneration due, on a prorata *basis, in respect of duties performed in 2018, regardless of the date of payment.*

Amounts paid in respect of 2018: all amounts actually paid and received in 2018 (due in 2017 and paid in 2018 + due in 2018 and paid in 2018) in respect of duties performed during the period.

Amounts due in respect of 2019: all remuneration due, on a prorata *basis, in respect of duties performed in 2019, regardless of the date of payment*.

NC: not concerned.

	Amounts in respect of 2019*		Amounts in respect of 2018	
Christine Jacglin	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	€50,298	€50,298	NC	NC
Variable remuneration	€40,238	€38,880	NC	NC
Remuneration Board member			NC	NC
Housing allowance			NC	NC
Benefits in kind		€0	NC	NC

** From 6 November 2019.*

	Amounts in respect of 2019*		Amounts in respect of 2018	
Pierre-Yves Dréan	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	€246,270	€246,270	€290,000	€290,000
Variable remuneration	€197,016	€95,183	€232,000	€116,000
Remuneration Board member	€9,275	€9,275	€17,000	€17,000
Housing allowance	€34,000	€34,000	€40,000	€40,000
Benefits in kind		€24,126		€19,394

** Until 5 November 2019.*

	Amounts in respect of 2019*		Amounts in respect of 2018	
Bertrand Dubus	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	€188,513	€188,513	€205,000	€205,000
Variable remuneration	€94,257	€73,941	€102,500	€81,206
Profit-sharing and incentive plans		€22,484		€21,294
Remuneration Board member	€1,750	€1,750	€4,000	€4,750
Benefits in kind		€13,061		€10,051

** Until 7 November 2019.*

	Amounts in respect of 2019		Amounts in respect of 2018*	
Patrick Ibry	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	€205,000	€205,000	€190,109	€190,109
Variable remuneration	€102,500	€82,554	€75,358	€75,358
Profit-sharing and incentive plans		€22,304	€19,697	€19,697
Remuneration Board member	€6,825	€6,825	€5,250	€5,250
Benefits in kind		€13,598	€8,130	€8,130

** From 8 February 2018.*

Table 4 – Stock options awarded to Executive Directors during the 2019 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 2019 financial year.						

Table 5 – Stock options exercised by Executive Directors during the 2019 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 2019 financial year.			

Table 6 – Performance shares awarded to Executive Directors during the 2019 financial year

Performance shares awarded by the 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 2019 financial year.							

Table 7 – Performance shares available for Executive Directors during the 2019 financial year

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 2019 financial year (no award of this type of share).			

Table 8 – Past awards of stock options and bonus shares during the 2019 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	Expiry date
No stock options or bonus shares were granted during the 2019 financial year.						

Table 9 – Stock options awarded to and exercised by the 10 employees other than Executive Directors who were awarded the most during the 2019 financial year

Name of non-executive employee	Number and date of the plan	Number of options awarded and exercised during the 2019 financial year	Weighted average price
No stock options were awarded or exercised by Banque Palatine employees during the 2019 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 sale or change in duties	Payments under a no-compete clause
Christine JACGLIN Chief Executive Officer	06/11/2019	06/11/2024	No	KLESIA: pay-as-you-go system ALLIANZ: defined benefit pension	GSC: unemployment insurance for senior executives Enforced loss of office benefit	No
Pierre-Yves DREAN Chief Executive Officer	14/02/2019	05/11/2019	No	KLESIA: 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	14/02/2019	11/07/2019	Yes	KLESIA: pay-as-you-go system	No	No
Patrick IBRY Executive Vice-President	14/02/2019	14/02/2024	Yes	KLESIA: pay-as-you-go system	No	No

Pursuant to the provisions of the *Pacte* law, the appended table sets out the average remuneration of the Chairman of the Board of Directors, the Chief Executive Officer and each Executive Vice-President as a ratio of the mean remuneration of the company's non-executive employees, on a full-time equivalent basis, in at least the five most recent years, presented together for the purposes of comparison.

	2015	2016	2017	2018	2019
Chairman of the Board of Directors (CBD)*	0	0	0	0	0
Chief Executive Officer (CEO)	€290,000	€290,000	€290,000	€290,000	€295,833
Executive Vice-Presidents (EVP)	€205,000	€205,000	€205,000	€205,000	€205,000
Permanent employees: mean salary	€47,024	€47,533	€48,101	€48,765	€50,146
CBD/employee ratio	0	0	0	0	0
CEO/employee ratio	6.17	6.10	6.03	5.95	5.87
EVP/employee ratio	4.36	4.31	4.26	4.20	4.07

** No remuneration in respect of the office: only an allowance in respect of the office paid separately to BPCE.*

The table below sets out the remuneration of the Chairman of the Board of Directors, the Chief Executive Officer and each Executive Vice-President as a ratio of the median remuneration of the company's employees, on a full-time equivalent basis, and corporate officers in at least the five most recent years, presented together for the purposes of comparison.

	2015	2016	2017	2018	2019
Chairman of the Board of Directors (CBD)	0	0	0	0	0
Chief Executive Officer (CEO)	€290,000	€290,000	€290,000	€290,000	€295,833
Executive Vice-Presidents (EVP)	€205,000	€205,000	€205,000	€205,000	€205,000
Median pay employees on permanent contracts	€42,724	€43,000	€43,407	€44,357	€45,561
CBD/employee ratio	0	0	0	0	0
CEO/employee ratio	6.79	6.74	6.68	6.54	6.49
EVP/employee ratio	4.80	4.77	4.72	4.62	4.50

Employment contracts of Executive Vice-Presidents

The Executive Vice-Presidents have 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 corporate office of the Executive Vice-President and the employment contract of the Head of finance.

The duties of Patrick Ibry, Executive Vice-President – Finance include, but are not restricted to:

- defining and overseeing 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;
- overseeing and organising the budget process;
- implementing the business plan;
- overseeing the organisation's internal projects for change within the defined scopes;
- managing the teams that report to him or her on a daily basis;
- reporting on his or her activities to the Chief Executive Officer and briefing him or her on his or her results.

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 remuneration.

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 a working time account (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.

Remuneration received in respect of offices held

In accordance with the standards set by Groupe BPCE, remuneration paid in respect of offices held within the Group's companies may be paid directly to the members of the Boards of Directors or Supervisory Boards of those companies.

Benefits in kind

Company car: amounting to the lesser of 40% of the total annual car rental cost and 12% of the car purchase price.

Housing allowance: flat-rate calculation based on the number of rooms and remuneration.

Chief Executive Officer

As a corporate officer, the Chief Executive Officer is entitled to the benefits associated with this status, in particular:

- the unemployment scheme for company Directors (GSC) in the most generous category. 100% of this contribution is payable by Banque Palatine;
- the supplementary social security scheme cover (BPCE Mutuelle mutual health insurance, Klésia personal protection and supplementary pension scheme introduced for K and HC employees of Banque Palatine);
- the defined-benefit supplementary pension scheme for senior executives of Groupe BPCE;
- the remuneration maintained for 12 months in the event of temporary inability to work;
- the benefit paid in the event of enforced departure or retirement based on the provisions applicable to senior executives of Groupe BPCE;
- the measures to support mobility.

Benefit in the event of enforced departure

For the Chief Executive Officer: Criteria for the payment of enforced departure benefit

The enforced departure benefit is payable to executives and former executives of the Banque Populaire banks and Caisse d'Epargne. Christine Jacglin is eligible for it due to her transfer within the Group.

The enforced departure benefit is only payable to senior executives without an employment contract whether it is "active" or suspended.

The benefit is only payable in the event of enforced departure (dismissal by the governing body or withdrawal of approval by the governing body or enforced resignation or if not reappointed by the governing body) other than for serious misconduct or transfer within Groupe BPCE.

Payment of the enforced departure 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.

The enforced departure benefit is not payable if the executive leaves the Group on their own initiative.

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 departure, 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 departure, termination gives a right, except in the event of gross negligence or wilful misconduct, to payment of the enforced departure benefit, less any benefit paid in respect of termination of the employment contract.

Amount of enforced departure benefit

In this paragraph, the enforced departure is assumed to take effect in year N.

The enforced departure benefit is payable only if the company generated a positive net income for accounting purposes over the most recent financial year preceding the enforced loss of the relevant corporate office (year N-1).

The reference monthly remuneration used for the calculation, is equal to 1/12 of the aggregate fixed remuneration (not including any specific uprating or benefits in kind) paid in respect of the most recent calendar year of service (N-1) and the mean variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service (N-1, N-2, N-3).

The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office of Banque Palatine and any previous office within Banque Populaire or Caisse d'Epargne.

In cases where the mean variable remuneration in respect of the three most recent calendar years of service cannot be calculated, the average is calculated over the reduced period.

In cases where fixed remuneration cannot be calculated for the last calendar year, fixed remuneration is annualised.

In cases where the senior executive took up their position at the Group entity (Banque Palatine, Banque Populaire or Caisse d'Epargne) in year N, the reference remuneration is set following discussions by the governing body and the central body.

The amount of enforced departure benefit is equal to:

Monthly reference remuneration × (12 months + 1 month per year of service within the Group).

The length of service within the Group is calculated in years and fractions thereof.

The amount of the benefit is capped at 24 times the reference monthly remuneration, which is earned through 12 years of service with the Group.

Should at least 50% of the maximum variable element be paid during the three most recent years of the then current term of office (or during the term of service, supplemented by the term of any prior office in the event of reappointment), the benefit shall be paid in full.

If the amounts paid do not amount to at least 33.33% of the maximum variable element over the reference period, no benefit shall be paid. If the amounts paid range between 33.33% and 50%, the amount of the benefit is calculated on a straight-line basis, at the discretion of the company's governing body.

In cases where the senior executive took up their position at the Group entity (Banque Palatine, Banque Populaire or Caisse d'Epargne) in year N, the benefit is reduced or paid following discussions by the governing body and the central body.

In any event, this benefit is paid less any benefit payable for termination of an employment contract, where applicable.

Retirement benefit

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.

Criteria for the payment of the retirement benefit

The retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is within the relevant scope when the claim is made: Chief Executive Officers of Banques Populaire banks, Chairmen of the Management Boards of the Caisses d'Epargne, Chief Executive Officer of Banque Palatine and members of the Management Board of BPCE SA.

The payment of the retirement benefit is at the discretion of the governing body of the company to which the senior executive belongs, on the opinion of the Remuneration Committee. The payment of the benefit should be subject to conditions related to the performance of the beneficiary, assessed in relation to the company's performance, in order to comply the AFEP-MEDEF Code and, where relevant, Articles L. 225-42-1 and L. 225-90-1 of the French Commercial Code, as is the case of enforced departure benefit.

In the event that the enforced departure benefit is paid, the senior executive not covered by Article 82 loses any entitlement to the defined-benefit pension scheme which he or she may have been able to claim and is not entitled to retirement benefit.

Amount of retirement benefit

In this paragraph, the retirement is assumed to take effect in year N.

The reference monthly remuneration used for the calculation, is equal to 1/12 of the aggregate fixed remuneration (not including any specific uprating or benefits in kind) paid in respect of the most recent calendar year of service (N-1) and the mean variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service (N-1, N-2, N-3).

The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office at Banque Palatine and any previous office within Banque Populaire or Caisse d'Epargne.

In cases where the mean variable remuneration in respect of the three most recent calendar years of service cannot be calculated, the average is calculated over the reduced period.

In cases where fixed remuneration cannot be calculated for the last calendar year, fixed remuneration is annualised.

In cases where the senior executive took up their position at the Group entity (Banque Palatine, Banque Populaire or Caisse d'Epargne) in year N, the reference remuneration is set following discussions by the governing body and the central body.

The amount of benefit is equal to: the reference monthly remuneration × (6+0.6 A)

Where A represents the number, or fraction of a number, of years in office in the relevant scope (see 7.1). It is capped at 12 times the reference monthly remuneration, which is earned through ten years of service with the Group. It is excluded from the base used to calculate the annuities due under the defined-benefit pension plans of which the Director is a beneficiary.

In any event, this benefit is paid less any termination benefit liable to be paid in respect of an employment contract, where applicable.

Executive Vice-President

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.

Criteria 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.

Calculation 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-President are entitled to:

- under the same terms and conditions as employees on the defined contribution plan applicable to unranked managers (Klésia). This scheme, which was modified following the merger of AGIRC and ARRCO on 1 January 2019, is funded by a contribution of:
  - tranche A remuneration: 10.16% (7.62% payable by Banque Palatine and 2.54% payable by the Chief Executive Officer and the Executive Vice-President),
  - tranche B remuneration: 9.45% (7.09% payable by Banque Palatine and 2.36% payable by the Chief Executive Officer and the Executive Vice-President);
- the supplementary "Pension scheme for senior executives of Groupe BPCE" under Article L. 317-11 of the French Social Security Code and its regulations from 1 July 2014, the main characteristics 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 of June 2018. They are compliant with the principles set out governing beneficiaries' status, the overall determination of basic remuneration, length of service conditions, the progressive increase in potential rights depending on length of service, the reference period used to calculate benefits and the ban on artificially inflating remuneration.

No employment contract or suspended employment contract – Unemployment insurance

The Board of Directors decided that the Chief Executive Officer may benefit from private unemployment insurance cover (GSC), with the Group contributing to the cost of this cover.

Since the Executive Vice-President holds a corporate office and an employment contract, he or she is covered by Unedic unemployment insurance.

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

The Board of Directors decided that the Chief Executive Officer should benefit from the arrangements maintaining his or her remuneration for 12 months in the event that he or she is temporarily unable to work.

Social security protection arrangements applicable to all employees

Banque Palatine's Chief Executive Officer and Executive Vice-President are eligible, subject to the same terms and conditions as Banque Palatine's employees, for the social security protection put in place for all employees:

- AG2R (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

An annual review is conducted to determine which employees are classed as regulated persons based on 18 criteria (15 qualitative and three quantitative) as set out in delegated Regulation (EU) No. 604/2014 of the European Commission of 4 March 2014 to which two criteria have been added to include employees covered by the banking law regarding the separation and regulation of banking activities (SRAB) and the Volcker law, in accordance with Groupe BPCE standards.

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 is subject to approval by the human resources division, supported by the risk management, compliance, permanent controls and financial security divisions during the meeting of the committee of Identification of MRTs (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

At the general meeting, resolutions will be submitted to the shareholders for approval concerning the establishment of the principles and criteria for determining the allocation and award of fixed, variable and exceptional items of total remuneration and benefits in kind, to be awarded in respect of 2020 to the Chief Executive Officer and Executive Vice-President as well as senior executives who resigned in 2019, by virtue of their office, as well as their total remuneration for 2019 financial year.

In addition, the overall package of remuneration of any kind in respect of 2019 financial year paid to all regulated persons will also be submitted to the shareholders, but this only requires an opinion.

Appendix 1

Company: Banque Palatine
Report pursuant to Article 266 of the order of 3 November 2014
on the internal control of banking, payment and investment services firms
subject to the control of the *Autorité de contrôle prudentiel et de résolution*
Remuneration policy and practice for the persons defined in Article L. 511-71
of the French Monetary and Financial Code
FY 2019

1 Description of the company's remuneration policy

A. Remuneration of corporate officers at Banque Palatine

Banque Palatine's corporate officers include members of the executive body (current and former 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 current and former 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: vehicle, social protection of company Directors, defined benefit pension plan and accommodation (for the Chief Executive Officer).

The criteria and amounts of the Chief Executive Officers' 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 fixed 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 attributable to equity holders of the parent. 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:

- an 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 current and former 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 remuneration on a *prorata temporis* basis for attending meetings of the Board of Directors, Audit Committee, Risk Committee, Appointments Committee and Remuneration Committee.

The overall allocation of this remuneration is submitted to a vote at the Annual General Meeting of shareholders 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 remuneration in respect of their position which is instead paid directly and in full to BPCE.

B. Remuneration of regulated persons

B.1 Definition of regulated persons

A Banque Palatine employee is deemed to be a regulated person if they fulfil one of the criteria set out in European Commission (EU) delegated Regulation No. 604/2014 of 4 March 2014.

Since 2016, and in compliance with the Groupe BPCE standard, two supplemental criteria have been applied 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 the risk management, compliance, and permanent controls divisions during the meeting of the committee of Identification of MRTs (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 the gross fixed 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 the gross fixed annual salary.

The remuneration of the Head of the Private Banking Market consists of a basic salary plus variable remuneration based on targets set and evaluated by the management. It is capped at 40% of the gross fixed annual salary.

The remuneration of the chief of staff consists of a basic salary plus variable remuneration based on targets set and evaluated by the management. It is capped at 20% of the gross fixed 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 set at 21.7% of gross annual salary if targets are met and capped at 27.5% in the event that (i) individual targets are exceeded and (ii) the bank coefficient is factored in.

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 attributable to equity holders of the parent. 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:

- the 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 Director of Human Resources and Services who notifies the Executive Management Committee.

Proposals for salary increases of members of the Executive 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 in 2015 and updates it annually:

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 within the above scope are eligible for the scheme with the exception of the current and former Chief Executive Officer, Executive Vice-Presidents, the Director of Human Resources and Services, the Director of Transformation and Strategy and the Head of the Private Banking Market.

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.

Breakdown of targets 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 individual profile	Target No. 1 Outperformance 120%	Target No. 2 Outperformance 120%	Target No. 3 Outperformance 120%	Target No. 3 Outperformance 120%			
"Finances" individual profile	Target No. 1 No outperformance	Target No. 2 No outperformance	Target No. 3 No outperformance	1 Target No outperformance			
"Financial Director" individual profile	Target No. 1 Outperformance 130%	Target No. 2 Outperformance 130%	Target No. 3 Outperformance 130%	1 Target No outperformance			
"Investment banker" individual profile	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 be representative of 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.

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

Target weightings

	Entity portion			Individual portion		
Individual profil				Target No. 1 40% of indiv. portion	Target No. 2 35% of indiv. portion	Target No. 3 25% of indiv. portion
Corporate individual profil	Target No. 1 43% of indiv. portion	Target No. 2 43% of indiv. portion	Target No. 3 14% of indiv. portion			
"Finances" individual profile	Target No. 1 74% of indiv. portion	Target No. 2 13% of indiv. portion	Target No. 3 13% of indiv. portion			
"Financial Director" individual profile	Target No. 1 40% of indiv. portion	Target No. 2 35% of indiv. portion	Target No. 3 25% of indiv. portion			
"Investment Banker" individual profile				Target No. 1 40% of indiv. portion	Target No. 2 35% of indiv. portion	Target No. 3 25% of indiv. portion

(1) Starting from the setting of 2017 targets, the team target may be individualised if management deems it appropriate and possible.

C.3.5 Evaluation of performance

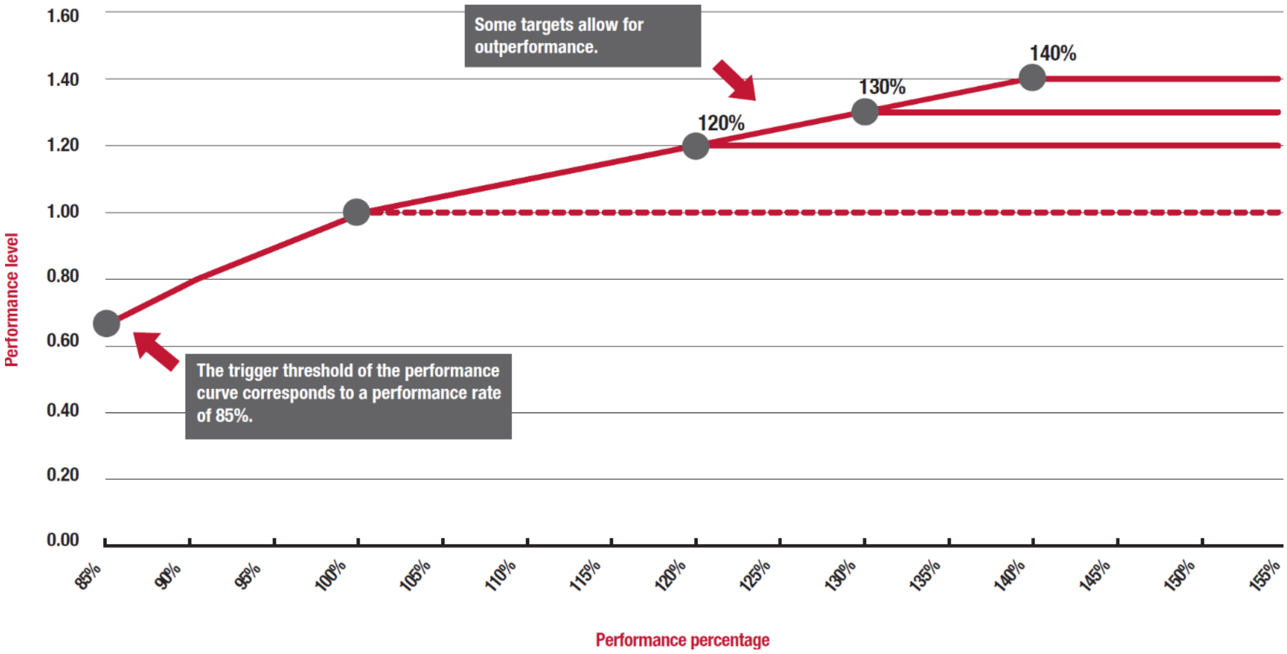
When each target is set, including the qualitative target, a scale of measurement must be defined to be able to objectively determine how far the original aim has been achieved at the year-end review.

Recognition of outperformance

As discussed in point C.3.3 (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.

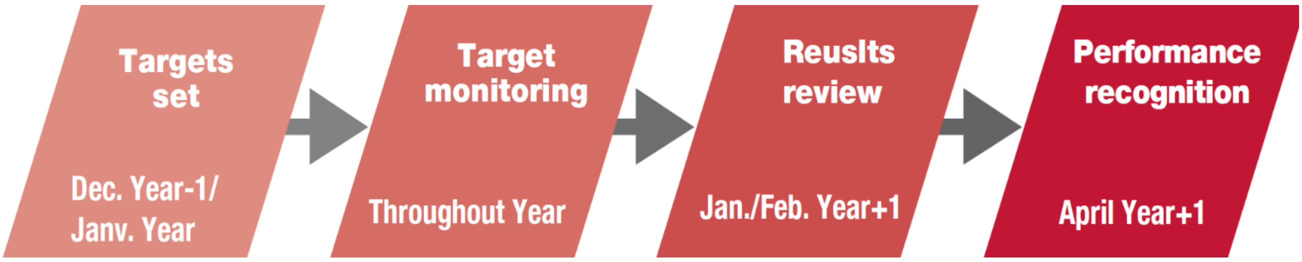


The performance curve is based on the following three segments:

- 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 24 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[1]	Middle office or back office for market unit managers, managers of a functional unit, managers of front office departments, coordination managers.	Annual basic salary	66%	33%		5.0%	6.0%	6.6%
	Group heads	Amount				€1,500	€1,800	€1,980
Regulatory functions	The auditors and research officers 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	Risk management division and lending division analysts (including special affairs employees)	Annual basic salary		33%	66%	4.0%	4.8%	5.3%
Project manager	Project leaders, the 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	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 salary in market divisions (except for regulated real estate professions and cash managers), regional real estate managers	Annual basic salary	80%	20%		16.1%	20.0%	22.0%
Area manager	Network area managers	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%
"Investment Bankers" individual profile	Investment banker department employees of the corporate market division	Annual basic salary	70%	30%		30.0%	36.0%	40.0%
Specialised business lines	Head of division	Annual basic salary	25%	75%		55.0%	55.0%	55.0%
	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, commercial, ALM and treasury activities	Annual basic salary	25%	75%		40.0%	40.0%	40.0%
Head of corporate	Head of corporate finance	Annual basic salary	40%	60%		82.0%	91.0%	100.0%
Project head corporate(2)	Heads of department and project heads in the corporate finance division	Annual basic salary	30%	70%		77.0%	91.0%	100.0%
Project manager corporate(3)	Project managers in the corporate finance division	Annual basic salary	30%	70%		55.0%	65.0%	72.0%
Corporate affairs business managers	Business managers and agents in the corporate finance division	Annual basic salary	30%	70%		40.0%	47.0%	52.0%
Corporate project manager	Project managers in the corporate finance division	Annual basic salary	30%	70%		20.0%	24.0%	26.0%
Financial operator	Middle/back office operators in the dealing room (TRECH/MOFI), middle office managers and middle office team members from real estate (MOIM) and regulated real estate professions (PRIGC/PRIRC), EBANK customer support managers, FLUXS specialist banking managers, managers in the corporate finance division	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

(1) The flat-rate fee indicated applies to Group managers.

(2) For the DECM department, the target/+/max bonus will be capped at 46%/54%/60% if total department commissions are below €1.5 M.

(3) For the DECM department, the target/+/max bonus will be capped at 46%/54%/60% if total department commissions are below €1.5 M.

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.

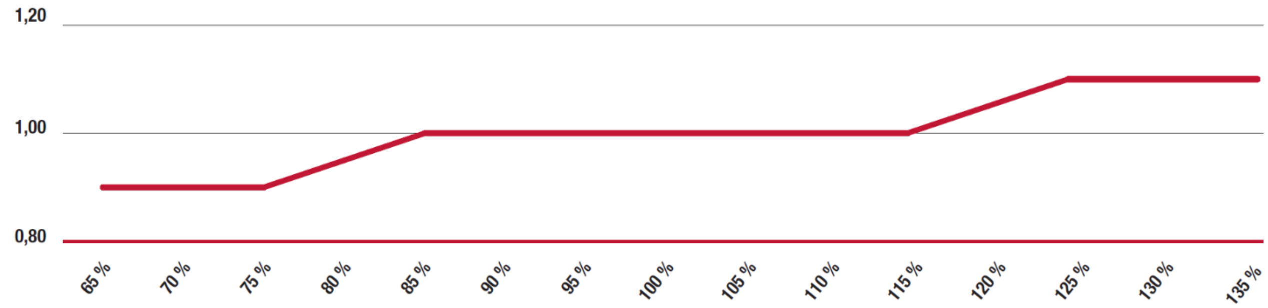
"Bonus +": the amount of bonus in the event of maximum outperformance on certain targets and a 100% "entity" and Bank performance.

"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 0.90.

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 Act 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

The Bonus = [entity portion + individual/team portion] × Bank performance rate.

Or the entity represents the 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 Corporate new business bonus

The bonus is aimed at business-generating network employees at the corporate division within the differentiating offers department, the businesses and institutions department, the investment banking department and the senior executive financing department.

The amount paid is 1% of net fees, capped at €2,500 per transaction.

C.5 Circle of Excellence

The recognition and retention bonus paid under the Circle of Excellence scheme is aimed at 20 employees who receive recognition under this scheme each year from mid-2019.

C.6 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 2019, are determined based on the degree of achievement of the following four indicators:

- 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;
- the Pégase project.

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, 20 December 2016, and 15 December 2017 and 21 May 2019 and signed by three unions.

It specifies that all Bank staff having received remuneration under an incentive plan in respect of 2019 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 2019 incentive bonuses into the Group savings plan (PEG) or employee savings scheme (PERCO), the Bank has contributed up to €780, calculated as follows:

- for the first €260 of incentive bonuses invested, the employer contribution is 300%.

Since 2017, the agreement has also provided for payment of a contribution 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 the recommendation of the BPCE Remuneration 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 2019, this reference corresponds to a Common equity tier one Pillar 2 ratio (including P2R and P2G and cushions) applicable from 1 July in 2019 of at least 11% prescribed by the ECB in its letter dated 14 February 2019.

A Common equity tier one of 15.60% was recorded at 31 December 2019. Threshold for allocating variable remuneration in respect of financial year 2019 as well as allocating deferred thirds.

For 2020, this reference corresponds to a CET1 Pillar 2 ratio (including P2R and P2G and cushions) applicable in 2020 of at least 11.20%.

In the event that the minimum threshold is not reached as at 31 December of the financial year, the Supervisory Board of BPCE is informed of the situation and proposes to the Group 1 companies a reduction on the variable portions awarded in respect of the financial year, and deferred fractions of the variable portions not yet due to risk takers by applying a rate which should be at least 50%. The rate of reduction proposed may not reach 100% if its application allows, potentially in combination with other measures, reaching the minimum threshold set at the beginning of the financial year concerned.

The final decision on whether to apply the reduction rate proposed by BPCE's Supervisory Board is under the responsibility of the management body as part of its duty to supervise each Group 1 company, for risk takers within its scope of sub-consolidation. Any deviation from the proposal made by BPCE's Supervisory Board shall first be approved by the management body as part of its duty to supervise the company and be accompanied by an explanation of the choice made.

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
> 15%	30
Between 10% and 14.99%	20
Between 5% 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 effective managers) 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 committee of Identification of MRTs (material risk takers and associated variable remuneration, the variable remuneration of employees identified as risk takers (excluding effective managers) may be reduced 5% per training not taken.

In 2019, there was one case of employee who did not attend mandatory regulatory training. At its meeting of 31 January, the MRT committee approved the application of a penalty of 15% (-5% × 3 training sessions not attended) of the total variable remuneration of the employee in question.

2 Decision-making process

The Remuneration Committee had four members at 31 December 2019:

- the Chairwoman of the Board of Directors and Chairwoman of the Remuneration Committee;
- 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 2019, the committee's members were as follows:

• Christine FABRESSE	Chairwoman
• Bernard NIGLIO	Member of the committee
• Marie PIC-PÂRIS ALLAVENA	Member of the committee
• Caisse d'Epargne Grand Est Europe	Member of the committee, represented by Christine MEYER-FORRLER

The committee met three times in 2019.

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

- the principles underlying the company's remuneration policy;
- the remuneration, termination benefits and benefits of all kinds paid to members of the executive body;
- the remuneration of the Heads of the risk management and compliance functions;
- the arrangements for allocating remuneration among Directors in respect of their offices;
- the reviews the civil liability insurance policies taken out by Banque Palatine on behalf of its senior executives;
- the review of which employees are classed as regulated persons and their remuneration;
- the self-evaluation of the Board of Directors;
- the review of the report on corporate governance.

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.

(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.*

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 (EU) delegated Regulation No. 604/2014 of 4 March 2014, the 18 criteria (15 qualitative and three quantitative) defined in the regulations have been applied to all Bank employees.

Since 2016, and in compliance with the Groupe BPCE standard, two supplemental criteria have been applied 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 377 employees, with 57 already recognised under another criterion, and 320 with jobs and/or responsibilities that do not belong to the criteria of this report:

- exclusion of branch manager employees (49 employees);
- exclusion of sales employees (111 employees);
- exclusion of business line specialists or experts (81 employees); and
- exclusion of employees in management positions (79 employees).

The identification of the regulated population was approved by the human resources division, the risk management, compliance, permanent controls and financial security divisions during the meeting of the committee of Identification of MRTs and associated variable remuneration of 31 January 2020.

In 2019, Banque Palatine had 74 employees considered regulated persons and they had the following positions:

- Chief Executive Officer*
- Executive Vice-President – Finance
- Executive Vice-President – Network
- Head of LMBO
- Middle office banking manager
- Head of private banking market
- Director of Human Resources and Services
- Director of Transformation and Strategy
- Chief of staff
- Deputy Director of Compliance and Risk
- Director of Control and Audit
- Director of Compliance and Risk
- Head of risk management
- Head of compliance and ethics department
- Head of financial risk department
- Head of finance
- Head of ALM and MLT investment department
- Head of customer and brokerage department
- Head of engineering and trading department
- Head of AML, FT and anti-fraud department*
- Head of prudential oversight and collective provision department*
- Head of the permanent control management department
- Head of credit risk*
- Head of operational risk department
- Head of euro and foreign currency service
- Head of market risk and balance sheet management
- Head of risk monitoring and control service
- Internal audit head supervisor
- Head of management control
- Head of remuneration and benefits department
- Head of legal and tax
- Head of information systems
- Delegation analyst*
- Head of corporate finance
- Head of real estate
- Regional Director*

- Head of investment fund hedging department
- Head of PRI commercial department
- Head of loan department
- Head of liabilities and equity capital markets
- Head of structured financing & distribution department
- Head of large corporates department
- Head of LMBO
- Head of lending
- Head of international affairs
- Head of corporate market
- Head of PRI
- Trader dealing room*
- Market operator*
- Head of exchange service
- Head of banking services
- Head of accounting, legal and litigation

** Functions that were filled by more than one person during 2019.*

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 met, 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.

(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.

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

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

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

The ratio is reported each year by BPCE.

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

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

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

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

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

- and is not followed[1] by a transfer within the Group, unvested deferred variable remuneration vests immediately, after application of any penalty clauses;
- and[2] is followed 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 qualitative information on remunerations, broken down by sector

Article 450 g) of EU Regulation No. 575/2013

Awarded in respect of FY 2019, excluding employer contributions in €	Management body executive	Management body supervisory function	Investment banking	Retail banking	Asset management	Support functions	Independent control function	Other	Total
Workforce	4	8	0	5	0	31	17	9	74
Fixed remuneration	€690,080	0€	€0	€482,496	€0	€3,150,592	€1,049,03	€534,511	€5,096,882
Variable remuneration	€385,742	€0	€0	€129,815	€0	€1,444,182	€154,686	€533,753	€2,648,179
Total remuneration	**€1,075,822**	**€0**	**€0**	**€612,311**	**€0**	**€4,594,774**	**€1,203,889**	**€1,068,263**	**€8,555,060**

(1) However, in the event of a termination of the mandate, at the initiative of the governing body which is not followed by a transfer within the Group, the non-vested portion of deferred amounts may be lost upon a substantiated joint decision by the liable governing body and the central body.

(2) However, in the event of a termination of the mandate, at the initiative of the governing body which is followed by a transfer within the Group, the non-vested portion of deferred amounts may be lost upon a substantiated joint decision by the liable governing body and the central body.

Aggregate quantitative information on remuneration, broken down by executives and employees whose activities have a significant impact on the institution’s risk profile

Awarded in respect of FY 2019 – excluding employer contributions (in euros)	Management body	Other	Total
Workforce	12	62	74
Total remuneration	**€1,075,822**	**€7,479,238**	**€8,555,060**
of which fixed remuneration	€690,080	€5,216,801	€5,906,882
of which variable remuneration	€385,742	€2,262,437	€2,648,179
of which non-deferred	€290,559	€2,179,937	€2,470,496
of which cash	€290,559	€2,179,937	€2,470,496
of which shares and related instruments	€0	€0	€0
of which other instruments	€0	€0	€0
of which deferred	€95,183	€82,500	€177,683
of which cash	€0	€0	€0
of which shares and related instruments	€95,183	€82,500	€177,683
of which other instruments	€0	€0	€0

In 2019, no Banque Palatine employees received total remuneration of more than €1 million.

Other items of remuneration for risk-takers

Other items of remuneration for risk-takers	Management body	Other	Total
Amount of deferred variable remuneration awarded for years prior to 2019 and not vested	€211,450	€147,208	€358,658
Amount of deferred variable remuneration awarded for years prior to 2019 paid in 2019 (in amount awarded)	€104,004	€49,520	€153,524
Amount of deferred variable remuneration awarded for years prior to 2019 paid in 2019 (in amount paid)	€113,279	€52,369	€165,648
Amount of explicit reductions made on deferred variable remuneration in 2019	€0	€0	€0
Amount of termination benefits agreed in 2019	€0	€0	€0
Number of employees having received termination benefits in 2019	0	0	0
Highest amount of termination benefits agreed	€0	€0	€0
Total amounts paid for recruitment in 2019	€0	€0	€0
Number of employees having received a hiring bonus	0	0	0

5 Individual information

Amounts due in respect of 2019: all remuneration due, on a prorata temporis *basis, in respect of duties performed in 2019, regardless of the date of payment.*

Amounts paid 2019: all sums actually paid and received in 2019 in respect of positions held that year.

	Amounts in respect of 2019*	
Christine JACGLIN	**Due**	**Paid**
Fixed remuneration	€50,298	€50,298
Variable remuneration	€40,238	€38,880
Remuneration Board member		
Housing allowance		€0
Benefits in kind		€0

** From 6 November 2019.*

	Amounts in respect of 2019*	
Pierre-Yves DREAN	**Due**	**Paid**
Fixed remuneration	€246,270	€246,270
Variable remuneration	€197,016	€95,183
Remuneration Board member	€9,275	€9,275
Housing allowance	€34,000	€34,000
Benefits in kind		€24,126

** From 5 November 2019.*

	Amounts in respect of 2019	
Bertrand DUBUS	**Due**	**Paid**
Fixed remuneration	€188,513	€188,513
Variable remuneration	€94,257	€73,941
Profit-sharing and incentive plans		€22,484
Remuneration Board member	€1,750	€1,750
Benefits in kind		€13,061

** Until 7 November 2019.*

	Amounts in respect of 2019	
Patrick IBRY	**Due**	**Paid**
Fixed remuneration	€205,000	€205,000
Variable remuneration	€102,500	€82,554
Profit-sharing and incentive plans		€22,304
Remuneration Board member	€6,825	€6,825
Benefits in kind		€13,598

Henri GALLON	Amounts in respect of 2019	
	Due	**Paid**
Fixed remuneration	€110,000	€110,000
Variable remuneration	€23,870	€26,864
Benefits in kind		€3,289

Christophe MAILLARD	Amounts in respect of 2019*	
	Due	**Paid**
Fixed remuneration	€17,097	€17,097
Variable remuneration	€0	€0
Benefits in kind		€811

** Until 3 March 2019.*

Franck BERNARD	Amounts in respect of 2019*	
	Due	**Paid**
Fixed remuneration	€89,962	€89,962
Variable remuneration	€20,181	€23,975
Benefits in kind	€0	€0

** From 14 January 2019.*

Appendix 2

Offices and positions held by corporate officers in 2019
Article L. 225-102-1 paragraph 3 of the French Commercial Code

Christine JACGLIN

DoB: 08/04/1964

Term of office: 06/11/2019 to 06/11/2024

BANQUE PALATINE: Chief Executive Officer and Effective Manager

PALATINE ASSET MANAGEMENT: Vice-Chairwoman of the Supervisory Board, Chairman of the Audit Committee and the Remuneration Committee from 5 December 2019

Naxicap Partners: Director

OCBF: Permanent representative of Banque Palatine, Director from 2 December 2019

Pierre-Yves DREAN

DoB: 31/01/1960

Term of office: 14/02/2019 to 05/11/2019

BANQUE PALATINE: Chief Executive Officer and Effective Manager until 5 November 2019

PALATINE ASSET MANAGEMENT: Chairman of the Supervisory Board and Chairman of the Remuneration Committee until 5 December 2019

CONSERVATEUR FINANCE: Representative of Banque Palatine, Director and Member of the Audit Committee until 16 December 2019

FC LORIENT BRETAGNE SUD: Director

GPM ASSURANCES: Representative of Banque Palatine, Member of the Supervisory Board until 1 December 2019

Bertrand DUBUS

DoB: 26/09/1959

Term of office: 14/02/2019 to 07/11/2019

BANQUE PALATINE: Deputy Chief Executive Officer and Effective Manager until 7 November 2019

PALATINE ASSET MANAGEMENT: Member of the Supervisory Board, Member of the Remuneration Committee until 7 November 2019

PALATINE ETOILE 13: Permanent representative of Banque Palatine, Director until 7 November 2019

OCBF: Permanent representative of Banque Palatine, until 7 November 2019

Patrick IBRY

DoB: 11/04/1963

Term of office: 14/02/2019 to 14/02/2024

BANQUE PALATINE: Chief Executive Officer and Effective Manager

ARIES ASSURANCES: Chairman of the Supervisory Committee

CONSERVATEUR FINANCE: Representative of Banque Palatine, Director and Member of the Audit Committee from 17 December 2019

PALATINE ASSET MANAGEMENT: Chairman of the Supervisory Board, Member of the Remuneration Committee

FCPE DE L'UES BANQUE PALATINE: Member of the Supervisory Board

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

GPM ASSURANCES: Representative of Banque Palatine, Member of the Supervisory Board from 2 December 2019

Christine FABRESSE

DoB: 24/05/1964

Term of office: 19/11/2018 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019

BPCE: Member of the Management Committee and Chief Executive Officer in charge of retail banking and insurance

BANQUE PALATINE: Chairman of the Board of Directors, Chairwoman of the Appointments Committee, Chairman of the Remuneration Committee, Member of the Audit Committee, Member of the Risk Committee

CREDIT FONCIER DE FRANCE: Director

NATIXIS INVESTMENT MANAGERS: Permanent representative of BPCE, Director

BANQUE CENTRALE POPULAIRE (BCP): Permanent representative of BPCE Maroc, Director

Maurice BOURRIGAUD

DoB: 21/01/1958

Term of office: 16/05/2017 until the 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

ATLANTIQUE MUR REGIONS (SCPI): Permanent representative of BPGO, Member of Supervisory Board

i-BP: Permanent representative of BPGO, Director

OUEST GESTION D'ACTIFS: Permanent representative of BPGO, Director

NATIXIS INVESTMENT MANAGERS: Director

OUEST CROISSANCE: Chairman

OUEST CROISSANCE GESTION: Member of the Supervisory Board

GC2I: Manager

Stéphanie CLAVIÉ

DoB: 16/08/1970

BPCE's permanent representative starting on 17/01/2017

BANQUE PALATINE: Permanent representative of BPCE, Director

FIDOR BANK AG: Director

BPCE SERVICES: Permanent representative of BPCE, Director since 01/04/2019

ONEY BANK: Permanent representative of BPCE, Director since 22/10/2019

Sylvie GARCELON

DoB: 14/04/1965

Term of office: 16/05/2017 until the 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

BPCE: Non-voting Director on the Board of Directors

Bruno GORÉ

DoB: 25/09/1961

Term of office: 31/07/2018 until the General Meeting called to approve the financial statements for the year ending on 31/12/2019

CAISSE D'EPARGNE NORMANDIE (CEN): Chairman of the Management Board

BANQUE PALATINE: Director

CAISSE D'EPARGNE CAPITAL: Member of the Supervisory Board

FEDERATION NATIONALE DES CAISSES D'EPARGNE: Permanent representative of CEN, Director

FONDS CAISSE D'EPARGNE NORMANDIE POUR L'INITIATIVE SOLIDAIRE: Permanent representative of CEN, Chairman

GIE IT CE: Permanent representative of CEN, Director

HABITAT EN REGION: Permanent representative of CEN, Director

OSTRUM ASSET MANAGEMENT: Director

SAEML ZENITH DE CAEN: Non-voting Director

ROUEN NORMANDIE 2028 – EUROPEAN CAPITAL OF CULTURE: Director

Christine MEYER-FORRLER

DoB: 07/05/1969

Permanent representative of Caisse d'Epargne Grand Est Europe

CAISSE D'EPARGNE GRAND EST EUROPE (CEGEE): Member of the Management Board in charge of Corporate and Institutional Customers

BANQUE PALATINE: Permanent representative of CEGEE, Director, Member of the Appointments Committee, Member of the Remuneration Committee

ALSACE CREATION: Permanent representative of CEGEE, Director

CE DEVELOPPEMENT: Permanent representative of CEGEE, Director

STAF – SOCIETE TERVILLOISE D'AMENAGEMENT FONCIER: Permanent representative of CEGEE, Director

GIE CE SYNDICATION RISQUE: Permanent representative of CEGEE, Director

SA D'HLM LOGI-EST: Permanent representative of CEGEE, Director

Marie Pic-Pâris ALLAVENA

DoB: 04/07/1960

Term of office: 16/05/2017 until the 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

TF1: Director

BANQUE POPULAIRE RIVES DE PARIS (BPRI): Chairman of the Board, Member of the Remuneration Committee, Member of the Appointments Committee

COFACE: Permanent representative of BPRI, Director

Bernard NIGLIO

DoB: 10/08/1949

Term of office: 16/05/2017 until the 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, Chairman of the Appointments Committee, Member of the Audit Committee, Member of the Risk Committee

BANQUE PALATINE: Director, Chairman of the Audit Committee, Member of the Remuneration Committee, Member of the Appointments Committee

FNCE: Member of the Bureau, Member of the Board of Chairmen of Cos, Member of the CSR Committee, Director of the General Meeting, Director on the Board of Directors, Member of the Federal Council

IMF CREASOL: Director

NATIXIS FACTOR: Director

SLE PROVENCE OUEST: Chairman

Sylvia GRANDEL

DoB: 13/04/1974

Term of office: 16/05/2017 at the General Meeting called to approve the FY 2019 financial statements

BANQUE PALATINE: Director representing employees

Guillemette VALANTIN

DoB: 25/07/1966

Term of office: 16/05/2017 at the General Meeting called to approve the FY 2019 financial statements

BANQUE PALATINE: Director representing employees

Pandora: Manager

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1 Parent-company financial statements

at 31 December 2019

1.1 Income statement

in millions of euros	Notes	FY 2019	FY 2018
Interest and similar income	3.1	268.1	272.1
Interest and similar expenses	3.1	(54.5)	(58.9)
Income from variable-income securities	3.3	7.9	11.8
Fee and commission income	3.4	84.9	78.3
Fee and commission expenses	3.4	(6.9)	(7.0)
Net gains or losses on trading book transactions	3.5	15.0	13.6
Net gains or losses on available-for-sale securities and similar items	3.6	1.8	1.4
Other banking income	3.7	2.5	2.5
Other banking expenses	3.7	(1.4)	(3.0)
NET BANKING INCOME		**317.4**	**310.8**
General operating expenses	3.8	(249.8)	(229.3)
Depreciation, amortisation and impairment of property, plant & equipment and intangible assets	3.8	(4.7)	(14.9)
GROSS OPERATING INCOME		**62.9**	**66.6**
Cost of risk	3.9	(45.5)	(86.7)
OPERATING INCOME		**17.4**	**(20.1)**
Gains or losses on long-term investments	3.10	8.5	(2.9)
INCOME BEFORE TAX		**25.9**	**(23.1)**
Non-recurring items	3.11	0.0	0.0
Income tax	3.12	(3.4)	0.0
FRBG charges/reversals and regulated provisions		0.0	0.0
NET INCOME		**22.5**	**(23.1)**

1.2 Balance sheet and off-balance sheet

Assets

in millions of euros	Notes	31/12/2019	31/12/2018
Cash, central banks		305.9	291.4
Treasury bills and similar securities	4.3	1,085.5	1,077.6
Loans and advances due from credit institutions	4.1	2,566.1	3,783.3
Customer transactions	4.2	9,784.1	9,084.0
Bonds and other fixed-income securities	4.3	523.5	597.8
Equities and other variable-income securities	4.3	0.2	0.2
Investments in subsidiaries and long-term equity investments	4.4	11.9	8.8
Investments in associates	4.4	6.4	6.4
Intangible assets	4.6	106.3	106.9
Property, plant and equipment	4.6	16.4	15.9
Other assets	4.8	178.4	150.3
Accrual accounts	4.9	128.2	116.7
TOTAL ASSETS		**14,712.9**	**15,239.3**

Off-balance sheet items

in millions of euros	Notes	31/12/2019	31/12/2018
Commitments given			
Financing commitments	5.1	2,102.3	2,042.2
Guarantee commitments	5.1	1,123.1	1,058.4
Commitments on securities		0.0	0.0

Liabilities

in millions of euros	Notes	31/12/2019	31/12/2018
Cash placed with central banks		0.1	0.2
Amounts due to credit institutions	4.1	1,313.3	1,613.8
Customer transactions	4.2	9,493.3	9,149.7
Debt securities	4.7	2,216.9	3,020.6
Other liabilities	4.8	43.5	39.2
Accrual accounts	4.9	223.3	154.2
Provisions	4.10	92.1	103.9
Subordinated debt	4.11	303.5	303.5
Fund for general banking risks (FGBR)	4.12	1.3	1.3
Total equity (excl. FGBR)	**4.13**	**1,025.6**	**853.1**
Issued capital		688.8	538.8
Share premium		56.7	56.7
Retained earnings		49.8	49.8
Carried forward		207.7	230.8
Net income/(loss) for the year		22.5	(23.1)
TOTAL LIABILITIES		**14,712.9**	**15,239.3**

Off-balance sheet items

in millions of euros	Notes	31/12/2019	31/12/2018
Commitments received			
Financing commitments	5.1	346.1	357.2
Guarantee commitments	5.1	255.3	203.9
Commitments on securities		0.0	0.0

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Note 1 General background

1.1 The BPCE Group

The BPCE Group[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

The BPCE Group is a cooperative group whose members own two retail banking networks: the 14 Banques Populaires and the 15 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 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 set out 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 Act 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 15 Caisses d'Epargne.

BPCE must comply with the cooperative principles of the Banque Populaire banks and the Caisses d'Epargne all times.

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 in which it owns a 70.6831% stake, are organised around three major segments:

- retail banking and insurance, including the Banque Populaire network, the Caisse d'Epargne network, the Financial Solutions and Expertise segment (including factoring, consumer loans, finance leases, securities & financial guarantees and the retail securities), the Natixis Payment and Insurance segments and Other Networks (primarily Banque Palatine);
- Asset and Wealth Management;
- and Major Customers Banking.

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 Articles L. 511-31 and 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 between them.

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 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.

(1) Banque Palatine is integrated within the BPCE Group consolidated financial statements, which can be consulted at the BPCE SA registered office and on the BPCE corporate website.

The **Caisse d'Epargne network Fund** consists of a €450 million deposit made by the Caisses 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 €179 million at 31 December 2019.

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.

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

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

1.3 Significant events

Since 1 January 2019, the Banque Palatine Group has applied IFRS 16 "Leases", replacing IAS 17.

IFRS 16 requires the lessee to recognise leases in the form of a right of use on the asset side of the balance sheet, and to record the present value of the lease payments over the term of the contract under liabilities.

When implementing the standard, rights of use and rental liabilities respectively impacted line items "Property, plant and equipment" and "Accrued expenses and other liabilities" in the amount of €26.2 million each.

During the first half of 2019, Banque Palatine carried out a leaseback transaction for one of its operating premises.

The Bank continued its IT migration to the i-BP platform. The bulk of migration costs are now recorded under expenses, *i.e.* €58.9 million for the 2019 financial year.

In September 2019, Palatine performed a €150 million capital increase, subscribed to in full by BPCE.

1.4 Post-balance sheet events

No events liable to have a material effect on the 2019 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).

2.2 Changes in accounting methods

No change in accounting methods affected the financial statements in 2019.

The texts adopted by the ANC and the obligatory application in 2019 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 General accounting principles

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.

Specific accounting principles are presented in the various appended notes to which they relate.

2.4 Principles applicable to banking resolution mechanisms

The procedures for feeding the deposit guarantee and resolution fund were amended by an order of 27 October 2015.

Concerning guarantee funds for cash, surety and securities facilities, the contributions paid by the Group total €10.9 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €2.3 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 €8.6 million.

The resolution fund was created in 2015 pursuant to EU Directive 2014/59 (BRRD or Bank recovery and resolution directive) establishing a framework for the recovery and resolution of credit institutions and investment firms and European Regulation 806/2014 (MRU Regulation). In 2016, it became a Single Resolution Fund (SRF) between the member states participating in the Single Supervisory Mechanism (SSM). The SRF is a system for funding mechanism 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 delegated Regulation 2015/63 and the 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 2019. The amount of the contributions paid by the Group for the financial year was €4.6 million of which €3.9 million was recognised as an expense and €0.7 million in the form of cash deposit guarantees that are recognised on the balance sheet as assets (15% of calls for funds constituted in the form of cash deposit guarantees). The total contributions entered as assets on the balance sheet amounted to €3.1 million at 31 December 2019.

Note 3 Information on the income statement

3.1 Interest and similar income and expense

Accounting principles

Interest and similar commission income are recognised on a *prorata* 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 *prorata* basis according to the outstanding amount due.

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

	FY 2019			FY 2018		
in millions of euros	Income	Expense	Net	Income	Expense	Net
Transactions with credit institutions	30.3	(10.4)	19.9	33.5	(13.9)	19.6
Customer transactions	181.9	(15.8)	166.1	183.7	(17.4)	166.3
Bonds and other fixed-income securities	38.7	(20.0)	18.7	39.6	(20.6)	19.0
Subordinated debt	0.0	(7.5)	(7.5)	0.0	(6.6)	(6.6)
Other	17.2	(0.8)	16.4	15.3	(0.4)	14.9
TOTAL	**268.1**	**(54.5)**	**213.6**	**272.1**	**(58.9)**	**213.2**

Interest income from transactions with credit institutions includes 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 €2.3 million in respect of 2019, compared with €2.5 million in 2018.

3.2 Income and expenses on finance and operating leases

Accounting principles

Income and expenses from fixed assets presented under “Finance leases and similar transactions” and “Operating leases” on the balance sheet are recognised under this item, in particular:

- rental amounts, and capital gains and losses on disposals of fixed assets held under finance leases, leases with a purchase option or operating leases;
- charges and reversals for impairment, losses on irrecoverable loans and recoveries of bad debts written off relating to the portion of doubtful rents for which impairment is mandatory, as well as those relating to contract termination payments;
- depreciation and amortisation on fixed assets.

Banque Palatine only conducts operating lease transactions as a lessee.

3.3 Income from variable-income securities

Accounting principles

Income from variable-income securities includes dividends and other income from shares and other variable-income securities, equity investments, other long-term securities and shares in subsidiaries and associates.

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".

in millions of euros	FY 2019	FY 2018
Investments in subsidiaries and long-term equity investments	0.1	0.5
Investments in associates	7.8	11.3
TOTAL	**7.9**	**11.8**

Including €7.3 million in dividends received from its Palatine Asset Management subsidiary, compared to €10.6 million in 2018.

3.4 Fees and commissions

Accounting principles

Interest-like commissions are recorded under interest and similar income and expenses (Note 3.1).

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.

	FY 2019			FY 2018		
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	42.3	0.0	42.3	37.2	0.0	37.2
Securities transactions	7.3	(0.1)	7.2	7.3	(0.1)	7.2
Payment services	10.2	(6.4)	3.9	9.8	(6.5)	3.3
Insurance products	16.2	0.0	16.2	15.6	0.0	15.6
Foreign exchange transactions	0.8	0.0	0.8	0.9	0.0	0.9
Financial services	5.3	(0.3)	5.1	4.9	(0.3)	4.6
Other fee and commission income(1)	2.5	0.0	2.5	2.5	0.0	2.5
TOTAL	**84.9**	**(6.9)**	**78.0**	**78.3**	**(7.0)**	**71.3**

(1) This consists of financial engineering fees.

3.5 Net gains or losses on trading book transactions

Accounting principles

Net gains or losses on trading book transactions include:

- gains or losses on balance sheet and off-balance sheet transactions in trading securities;
- gains or losses on outright forward currency transactions from purchases and sales of foreign currencies, and from the periodic valuation of foreign exchange and precious metals transactions;
- gains or losses on transactions in forward financial instruments, including interest rate, currency and stock market index futures, be they firm or conditional, including when used to hedge trading book transactions.

in millions of euros	FY 2019	FY 2018
Foreign exchange transactions	7.9	(2.2)
Forwards, futures and options	7.1	15.8
TOTAL	**15.0**	**13.6**

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

Accounting principles

This item includes gains or losses on investment securities and on equity securities resulting from the difference between provision reversals and gains on disposals, and provisions and losses on disposals.

in millions of euros	FY 2019 Available-for-sale securities	FY 2018 Available-for-sale securities
Impairment		
Charges	2.0	(2.6)
Reversals	0.0	0.0
Net gain/(loss) on disposal	**(0.1)**	**4.0**
TOTAL	**1.8**	**1.4**

3.7 Other banking income and expenses

Accounting principles

Other income and expenses from banking operations include the share of joint transactions, rebilling of banking income and expenses, income and expenses from real estate transactions and IT services.

This line item also includes expenses and income on finance lease and/or operating lease activities not carried out as a primary activity, and the fixed assets of which are presented under property, plant and equipment.

Such interest income and expenses include:

- rental amounts, and capital gains and losses on disposals of fixed assets held under finance leases, leases with a purchase option or operating leases;
- charges and reversals for impairment, losses on irrecoverable loans and recoveries of bad debts written off relating to the portion of doubtful rents for which impairment is mandatory, as well as those relating to contract termination payments;
- depreciation and amortisation on the fixed assets in question.

	FY 2019			FY 2018		
in millions of euros	Income	Expense	Total	Income	Expense	Total
Rebilling of banking income and expense	0.5		0.5	0.5		0.5
Miscellaneous other activities	2.0	(1.4)	0.6	2.0	(3.0)	(1.0)
TOTAL	**2.5**	**(1.4)**	**1.1**	**2.5**	**(3.0)**	**(0.5)**

3.8 General operating expenses and depreciation, amortisation and impairment on property, plant and equipment and intangible assets

General operating expenses

General operating expenses include payroll costs, including wages and salaries, employee profit-sharing and incentive schemes, social security contributions, taxes and levies on payroll costs. Other administrative expenses are also recorded, including taxes other than on income and fees for external services.

in millions of euros	FY 2019	FY 2018
Wages and salaries	(72.4)	(70.1)
Pension costs and similar obligations	(8.3)	(7.2)
Other social security charges	(29.2)	(27.7)
Employee incentive scheme	(7.0)	(9.9)
Employee profit-sharing scheme	(0.4)	(0.6)
Payroll taxes	(13.3)	(12.9)
TOTAL SALARY AND EMPLOYEE BENEFIT EXPENSE	**(130.7)**	**(128.4)**
Taxes other than on income	(3.8)	(6.1)
Other operating expenses	(115.3)	(94.9)
TOTAL OTHER OPERATING EXPENSES	**(119.1)**	**(101.0)**
TOTAL	**(249.8)**	**(229.3)**

The average headcount during the year, broken down by professional category, was as follows: 818 managers and 437 non-managers, representing a total of 1,255 employees.

Elimination of the French competitiveness and employment tax credit (CICE) on 1 January 2019, replaced by a reduction in employer social security charges. €1 million was deducted from payroll costs in 2018.

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

The Bank is continuing the migration to the Banques Populaires Group’s information system. The bulk of migration and transformation costs are now recorded under expenses, *i.e.* €58.9 million for the 2019 financial year.

Depreciation and amortisation of intangible assets and property, plant and equipment

in millions of euros	31/12/2019	31/12/2018
Amortisation and depreciation:		
• of property, plant and equipment	(0.8)	(5.3)
• of intangible assets	(4.0)	(9.6)
TOTAL	**(4.7)**	**(14.9)**

The decrease recorded for the year directly relates to the migration project, as in 2018 Banque Palatine stepped up the amortisation of intangible assets that will no longer be used post-migration.

Furthermore, most IT expenditure was charged to expenses.

3.9 Cost of risk

Accounting principles

The cost of risk line item includes only the cost related to credit risk (or counterparty risk). Credit risk represents a potential loss related to a possible counterparty default on commitments entered into. Counterparty means any legal entity that is the beneficiary of a credit or off-balance sheet commitment, a party to a forward financial instrument or an issuer of a debt security.

The cost of credit risk is assessed when the receivable is considered doubtful, *i.e.* when the risk is confirmed, as soon as it is likely that the institution will not receive all or part of the amounts due in respect of the commitments entered into by the counterparty, pursuant to the initial contractual provisions, notwithstanding the existence of a guarantee or surety.

Credit risk is also assessed when credit risk is identified for non-doubtful loans which has significantly increased since their initial recognition (see Notes 4.1 and 4.2.1, 4.3.1).

Cost of credit risk therefore comprises all impairment charges and reversals on loans and advances to customers, credit institutions and fixed-income investment securities (in the event of a proven risk of issuer default), provisions for off-balance sheet commitments (excluding off-balance sheet financial instruments), as well as losses on irrecoverable loans and recoveries of bad debts written off.

However, provisions and reversals, losses on irrecoverable loans or recoveries of bad debts written off relating to interest on doubtful loans for which provisioning is mandatory are classified under “Interest and similar income” and “Other banking income” on the income statement. For trading securities, investment (available-for-sale) securities, equity securities available for sale in the medium term and forward financial instruments, the cost of counterparty risk is recorded directly under gains and losses on these portfolios, except in the event of a proven risk of counterparty default, where this component may be isolated and changes in provisions for counterparty risk are then recorded under “Cost of risk”.

in millions of euros	FY 2019					FY 2018				
	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	0.0	0.0
Customers	(56.1)	88.5	(65.9)	2.8	(30.6)	(74.9)	46.3	(27.2)	2.2	(53.6)
Securities portfolio and other receivables	(16.6)	0.0	0.0	0.0	(16.6)	0.0	0.0	0.0	0.0	0.0
Provisions										
Off-balance sheet commitments	(6.0)	6.8	0.0	0.0	0.8	(51.9)	17.6	0.0	0.0	(34.3)
Provisions for customer credit risks	0.0	0.9	0.0	0.0	0.9	0.0	4.1	0.0	0.0	4.1
Other	0.0	0.0	0.0	0.0	0.0	(2.9)	0.0	0.0	0.0	(2.9)
TOTAL	**(78.6)**	**96.2**	**(65.9)**	**2.8**	**(45.5)**	**(129.7)**	**68.0**	**(27.2)**	**2.2**	**(86.7)**
o/w:										
• reversals of obsolete impairment charges	0.0	95.3	0.0	0.0	95.3	0.0	63.9	0.0	0.0	63.9
• reversals of impairment losses used	0.0	65.9	0.0	0.0	65.9	0.0	27.2	0.0	0.0	27.2
• reversals of obsolete provisions	0.0	0.9	0.0	0.0	0.9	0.0	4.1	0.0	0.0	4.1
• 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	(65.9)	0.0	0.0	(65.9)	0.0	(27.2)	0.0	0.0	(27.2)
NET REVERSALS	**0.0**	**96.2**	**0.0**	**0.0**	**96.2**	**0.0**	**68.0**	**0.0**	**0.0**	**68.0**

The impact on the 2019 income statement of the alignment of the method for determining collective provisions under French GAAP with the method for measuring expected credit losses (Stage 2 as defined by IFRS 9) resulted in a provision reversal of €4.2 million compared with a charge of €32.7 million on the 2018 income statement.

3.10 Gains or losses on fixed assets

Accounting principles

Gains or and losses on fixed assets include:

- gains or losses on disposals of property, plant and equipment and intangible assets used as part of operations, resulting from the difference between capital gains and losses on disposals and reversals and charges to provisions;
- gains or losses on investments in associates, other long-term securities investments, shares in subsidiaries and associates and held-to-maturity securities, resulting from the difference between provision reversals and gains on disposals, and charges to provisions and losses on disposals.

in millions of euros	FY 2019			FY 2018		
	Investments in subsidiaries and other long-term equity investments	Intangible assets and property, plant and equipment	Total	Investments in subsidiaries and other long-term equity investments	Property, plant and equipment and intangible assets	Total
Impairment						
Charges	0.0	0.0	0.0	(2.9)	0.0	(2.9)
Reversals	0.0	0.0	0.0	0.0	0.0	0.0
Net gain/(loss) on disposal	(0.0)	8.5	8.5	0.0	0.0	0.0
TOTAL	**(0.0)**	**8.5**	**8.5**	**(2.9)**	**0.0**	**(2.9)**

During the first half of 2019, Banque Palatine carried out a leaseback transaction of the Saint Lazare branch, giving rise to a capital gain of €8.7 million.

In 2018, the investment in our subsidiary Ariès Assurances was impaired by €2.9 million.

3.11 Non-recurring items

No non-recurring items were recorded in 2019.

3.12 Income tax

Accounting principles

Since 2009, the Caisse d'Epargne 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.

3.12.1 Breakdown of income tax in 2019

Banque Palatine is a member of the consolidated tax group set up by BPCE. It also heads the consolidated tax sub-group formed of its subsidiaries Palatine Asset Management (PAM), Ariès Assurances 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 2019	
Tax bases at the rate of	**33.33%**	**28%**
Tax on income before non-recurring items	4.2	0.5
Tax bases	**4.2**	**0.5**
Corresponding tax expense	1.4	0.1
- Deductions in respect of tax credits	(0.5)	0.0
Tax expense reported	**0.9**	**0.1**
Provisions for taxes	2.4	0.0
TOTAL	**3.3**	**0.1**

In 2018, alignment of the measurement of the collective provision on IFRS 9 as well as the consideration of the costs of the IT migration in the revenue of the financial year resulted in a net loss.

3.12.2 Breakdown of 2019 taxable income – reconciliation from book to taxable income

in millions of euros	FY 2019	FY 2018
Net income per the financial statements (A)	**22.5**	**(23.1)**
Corporate tax (B)	**3.4**	**0.0**
Add-backs (C)	**50.1**	**59.0**
Impairment of long-term investments	0.0	2.9
Other impairment losses and provisions	45.0	48.2
Other	5.1	7.9
Deductions (D)	**71.3**	**35.7**
Reversals of impairment losses and provisions	63.6	23.4
Dividend payments	7.7	10.6
Other	0.0	1.7
Tax base at standard rate (A)+(B)+(C)-(D)	**4.7**	**0.2**

This table analyses Banque Palatine's individual taxable income.

Note 4 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.

4.1 Interbank transactions

Accounting principles

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.

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 recorded under “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 otherwise), where at least one commitment made by the debtor is subject to a proven credit risk, individually classified as such. A risk is considered to have been “proven” 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”.

When the credit risk has been identified, on loans that are not doubtful but showing a significant increase in the credit risk since their initial recognition, it is assessed on the basis of the credit losses expected over their remaining lifetimes. This credit risk is recorded in the form of a liabilities provision. Since

1 January 2018, the measurement and presentation of these non-doubtful loans has been aligned with those in IFRS 9 of Stage 2 (S2) adopted for the consolidated financial statements.

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

in millions of euros	31/12/2019	31/12/2018
Current accounts	*30.5*	*14.1*
Overnight loans	*1,090.4*	*1,332.5*
Demand accounts	**1,120.9**	**1,346.6**
Term accounts and loans	*1,427.9*	*2,418.0*
Subordinated and participating loans	*1.7*	*2.5*
Term accounts	**1,429.6**	**2,420.5**
Accrued interest	**15.6**	**16.2**
Doubtful loans and advances	**0.0**	**0.0**
Impairment of interbank loans	**0.0**	**0.0**
TOTAL	**2,566.1**	**3,783.3**

The funds collected for Livret A and LDD accounts and held centrally by *Caisse des dépôts et consignations* amounted to €236.9 million at 31 December 2019, up from €245.2 million at 31 December 2018.

Liabilities

in millions of euros	31/12/2019	31/12/2018
Current accounts in credit	*4.0*	*18.4*
Overnight deposits	*0.0*	*0.5*
Other amounts due	*6.0*	*18.6*
Demand accounts	**10.1**	**37.5**
Term accounts and loans	*1,311.4*	*1,575.5*
Securities under term repurchase agreements	*0.0*	*5.0*
Accrued interest payable on term loans	*(8.1)*	*(4.3)*
Term accounts	**1,303.3**	**1,576.2**
TOTAL	**1,313.3**	**1,613.8**

4.2 Customer transactions

4.2.1 Customer transactions

Accounting principles

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 customer receivable buybacks, 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.

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 recorded under “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 otherwise), where at least one commitment made by the debtor is subject to a proven credit risk, individually classified as such. A risk is considered to have been "proven" 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.

More generally, 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 owed 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 applicable to 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 calculated at least every quarter and are based on available guarantees 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".

When the credit risk has been identified, on loans that are not doubtful but showing a significant increase in the credit risk since their initial recognition, it is assessed on the basis of the credit losses expected over their remaining lifetimes. This credit risk is recorded in the form of an asset impairment charge. As from 1 January 2019, the measurement of these non-doubtful loans has therefore been aligned with those in IFRS 9 of Stage 2 (S2) adopted for the consolidated financial statements.

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

Assets in millions of euros	**31/12/2019**	**31/12/2018**
Current accounts with overdrafts	**534.6**	**468.5**
Trade receivables	**156.5**	**162.5**
Export loans	*72.9*	*86.9*
Short-term and consumer credit facilities	*1,570.9*	*1,416.9*
Equipment loans	*2,365.0*	*2,101.3*
Home loans	*2,503.0*	*2,251.9*
Other customer loans	*2,289.7*	*2,213.0*
Subordinated loans	*0.0*	*0.0*
Other	*82.5*	*129.7*
Other facilities granted to customers	**8,884.0**	**8,199.6**
Accrued interest	**20.0**	**21.5**
Doubtful loans and advances	**442.8**	**519.7**
Impairment of loans and advances to customers	**(253.8)**	**(287.8)**
TOTAL LOANS AND ADVANCES TO CUSTOMERS	**9,784.1**	**9,084.0**

At 31 December 2019, no receivable was provided to Banque de France under the TRICP system.

Liabilities in millions of euros	**31/12/2019**	**31/12/2018**
Regulated savings accounts	**1,245.0**	**1,143.8**
Livret A savings accounts	*184.9*	*181.1*
PEL/CEL	*206.6*	*214.7*
Other regulated savings accounts	*853.5*	*748.0*
Other accounts and loans from customers(1)	**8,232.7**	**7,994.6**
Guarantee deposits	**0.0**	**0.0**
Other amounts due	**14.3**	**9.5**
Accrued interest	**1.3**	**1.7**
TOTAL AMOUNTS DUE TO CUSTOMERS	**9,493.3**	**9,149.7**

(1) Breakdown of accounts and loans from customers.

	31/12/2019			**31/12/2018**		
in millions of euros	**Demand**	**Term**	**Total**	**Demand**	**Term**	**Total**
Current accounts in credit	7,590.6		7,590.6	7,418.5		7,418.5
Other accounts and loans		642.1	642.1		576.1	576.1
TOTAL	**7,590.6**	**642.1**	**8,232.7**	**7,418.5**	**576.1**	**7,994.6**

4.2.2 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	8,004.6	356.2	(236.8)	342.3	(186.8)
Self-employed customers	3.2	0.5	(0.5)	0.5	(0.5)
Individual customers	1,349.8	86.0	(16.4)	52.2	(15.1)
Non-profit institutions	21.9	0.1	(0.1)	0.1	(0.1)
Government and social security institutions	3.5	0.0	(0.0)	0.0	0.0
Other	212.2	0.0	(0.0)	0.0	0.0
TOTAL AT 31 DECEMBER 2019	**9,595.1**	**442.8**	**(253.8)**	**395.2**	**(202.5)**
Total at 31 December 2018	**8,852.3**	**518.6**	**(286.9)**	**351.9**	**217.5**

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

4.3.1 Securities portfolio

Accounting principles

“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 under related accounts, with an offsetting entry on the income statement under “Interest and similar income”.

Any difference between acquisition cost and redemption value (premium or discount) for fixed-income instruments is recognised on the income statement 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, as well as the corresponding accrued interest, is 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 held 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 actively participate 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.

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.

	31/12/2019			31/12/2018		
in millions of euros	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Gross	1,070.4	0.0	1,070.4	1,059.3	0.0	1,059.3
Accrued interest	15.0	0.0	15.0	18.2	0.0	18.2
Impairment	(0.0)	0.0	(0.0)	0.0	0.0	0.0
Treasury bills and similar securities	**1,085.5**	**0.0**	**1,085.5**	**1,077.6**	**0.0**	**1,077.6**
Gross	105.7	433.0	538.7	156.4	442.9	599.3
Accrued interest	1.0	5.6	6.6	1.5	5.4	7.0
Impairment	(2.9)	(18.9)	(21.8)	(6.8)	(1.6)	(8.4)
Bonds and other fixed-income securities	**103.8**	**419.7**	**523.5**	**151.2**	**446.7**	**597.8**
Gross	0.2	0.0	0.2	0.2	0.0	0.2
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	**0.2**	**0.0**	**0.2**	**0.2**	**0.0**	**0.2**
TOTAL	**1,189.4**	**419.7**	**1,609.2**	**1,228.9**	**446.7**	**1,675.6**

The market value of held-to-maturity securities amounted to €410.4 million.

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

Treasury bills and other similar securities

in millions of euros	31/12/2019 Available-for-sale securities	31/12/2019 Held-to-maturity securities	31/12/2019 Total	31/12/2018 Available-for-sale securities	31/12/2018 Held-to-maturity securities	31/12/2018 Total
Listed securities	1,070.4	0.0	1,070.4	1,059.3	0.0	1,059.3
Unlisted securities	0.0	0.0	0.0	0.0	0.0	0.0
Loaned securities	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed securities	0.0	0.0	0.0	0.0	0.0	0.0
Doubtful loans and advances	0.0	0.0	0.0	0.0	0.0	0.0
Accrued interest	15.0	0.0	15.0	18.2	0.0	18.2
TOTAL	**1,085.5**	**0.0**	**1,085.5**	**1,077.6**	**0.0**	**1,077.6**
o/w subordinated notes	*0.0*	*0.0*	*0.0*	*0.0*		*0.0*

Bonds and other similar securities

in millions of euros	31/12/2019 Available-for-sale securities	31/12/2019 Held-to-maturity securities	31/12/2019 Total	31/12/2018 Available-for-sale securities	31/12/2018 Held-to-maturity securities	31/12/2018 Total
Listed securities	98.8	0.0	98.8	145.7	0.0	145.7
Unlisted securities	0.0	391.1	391.1	0.0	439.2	439.2
Loaned securities	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed securities	0.0	0.0	0.0	0.0	0.0	0.0
Doubtful loans and advances	4.0	23.0	27.0	4.0	2.0	6.0
Accrued interest	1.0	5.6	6.6	1.5	5.4	6.9
TOTAL	**103.8**	**419.7**	**523.5**	**151.2**	**446.7**	**597.8**
o/w subordinated notes	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*

The change in treasury bills and related securities is primarily due to the maturity of sovereign securities in the amount of €300 million and by the acquisition of sovereign securities for €290 million.

Unrealised capital losses subject to an impairment provision on available-for-sale securities amounted to €2.9 million at 31 December 2019, compared with €6.8 million at 31 December 2018.

Unrealised capital gains on available-for-sale securities after deduction of hedging (mostly swapped assets) total €17.3 million at 31 December 2019, compared to €12.8 million at 31 December 2018.

Unrealised capital gains on held-to-maturity securities amounted to €0.5 million at 31 December 2019. At 31 December 2018, unrealised capital gains on held-to-maturity securities amounted to €0.7 million.

Unrealised capital losses on held-to-maturity securities amounted to €0.7 million at 31 December 2018. No unrealised capital loss was recorded at 31 December 2019.

The portion of bonds and other fixed-income securities issued by public bodies amounted to €1,070.4 million at 31 December 2019.

Equities and other variable-income securities

in millions of euros	31/12/2019 Available-for-sale securities	31/12/2018 Available-for-sale securities
Listed securities	0.2	0.2
TOTAL	**0.2**	**0.2**

€0.2 million in UCITS (of which €0.2 million monetary UCITS at 31 December 2019) were included under shares and other variable-income securities.

4.3.2 Changes in held-to-maturity securities

in millions of euros	01/01/2019	Purchases	Sales	Redemptions	Discount/premium	Other changes	31/12/2019
Treasury bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds and other fixed-income securities	446.7	29.1	(2.5)	(36.5)	0.0	(17.1)	419.7
TOTAL	**446.7**	**29.1**	**(2.5)**	**(36.5)**	**0.0**	**(17.1)**	**419.7**

4.3.3 Asset reclassifications

Accounting principles

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.

Banque Palatine did not reclassify any assets.

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

Accounting principles

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 include 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 recorded 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.

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

in millions of euros	31/12/2018	Increase	Decrease	Conversion	Other changes	31/12/2019
Investments in subsidiaries and long-term equity investments	8.8	3.1	0.0	0.0	0.0	11.9
Investments in associates	10.8	0.0	0.0	0.0	0.0	10.8
Gross	**19.6**	**3.1**	**0.0**	**0.0**	**0.0**	**22.8**
Investments in subsidiaries and other long-term equity investments	0.0	0.0	0.0	0.0	0.0	0.0
Investments in associates	(4.4)	0.0	0.0	0.0	0.0	(4.4)
Impairment	**(4.4)**	**0.0**	**0.0**	**0.0**	**0.0**	**(4.4)**
Total	**15.2**	**3.1**	**0.0**	**0.0**	**0.0**	**18.3**

Other long-term equity investments include associate or association certificates with guarantee deposits (€4.3 million).

4.4.2 Subsidiaries and investments

The amounts shown are stated in millions of euros.

Subsidiaries and investments	Share capital at 31/12/2019	Equity other than share capital incl. fund for general banking risks, as appropriate at 31/12/2019	% Interest held at 31/12/2019	Carrying amount of shares held at 31/12/2019	
				Gross	Net
A. DETAILED INFORMATION ON EACH SECURITY THE GROSS VALUE OF WHICH EXCEEDS 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION					
Subsidiaries (over 50%-owned)					
B. GENERAL INFORMATION ON OTHER SECURITIES THE GROSS VALUE OF WHICH DOES NOT EXCEED 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION					
Palatine Asset Management SA 42, rue d'Anjou – 75008 PARIS	1.9	12.0	100.0%	5.8	5.8
French subsidiaries (together)				5.0	0.6
Investments in French companies				7.5	7.5

Subsidiaries and investments	Loans and advances granted by the company and not yet redeemed (incl. perpetual subordinated notes) in 2019	Guarantees and endorsements given by the parent-company in 2019	Net revenue before tax for the year to 31/12/2019	Net income for the year to 31/12/2019	Dividends received by the parent company in 2019	Observations
A. DETAILED INFORMATION ON EACH SECURITY THE GROSS VALUE OF WHICH EXCEEDS 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION						
Subsidiaries (over 50%-owned)						
B. GENERAL INFORMATION ON OTHER SECURITIES THE GROSS VALUE OF WHICH DOES NOT EXCEED 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION						
Palatine Asset Management SA 42, rue d'Anjou – 75008 PARIS	0.0	0.0	25.1	5.4	7.3	0.0
French subsidiaries (together)	0.0	0.0			0.1	0.0
Investments in French companies	0.0	0.0			0.5	0.0

4.4.3 Subsidiary ventures with unlimited liability

Corporate name	Head office	Legal form
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	182, avenue de France – 75013 PARIS	Economic Interest Grouping
BPCE Achats	12/20, rue Fernand-Braudel – 75013 PARIS	Economic Interest Grouping
GIE Gestion Déléguée Sociale	42, rue d'Anjou – 75008 PARIS	Economic Interest Grouping
I-BP Investissements	23, place de Wicklow – 78180 MONTIGNY-LE-BRETONNEUX	Economic Interest Grouping
BPCE Solutions crédit	50, avenue Pierre-Mendès-France – 75013 PARIS	Economic Interest Grouping

4.4.4 Related-party transactions

	31/12/2019			31/12/2018
in millions of euros	Credit institutions	Other businesses	Total	Total
Receivables	0.8	0.0	0.8	0.8
Liabilities	0.2	0.5	0.7	8.3
Guarantee commitments given	0.0	0.0	0.0	0.0
Commitments received	0.0	0.0	0.0	0.0

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

4.5 Finance and operating leases

Accounting principles

CNC Emergency Committee Opinion No. 2006-C states that fixed assets held for use in equipment, real estate, lease-purchase and operating leases are to be recorded as assets on the lessor's balance sheet. For this asset class, as an exception to the PCG *(Plan Comptable Général)* rules on asset recognition, the concept of legal ownership applies, rather than that of control. Fixed assets are recorded at acquisition cost, and the asset breakdown by component does not apply on the lessor's side when maintenance/replacement costs are contractually incumbent on the lessee. In the event of breach of contract, a prospective component approach applies.

In accordance with said opinion, the lessor is entitled to depreciate the assets presented in its individual accounts either over the contract term (financial depreciation *i.e.* equal to the portion of the rent earned) or over the normal period of use of the asset (straight-line depreciation/declining balance). The option selected applies to all assets allocated under the same transaction category.

Pursuant to ANC Regulation No. 2014-07 (ANC), commissions and marginal transaction costs spread over the term of the lease are included in the amount outstanding.

Unpaid rents are identified, accounted for and provisioned for in accordance with ANC Regulation No. 2014-07.

Banque Palatine only conducts operating lease transactions as a lessee.

4.6 Intangible assets and property, plant and equipment

The recognition rules for property, plant and equipment and intangible assets and are set out in ANC Regulation No. 2014-03.

4.6.1 Intangible assets

Accounting principles

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.

in millions of euros	31/12/2018	Increase	Decrease	Other changes	31/12/2019
Leasehold rights and commercial goodwill	106.3	0.0	0.0	0.0	106.3
Software	41.4	0.5	(0.5)	0.0	41.4
Other	0.3	0.0	0.0	(0.3)	0.0
Gross	**148.0**	**0.5**	**(0.5)**	**(0.3)**	**147.7**
Leasehold rights and commercial goodwill	1.1	0.0	0.0	0.0	1.1
Software	40.0	0.8	(0.5)	0.0	40.3
Amortisation and impairment	**41.1**	**0.8**	**(0.5)**	**0.0**	**41.4**
TOTAL NET VALUES	**106.9**	**(0.3)**	**0.0**	**(0.3)**	**106.3**

4.6.2 Property, plant and equipment

Accounting principles

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, 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.

in millions of euros	31/12/2018	Increase	Decrease	Other changes	31/12/2019
Land	18.8	0.0	(6.8)	0.0	12.0
Other	34.8	5.1	(3.2)	(0.2)	36.5
Property, plant & equipment used in operations	**53.7**	**5.1**	**(10.0)**	**(0.2)**	**48.5**
Property, plant & equipment not used in operations	***0.5***	***0.0***	***(0.1)***	***0.0***	***0.4***
Gross	**54.2**	**5.1**	**(10.1)**	**(0.2)**	**48.9**
Land	14.4	0.4	(6.3)	0.0	8.5
Other	23.7	3.6	(3.4)	0.0	23.9
Property, plant & equipment used in operations	**38.0**	**4.0**	**(9.7)**	**0.0**	**32.3**
Property, plant & equipment not used in operations	***0.1***	***0.0***	***0.0***	***0.0***	***0.1***
Amortisation and impairment	**38.3**	**4.0**	**(9.7)**	**0.0**	**32.6**
TOTAL NET VALUES	**15.9**	**1.1**	**(0.4)**	**(0.2)**	**16.4**

4.7 Debt securities

Accounting principles

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.

in millions of euros	31/12/2019	31/12/2018
Certificates of deposit and savings bonds	0.0	0.0
Interbank market instruments and money market instruments	2,148.4	2,918.1
Other debt securities	0.1	0.6
Accrued interest	68.4	101.9
TOTAL	**2,216.9**	**3,020.6**

4.8 Other assets and other liabilities

	31/12/2019		31/12/2018	
in millions of euros	Assets	Liabilities	Assets	Liabilities
Tax and social security receivables and liabilities	0.1	12.5	0.3	15.3
Security deposits paid and received	95.0	9.2	65.8	3.3
Other non-trade receivables, other accounts payable	83.3	21.8	84.2	20.6
TOTAL	**178.4**	**43.5**	**150.3**	**39.2**

Guarantee deposits paid reflect the €88.6 million in cash collateral paid at 31 December 2019, compared to €60.4 million at the end of 2018.

Guarantee deposits received reflect the €9 million in cash collateral collected at the end of 2019, compared with €3.1 million at the end of 2018.

4.9 Accrual accounts

	31/12/2019		31/12/2018	
in millions of euros	Assets	Liabilities	Assets	Liabilities
Foreign exchange commitments	42.0	48.2	29.1	29.2
Deferred gains and losses on forwards, futures and options used for hedging purposes	0.0	28.2	0.0	8.7
Prepaid expenses and unearned income	1.6	2.8	2.6	2.8
Accrued income/expenses	15.0	88.6	19.3	72.6
Items in process of collection	26.4	44.5	19.2	22.8
Other(1)	43.2	11.1	46.4	18.0
TOTAL	**128.2**	**223.3**	**116.7**	**154.2**

(1) The “Other” asset item mainly represents the amounts entered in suspense accounts, before being interfaced in the management modules, and on the liabilities side the cash flows awaiting allocation.

4.10 Provisions

Accounting principles

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 on given guarantee and financing commitments.

Employee benefit obligations

Employee benefits are accounted for in accordance with ANC Recommendation No. 2013-R-02. Employee benefits are classified under 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; this particularly concerns 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 reporting 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 (return on hedging assets, etc.) 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 outstanding:

- 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.

4.10.1 Statement of changes in provisions

in millions of euros	31/12/2018	Charges	Reversals	Uses	Other changes	31/12/2019
Provisions for counterparty risks on guarantee and financing commitments	**69.8**	**6.0**	**(6.8)**	**0.0**	**0.0**	**69.0**
Provisions for employee benefit obligations	**19.3**	**1.1**	**(10.9)**	**0.0**	**0.0**	**9.5**
Provisions for PEL/CEL regulated accounts	**2.5**	**0.0**	**(0.2)**	**0.0**	**0.0**	**2.3**
Securities portfolio and forwards, futures and options	*1.1*	*1.0*	*0.0*	*0.0*	*0.0*	*2.1*
Litigation	*6.6*	*1.9*	*(1.0)*	*(2.0)*	*0.0*	*5.5*
Provisions for contingencies	*1.7*	*0.0*	*(1.0)*	*0.0*	*0.0*	*0.7*
Other	*2.9*	*0.6*	*(0.6)*	*0.0*	*0.0*	*3.0*
Other provisions for contingencies	**12.3**	**3.6**	**(2.5)**	**(2.0)**	**0.0**	**11.3**
TOTAL	**103.9**	**10.6**	**(20.4)**	**(2.0)**	**0.0**	**92.1**

4.10.2 Provisions and impairment for counterparty risks

in millions of euros	31/12/2018	Charges(3)	Reversals(3)	Uses	Translation and other movements(4)	31/12/2019
Impairment of loans and advances to customers	280.7	56.1	(88.5)	0.0	5.5	253.8
Impairment of other loans and advances	4.5	16.6	0.0	0.0	0.7	21.8
Impairment of assets	**285.2**	**72.7**	**(88.5)**	**0.0**	**6.2**	**275.6**
Provisions for off-balance sheet commitments(1)	23.2	10.2	(6.8)	0.0	0.0	26.6
Other provisions for customer counterparty risk(2)	46.6	(4.2)	0.0	0.0	0.0	42.4
Provisions for counterparty risk recognised as liabilities	**69.8**	**6.0**	**(6.8)**	**0.0**	**0.0**	**69.0**
TOTAL	**355.0**	**78.7**	**(95.3)**	**0.0**	**6.2**	**344.6**

(1) Including provisions for performance risks related to off-balance sheet 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) Banque Palatine records impairment losses and provisions in compliance with the provisions of ANC Regulation No. 2014-07.
(4) Includes interest provisions presented under NBI.

4.10.3 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 Caisse d'Epargne and the Banque Populaire banks belong.

Post-employment benefits relating 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 2019					FY 2018			
	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	Other benefits	Total	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total
Actuarial liabilities	0.8	2.7	2.4	6.0	11.8	0.7	12.7	2.3	15.7
Unrecognised actuarial gains/(losses)	0.1	(2.4)	0.0	0.0	(2.3)	0.0	0.1	0.0	0.1
NET AMOUNT REPORTED ON THE BALANCE SHEET	**0.9**	**0.3**	**2.4**	**6.0**	**9.5**	**0.7**	**12.8**	**2.3**	**15.8**
Employee benefits, liabilities	0.9	0.3	2.4	6.0	9.5	0.7	12.8	2.3	15.8

In 2019, Banque Palatine launched a project to outsource the management of retirement payments by entrusting an insurer with its €10.9 million provision.

Analysis of the expense for the period

in millions of euros	Post-employment benefits under defined-benefit plans		Other long-term benefits	FY 2019	FY 2018
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Total
Service cost	0.1	0.8	0.2	1.1	1.3
Interest cost	0.0	0.2	0.0	0.3	0.2
Benefits paid	(0.1)	(0.8)	(0.2)	(1.0)	(2.0)
Actuarial gains and losses	0.0	0.0	0.0	0.0	(0.2)
TOTAL EXPENSE FOR THE PERIOD	**0.0**	**0.2**	**0.1**	**0.3**	**(0.7)**

Main actuarial assumptions

	FY 2019			FY 2018		
	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	0.65%	0.65%	0.65%	1.66%	1.66%	1.66%
Inflation/wage growth rate	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%
Wage growth rate	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%

The 0.65% 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 required 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 Act of August 2003).

4.10.4 Provisions for PEL/CEL regulated products

Deposit account balances

in millions of euros	31/12/2019	FY 2018
Deposits held in PEL regulated home savings plans		
• plans in place for less than 4 years	5.9	16.4
• plans in place for more than 4, but less than 10 years	79.5	99.1
• plans in place for more than 10 years	101.0	85.4
Deposits collected *via* PEL regulated home savings plans	**186.4**	**200.9**
Deposits collected *via* CEL regulated home savings accounts	**17.3**	**16.9**
TOTAL	**203.8**	**217.9**

Loans granted

in millions of euros	31/12/2019	31/12/2018
Loans granted		
• in respect of PEL regulated home savings plans	0.0	0.0
• in respect of CEL regulated home savings accounts	0.1	0.1
TOTAL	**0.1**	**0.1**

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

in millions of euros	31/12/2018	Charges/net reversals	31/12/2019
Provisions for PEL regulated home savings plans			
• plans in place for less than 4 years	0.3	(0.2)	0.1
• plans in place for more than 4, but less than 10 years	0.5	(0.1)	0.4
• plans in place for more than 10 years	1.5	0.2	1.8
Provisions for PEL regulated home savings plans	**2.3**	**(0.1)**	**2.2**
Provisions for CEL regulated home savings accounts	**0.2**	**(0.1)**	**0.1**
Provisions for regulated home savings loans	**0.0**	**0.0**	**0.0**
TOTAL	**2.5**	**(0.2)**	**2.3**

4.11 Subordinated debt

Accounting principles

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.

in millions of euros	31/12/2019	31/12/2018
Term subordinated debt	300.0	300.0
Accrued interest	3.5	3.5
TOTAL	**303.5**	**303.5**

These borrowings have the following characteristics:

Currency	Issue date	Outstandings at 31/12/2019 *(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	07/12/2015	150.0	150.0	EURIBOR 3M + 2.29%			Yes	08/12/2025
EUR	21/12/2017	50.0	50.0	EURIBOR 3M + 0.97%			Yes	22/12/2027
EUR	26/03/2018	100.0	100.0	4.29%		28/03/2023[2]	No	
	TOTAL	**300.0**	**300.0**					

(1) Above 3-month EURIBOR.
(2) Date of interest step-up or of transition from fixed rate to variable rate.

4.12 Fund for general banking risks

Accounting principles

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.

in millions of euros	31/12/2019	31/12/2018
Fund for general banking risks	1.3	1.3
TOTAL	**1.3**	**1.3**

4.13 Equity

in millions of euros	Share capital	Share premium	Reserves/other	Carried forward	Profit or loss	Total shareholders' equity excl. FRBG
Total at 31 December 2017	**538.8**	**56.7**	**47.2**	**180.9**	**52.5**	**876.1**
Changes during the year	0.0	0.0	2.6	49.9	(75.6)	(23.1)
Total at 31 December 2018	**538.8**	**56.7**	**49.8**	**230.8**	**(23.1)**	**853.1**
Appropriation of 2018 income			0.0	(23.1)	23.1	0.0
Dividend payments						0.0
Capital increase	150.0					150.0
Net income for the period					22.5	22.5
TOTAL AT 31 DECEMBER 2019	**688.8**	**56.7**	**49.8**	**207.7**	**22.5**	**1,025.6**

Banque Palatine's share capital amounts to €688.8 million and comprises 34,440 shares with a par value of €20 each, fully subscribed to by BPCE.

A €150 million cash share issue was carried out pursuant to a resolution of the Extraordinary General Meeting held on 19 June 2019, through the issue at par of 7,500,000 new shares with a nominal value of €20 each.

4.14 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.

	31/12/2019						
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	0.0	0.0	168.3	430.3	486.9	0.0	1,085.5
Loans and advances due from credit institutions	1,577.4	201.4	495.5	291.8	0.0	0.0	2,566.1
Customer transactions	1,238.3	616.1	1,333.4	3,515.0	2,892.3	189.1	9,784.1
Bonds and other fixed-income securities	(7.5)	0.0	104.2	343.9	82.9	0.0	523.5
TOTAL USES OF FUNDS	**2,808.2**	**817.5**	**2,101.4**	**4,581.0**	**3,462.1**	**189.1**	**13,959.3**
Amounts due to credit institutions	233.6	126.7	298.5	652.8	1.7	0.0	1,313.3
Customer transactions	8,849.9	13.1	177.8	452.4	0.0	0.0	9,493.3
Debt securities	66.6	485.5	1,591.7	37.8	35.3	0.0	2,216.9
Subordinated debt	3.4	0.0	0.0	0.0	0.0	300.0	303.4
TOTAL SOURCES OF FUNDS	**9,153.5**	**625.3**	**2,068.1**	**1,143.0**	**37.0**	**300.0**	**13,327.0**

Note 5 Information on off-balance sheet items and similar transactions

5.1 Commitments given and received

Accounting principles

Financing commitments

Financing commitments in favour of credit institutions and similar institutions include: refinancing agreements, acceptances payable or commitments to pay, confirmations of the opening of documentary credits and other commitments granted to credit institutions.

Financing commitments in favour of customers include: confirmed credit lines, commercial paper substitution lines, commitments on securities issue facilities and other commitments in favour of economic agents other than credit institutions and similar institutions.

Financing commitments received include refinancing agreements and miscellaneous commitments received from credit institutions and similar institutions.

Guarantee commitments

Guarantee commitments to credit institutions include sureties, endorsements and other guarantees to credit institutions and similar institutions.

Guarantee commitments to customers include: sureties, endorsements and other guarantees to economic agents other than credit institutions and similar institutions.

Guarantee commitments received include sureties, endorsements and other guarantees received from credit institutions and similar institutions.

5.1.1 Financing commitments

in millions of euros	31/12/2019	31/12/2018
Financing commitments given		
To credit institutions	**0.0**	**0.0**
Documentary credits	79.0	86.2
Other confirmed credit lines	1,948.2	1,885.9
Other commitments	75.0	70.1
To customers	**2,102.3**	**2,042.2**
TOTAL FINANCING COMMITMENTS GIVEN	**2,102.3**	**2,042.2**
FINANCING COMMITMENTS RECEIVED		
From credit institutions	**346.1**	**357.2**
From customers	**0.0**	**0.0**
TOTAL FINANCING COMMITMENTS RECEIVED	**346.1**	**357.2**

5.1.2 Guarantee commitments

in millions of euros	31/12/2019	31/12/2018
GUARANTEE COMMITMENTS GIVEN	**0.0**	**0.0**
Confirmed documentary credit lines	40.8	48.0
Other guarantees	8.7	6.5
To credit institutions	**49.5**	**54.5**
Real estate guarantees	163.4	159.8
Government and tax guarantees	88.5	89.5
Other guarantees and sureties given	0.0	0.0
Other guarantees given	821.7	754.5
To customers	**1,073.7**	**1,003.8**
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,123.1**	**1,058.4**
Guarantee commitments received from credit institutions	255.3	203.9
TOTAL GUARANTEE COMMITMENTS RECEIVED	**255.3**	**203.9**

5.1.3 Other commitments not recognised off-balance sheet

	31/12/2019		31/12/2018	
in millions of euros	Commitments given	Commitments received	Commitments given	Commitments received
Other securities pledged as collateral to credit institutions	414.1		406.7	0.0
Other securities pledged as collateral received from customers		5,160.0	0.0	4,856.0
TOTAL	**414.1**	**5,160.0**	**406.7**	**4,856.0**

At 31 December 2019, amounts pledged as collateral under funding arrangements only concerned securities, for an impact of €348.6 million, compared to €357.2 million at 31 December 2018.

No other major commitments were given by Banque Palatine as collateral for its own commitments or for those of third parties.

5.2 Forwards, futures and options transactions

Accounting principles

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 *prorata* 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 over-hedging be identified, a provision may be set aside to cover the over-hedged 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 *prorata* 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 on an organised or similar market are measured and recognised in the income statement. 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 expenses arising from hedging instruments are recognised in the same manner and period as those relating to 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.

5.2.1 Financial instruments and currency futures and options

in millions of euros	31/12/2019 Hedge	31/12/2019 Other transactions	31/12/2019 Total	31/12/2019 Fair value	31/12/2018 Hedge	31/12/2018 Other transactions	31/12/2018 Total	31/12/2018 Fair value
Futures and forwards								
Interest rate contracts	0.0	9.1	9.1	0.0	0.0	8.1	8.1	0.0
Transactions in organised markets	**0.0**	**9.1**	**9.1**	**0.0**	**0.0**	**8.1**	**8.1**	**0.0**
Currency contracts	*0.0*	*4.0*	*4.0*		*0.0*	*18.1*	*18.1*	*0.0*
Interest rate swaps	*5,253.5*	*509.7*	*5,763.2*	*(39.2)*	*4,800.8*	*972.7*	*5,773.5*	*(14.5)*
Currency swaps	*0.0*	*2,305.0*	*2,305.0*	*0.0*	*0.0*	*2,069.3*	*2,069.3*	*0.1*
Other forward and futures	*0.0*	*84.4*	*84.4*	*0.2*	*0.0*	*297.6*	*297.6*	*0.4*
Over-the-counter transactions	**5,253.5**	**2,903.1**	**8,156.5**	**(39.0)**	**4,800.8**	**3,357.7**	**8,158.5**	**(14.0)**
TOTAL FORWARDS AND FUTURES	**5,253.5**	**2,912.2**	**8,165.6**	**(39.0)**	**4,800.8**	**3,365.8**	**8,166.6**	**(14.0)**
Options								
Transactions in organised markets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Interest rate options	8,855.5	74.5	8,930.0	6.3	7,394.0	58.6	7,452.6	5.5
Currency options	1,925.3	2,651.5	4,576.8	0.0	1,330.0	1,784.2	3,114.2	0.0
Over-the-counter transactions	**10,780.8**	**2,726.0**	**13,506.8**	**6.3**	**8,724.0**	**1,842.8**	**10,566.8**	**5.5**
TOTAL OPTIONS	**10,780.8**	**2,726.0**	**13,506.8**	**6.3**	**8,724.0**	**1,842.8**	**10,566.8**	**5.5**
TOTAL FINANCIAL INSTRUMENTS AND CURRENCY FUTURES AND OPTIONS	**16,034.3**	**5,638.2**	**21,672.5**	**(32.7)**	**13,524.8**	**5,208.5**	**18,733.3**	**(8.5)**

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

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

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

5.2.2 Breakdown of over-the-counter interest rate financial instruments and cross-currency swaps traded by type of portfolio

in millions of euros	31/12/2019				31/12/2018			
	Micro-hedge	Macro-hedge	Isolated open position	Total	Micro-hedge	Macro-hedge	Isolated open position	Total
Interest rate contract	*0.0*	*0.0*	*9.1*	*9.1*	*0.0*	*0.0*	*8.1*	*8.1*
Interest rate swaps	*4,839.5*	*414.0*	*509.7*	*5,763.2*	*4,265.0*	*535.8*	*972.7*	*5,773.5*
Currency contracts	*0.0*	*0.0*	*4.0*	*4.0*	*0.0*	*0.0*	*18.1*	*18.1*
Currency swaps	*0.0*	*0.0*	*2,305.0*	*2,305.0*	*0.0*	*0.0*	*2,069.3*	*2,069.3*
Other interest rate forwards	*0.0*	*0.0*	*84.4*	*84.4*	*0.0*	*0.0*	*297.6*	*297.6*
Futures and forwards	**4,839.5**	**414.0**	**2,912.2**	**8,165.6**	**4,265.0**	**535.8**	**3,365.8**	**8,166.6**
Interest rate options	*8,855.5*	*0.0*	*74.5*	*8,930.0*	*7,394.0*	*0.0*	*58.6*	*7,452.6*
Currency options	*1,925.3*	*0.0*	*2,651.5*	*4,576.8*	*1,330.0*	*0.0*	*1,784.2*	*3,114.2*
Options	**10,780.8**	**0.0**	**2,726.0**	**13,506.8**	**8,724.0**	**0.0**	**1,842.8**	**10,566.8**
TOTAL	**15,620.3**	**414.0**	**5,638.2**	**21,672.5**	**12,989.0**	**535.8**	**5,208.5**	**18,733.3**

No transactions were transferred to another portfolio during the period.

in millions of euros	31/12/2019			31/12/2018			
	Micro-hedge	Macro-hedge	Isolated open position	Micro-hedge	Macro-hedge	Isolated open position	Total
Fair value	(24.9)	(5.7)	(2.0)	(11.5)	3.0	0.0	(8.5)

5.2.3 Commitments on forwards, futures and options by maturity

	31/12/2019			
in millions of euros	Less than 1 year	1 year to 5 years	Over 5 years	Total
Transactions in organised markets	9.1	0.0	0.0	9.1
Over-the-counter transactions	2,178.3	3,985.7	1,992.6	8,156.5
Futures and forwards	**2,187.4**	**3,985.7**	**1,992.6**	**8,165.6**
Over-the-counter transactions	5,487.8	7,176.5	841.9	13,506.2
Options	**5,487.8**	**7,176.5**	**841.9**	**13,506.2**
TOTAL	**7,675.1**	**11,162.1**	**2,834.5**	**21,671.8**

5.3 Foreign currency transactions

Accounting principles

Income 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 *prorata* 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.

in millions of euros	31/12/2019	31/12/2018
Spot foreign exchange transactions		
Currencies receivable not received	180.8	109.7
Currencies deliverable not delivered	180.9	109.9
TOTAL	**361.7**	**219.6**

5.4 Breakdown of assets and liabilities by currency

	31/12/2019		31/12/2018	
in millions of euros	Assets	Liabilities	Assets	Liabilities
Euro	14,563.4	14,371.2	14,837.4	14,839.3
Dollar	115.2	207.3	305.9	303.1
Pound sterling	19.6	58.8	79.0	79.7
Swiss franc	2.5	2.8	3.5	3.5
Yen	0.7	0.6	2.0	0.8
Other	11.5	72.3	11.5	12.9
TOTAL	**14,712.9**	**14,712.9**	**15,239.3**	**15,239.3**

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 2019 to members of the management bodies came to €1.1 million.

During 2019, 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

	Deloitte				PricewaterhouseCoopers				KPMG				TOTAL			
	Amount		%		Amount		%		Amount		%		Amount		%	
In thousands of euros	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Role of certification of financial statements	2	0	100%	0%	162	301	94%	93%	169	218	93%	94%	333	519	94%	93%
- Issuer	2	0			162	301			169	218			333	519		
Services other than the certification of the financial statements	0	0	0%	0%	10	23	6%	7%	13	14	7%	6%	23	37	6%	7%
- Issuer	0	0			10	23			13	14			23	37		
TOTAL	**2**	**0**	**100%**	**0%**	**172**	**324**	**100%**	**100%**	**182**	**232**	**100%**	**100%**	**356**	**556**	**100%**	**100%**
Change (%)	*100%*				*(47)%*				*(22)%*				*(36)%*			

The total amount of PricewaterhouseCoopers' fees presented in the parent-company income statement for the year amounted to €172,000, including €162,000 for the certification of Banque Palatine's financial statements and €10,000 for services other than the certification of the financial statements (assignments carried out in relation to the financial report, management report, and regulated agreements).

The total amount of fees paid to KPMG presented in the parent-company income statement for the year amounted to €182,000, including €169,000 for the certification of Banque Palatine's financial statements, and €13,000 in respect of services other than the certification of the financial statements (work on the EGM resolution, Revenue declaration).

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 2019, Banque Palatine had no offices or activities in uncooperative tax havens.

3 IFRS consolidated financial statements of the Banque Palatine Group

3.1 Consolidated income statement

in millions of euros	Notes	FY 2019	FY 2018
Interest and similar income	4.1	270.1	274.2
Interest and similar expenses*	4.1	(49.7)	(54.8)
Fee and commission income	4.2	107.6	106.6
Fee and commission expenses	4.2	(11.8)	(13.8)
Gains or losses on financial instruments at fair value through profit or loss	4.3	17.1	15.2
Net gains or losses on financial instruments at fair value through equity	4.4	0.0	5.2
Net gains or losses arising from derecognition of financial assets at amortised cost	4.5	0.1	1.1
Net gains or losses arising from reclassification of financial assets at amortised cost in financial assets at fair value through profit or loss	5.6	0.0	0.0
Net gains or losses arising from reclassification of financial assets at fair value through equity in financial assets at fair value through profit or loss	5.6	0.0	0.0
Income from other activities	4.6	1.9	2.0
Expenses from other activities	4.6	(2.1)	(4.3)
NET BANKING INCOME		**333.3**	**331.5**
General operating expenses*	4.7	(250.3)	(237.4)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment*		(12.3)	(15.0)
GROSS OPERATING INCOME		**70.7**	**79.0**
Cost of credit risk	7.1.1	(49.0)	(41.4)
OPERATING INCOME		**21.7**	**37.7**
Share in net income of associates	11.4.2	0.6	0.7
Gains or losses on other assets	4.8	7.2	0.0
Changes in the value of goodwill	3.5.1	0.0	(3.1)
INCOME BEFORE TAX		**29.4**	**35.3**
Income tax expense	10.1	(11.1)	(11.9)
Net income after tax from discontinued operations		0.0	0.0
NET INCOME		**18.4**	**23.4**
Non-controlling interests	5.17	0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**18.4**	**23.4**

** 2018 information has not been restated for the impacts of the first-time application of IFRS 16 "Leases", in accordance with the option offered by this standard. The impacts of the first-time application of IFRS 16 on the balance sheet at 1 January 2018 are presented in Note 2.2.*

3.2 Comprehensive income

in millions of euros	FY 2019	FY 2018
NET INCOME	**18.4**	**23.4**
ITEMS RECLASSIFIABLE UNDER INCOME	**10.0**	**(2.6)**
Remeasurement of financial assets at fair value through recyclable equity	13.5	(3.9)
Income taxes	(3.5)	1.3
ITEMS THAT CANNOT BE RECLASSIFIED UNDER INCOME	**(0.7)**	**0.9**
Remeasurement (or actuarial gains and losses) in respect of defined-benefit plans	(0.7)	1.2
Other items recognised through equity of non-reclassifiable items	0.0	(0.1)
Income taxes	0.1	(0.2)
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY UNDER EQUITY	**9.3**	**(1.7)**
COMPREHENSIVE INCOME	**27.7**	**21.7**
Attributable to equity holders of the parent	27.7	21.7
Non-controlling interests	0.0	0.0
For information: amount of non-recyclable items transferred to reserve	*0.0*	*0.0*

2018 information has not been restated for the impacts of the first-time application of IFRS 16 “Leases”, in accordance with the option offered by this standard. The impacts of the first-time application of IFRS 16 on the balance sheet at 1 January 2018 are presented in Note 2.2.

3.3 Consolidated balance sheet

Assets

in millions of euros	Notes	31/12/2019	31/12/2018
Cash, central banks	5.1	305.9	291.4
Financial assets at fair value through profit or loss	5.2.1	302.4	203.0
Hedging derivatives	5.3	2.1	2.9
Financial assets at fair value through equity	5.4	1,221.0	1,243.2
Securities at amortised cost	5.5.1	419.3	446.4
Loans and advances due from credit institutions and similar items at amortised cost	5.5.2	2,569.3	3,785.4
Loans and advances due from customers at amortised cost	5.5.3	9,714.7	9,008.1
Remeasurement gains and losses on interest rate risk-hedged portfolios		7.0	5.5
Current tax assets		3.4	18.0
Deferred tax assets	10.2	20.5	29.0
Accrued income and other assets	5.7	101.2	107.3
Non-current assets held for sale	5.8	0.0	0.0
Shares in associates	11.4.1.1	3.8	3.6
Investment property	5.9	0.3	0.4
Property, plant and equipment*	5.10	50.3	14.5
Intangible assets	5.10	9.1	12.2
Goodwill	3.5.1	0.0	0.0
TOTAL ASSETS		**14,730.3**	**15,170.9**

** Information at 31 December 2018 has not been restated for the impacts of the first-time application of IFRS 16 “Leases”, in accordance with the option provided by this standard. The impacts of the first-time application of IFRS 16 on the balance sheet at 1 January 2018 (rights of use recorded under lease agreements) are presented in Note 2.2.*

Liabilities

in millions of euros	Notes	31/12/2019	31/12/2018
Cash placed with central banks		0.1	0.2
Financial liabilities at fair value through profit or loss	5.2.2	151.4	95.5
Hedging derivatives	5.3	49.8	31.9
Debt securities	5.11	2,216.9	3,020.6
Amounts due to credit institutions and similar items	5.12.1	1,313.3	1,613.8
Amounts due to customers	5.12.2	9,492.9	9,141.7
Remeasurement gains and losses on interest rate risk-hedged portfolios		1.3	2.5
Current tax liabilities		0.0	0.0
Deferred tax liabilities		0.0	0.0
Accrued expenses and other liabilities*	5.13	198.5	127.2
Provisions	5.14	68.6	73.4
Subordinated debt	5.15	200.2	200.2
Equity		1,037.3	863.9
Equity attributable to equity holders of the parent		1,037.3	863.9
Share capital and share premium	5.17.1	745.5	595.5
Retained earnings		266.0	246.9
Gains and losses recognised directly in other lines of comprehensive income	5.18	7.4	(1.9)
Net income for the period		18.4	23.4
Non-controlling interests	**5.17**	**0.0**	**0.0**
TOTAL EQUITY AND LIABILITIES		**14,730.3**	**15,170.9**

** Information at 31 December 2018 has not been restated for the impacts of the first-time application of IFRS 16 "Leases", in accordance with the option provided by this standard. The impacts of the first-time application of IFRS 16 on the balance sheet at 1 January 2018 (rental liabilities recorded under lease agreements) are presented in Note 2.2.*

3.4 Statement of changes in equity

in millions of euros	Share capital and share premium: Share capital	Share capital and share premium: Premiums	Retained earnings	Perpetual deeply subordinated notes
EQUITY AT 31 DECEMBER 2018	**538.8**	**56.7**	**280.6**	**100.0**
Appropriation of earnings for the financial year			(18.8)	
New presentation of gains and losses recognised directly under other income from insurance activities				
Impacts of changes relating to the first-time application of IFRS 9				
EQUITY AT 1 JANUARY 2019	**538.8**	**56.7**	**261.8**	**100.0**
Distribution			(4.3)	
Capital increase	150.0			
Issue of perpetual deeply subordinated notes				
Remuneration of perpetual deeply subordinated notes				
Impact of acquisitions and disposals on non-controlling interests				
TOTAL MOVEMENTS RELATED TO SHAREHOLDER RELATIONS	**150.0**	**0.0**	**(4.3)**	**0.0**
Gains and losses recognised directly in equity				
Net income				
NET INCOME FROM GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY	**0.0**	**0.0**	**0.0**	**0.0**
Other changes				
EQUITY AT 31 DECEMBER 2019	**688.8**	**56.7**	**257.5**	**100.0**

		Gains and losses recognised directly in other lines of comprehensive income							
	Recyclable			Non-recyclable					
Retained earnings	**Translation differences**	**Financial assets and liabilities carried at fair value through equity**	**Equity financial assets carried at fair value through equity**	**Remeasurement of own credit risk of financial liabilities carried at fair value through profit or loss**	**Revaluation difference on social security liabilities**	**Net income attributable to equity holders of the parent**	**Total equity attributable to equity holders of the parent**	**Non-controlling interests**	**Total consolidated equity**
(133.7)	**(0.1)**	**3.0**	**(0.0)**	**(3.2)**	**(1.6)**	**23.4**	**863.9**		863.9
42.2						(23.4)	0.0		0.0
(91.5)	**(0.1)**	**3.0**	**(0.0)**	**(3.2)**	**(1.6)**	**0.0**	**863.9**		**863.9**
							(4.3)		(4.3)
							150.0		150.0
							0.0		0.0
							0.0		0.0
							0.0		0.0
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**145.7**		**145.7**
		10.0	0.0	(0.1)	(0.5)		9.3		9.3
						18.4	18.4		18.4
0.0	**0.0**	**10.0**	**0.0**	**(0.1)**	**(0.5)**	**18.4**	**27.7**		**27.7**
(91.5)	**(0.1)**	**13.0**	**0.0**	**(3.3)**	**(2.2)**	**18.4**	**1,037.3**		**1,037.3**

3.5 Cash flow statement

in millions of euros	31/12/2019	31/12/2018
Income before tax	**29.4**	**35.3**
Net depreciation and amortisation of property, plant and equipment, and intangible assets	12.3	14.9
Goodwill impairment	0.0	3.1
Net charges to provisions and impairment losses (including technical insurance provisions)	(28.1)	14.0
Share in net income of associates	(0.2)	(0.1)
Net gains/losses on investment activities	(24.1)	(16.9)
Other changes	58.4	37.7
Total non-cash items included in net income before tax	**18.4**	**52.7**
Net increase or decrease arising from transactions with credit institutions	721.7	(346.0)
Net increase or decrease arising from transactions with customers	(318.1)	442.9
Net increase or decrease arising from transactions affecting financial assets and liabilities	(808.1)	174.1
Net increase or decrease arising from transactions affecting non-financial assets and liabilities	5.8	(9.9)
Tax paid	8.6	(22.1)
Net increase/(decrease) in assets and liabilities generated by operating activities	**(390.1)**	**239.0**
NET CASH FLOW FROM OPERATING ACTIVITIES (A) – CONTINUING ACTIVITIES	**(342.2)**	**327.1**
NET CASH FLOW FROM OPERATING ACTIVITIES (A) – ACTIVITIES SOLD	**0.0**	**0.0**
Net increase or decrease relating to financial assets and investments	23.1	(1.9)
Net increase or decrease relating to investment property	1.4	0.4
Net increase or decrease relating to property, plant and equipment, and intangible assets	(11.5)	2.2
NET CASH FLOW FROM INVESTMENT ACTIVITIES (B) – ACTIVITIES CONTINUED	**12.9**	**0.7**
NET CASH FLOW FROM INVESTMENT ACTIVITIES (B) – ACTIVITIES SOLD	**0.0**	**0.0**
Cash flow received from or paid to shareholders[1]	145.7	100.0
NET CASH FLOW FROM FINANCING ACTIVITIES (C) – ACTIVITIES CONTINUED	**145.7**	**100.0**
IMPACT OF CHANGES IN EXCHANGE RATES (D) – ACTIVITIES CONTINUED	**0.0**	**0.0**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(183.6)**	**427.8**
Cash and net balance of accounts with central banks	**291.3**	**174.5**
Cash and net balance of accounts with central banks (assets)	291.4	174.6
Cash placed with central banks (liabilities)	(0.2)	(0.1)
Net balance of demand transactions with credit institutions	**1,309.1**	**998.1**
Current accounts with overdrafts[2]	14.2	18.9
Demand accounts and loans	1,332.5	1,049.9
Demand accounts in credit	(37.5)	(70.7)
OPENING CASH AND CASH EQUIVALENTS	**1,600.3**	**1,172.5**
Cash and net balance of accounts with central banks	**305.8**	**291.3**
Cash and net balance of accounts with central banks (assets)	305.9	291.4
Cash placed with central banks (liabilities)	(0.1)	(0.2)
Net balance of demand transactions with credit institutions	**1,111.0**	**1,309.1**
Current accounts with overdrafts[2]	30.6	14.2
Demand accounts and loans	1,090.5	1,332.5
Demand accounts in credit	(10.1)	(37.5)
Closing cash and cash equivalents	**1,416.7**	**1,600.3**
CHANGE IN NET CASH	**(183.6)**	**427.8**

(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 passbook savings accounts centralised with the Caisse des dépôts et consignations.

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Note 1 General background

1.1 Groupe BPCE and Banque Palatine

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

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

Groupe BPCE is a cooperative group whose members own two retail banking networks: the 14 Banque Populaire banks and the 15 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 set out 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 Act 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 15 Caisses d'Epargne.

BPCE must comply with the cooperative principles of the Banque Populaire banks and the Caisses d'Epargne all times.

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 network and main subsidiaries, including Natixis, a listed company which is 70.6831% owned, are organised around three major segments:

- retail banking and insurance, including the Banque Populaire network, the Caisse d'Epargne network, the Financial Solutions and Expertise segment (including factoring, consumer loans, finance leases, securities & financial guarantees and the retail securities), the Natixis Payment and Insurance segments and Other Networks (primarily Banque Palatine);
- Asset and Wealth Management;
- and Major Customers Banking.

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 Articles L. 511-31 and 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 between them.

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 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 Banque Populaire banks 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 €179 million at 31 December 2019.

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

Since 1 January 2019, the Banque Palatine Group has applied IFRS 16 "Leases", replacing IAS 17.

IFRS 16 requires the lessee to recognise leases in the form of a right of use on the asset side of the balance sheet, and to record the present value of the lease payments over the term of the contract under liabilities.

When implementing the standard, rights of use and rental liabilities respectively impacted line items "Property, plant and equipment" and "Accrued expenses and other liabilities" in the amount of €26.2 million each.

During the first half of 2019, Banque Palatine carried out a leaseback transaction for one of its operating premises.

The Bank continued its IT migration to the i-BP platform.

The bulk of migration costs are now recorded under expenses, *i.e.* €58.9 million for the 2019 financial year.

In September 2019, Palatine performed a €150 million capital increases, subscribed to in full by BPCE.

1.4 Post-balance sheet events

Since 31 December 2019 and until 6 February 2020, the date on which the Board of Directors approved the financial statements, no event occurred likely to have a notable influence on the financial position or the income of Banque Palatine.

Note 2 Applicable accounting standards and comparability

2.1 Regulatory framework

The consolidated financial statements of Groupe BPCE were prepared in compliance with IFRS standards (International Financial Reporting Standards) as adopted by the European Union and applicable on that date, excluding certain provisions in IAS 39 relating to hedge accounting.

2.2 Standards

The standards and interpretations used and outlined in the financial statements at 31 December 2018 were complemented by standards, amendments and interpretations, application of which is mandatory for reporting periods starting on or after 1 January 2019.

As a reminder, the new IFRS 9 "Financial instruments" adopted by the European Commission on 22 November 2016 is applicable retrospectively from 1 January 2018.

IFRS 9 replaced IAS 39 and 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 the IASB is studying a project for a separate standard.

Groupe BPCE has chosen the option provided 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, as adopted by the European Union, *i.e.* excluding certain provisions on macro-hedging. 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. However, IFRS 7 as amended by IFRS 9 requires that additional information on hedge accounting be provided in the notes.

Furthermore, on 3 November 2017, the European Commission adopted the amendment to IFRS 4 relating to the combined application of IFRS 9 "Financial instruments" and IFRS 4 "Insurance contracts" with specific provisions for financial conglomerates, applicable as of 1 January 2018. European regulations therefore allow European financial conglomerates to postpone the application of IFRS 9 for their insurance sector until 1 January 2021 (application date for the new IFRS 17 "Insurance contracts") with conditions:

- not to transfer financial instruments from the insurance sector to other of the conglomerate's sectors (except for financial instruments at fair value through profit or loss for both sectors concerned by the transfer);
- to indicate the insurance entities which apply IAS 39;
- to provide specific additional information in appended notes.

At its meeting of 14 November 2018, the IASB decided to defer the effective date of IFRS 17 "Insurance contracts" by a year to 1 January 2022. It also decided to align the expiry date of the temporary waiver of IFRS 9 for insurers in order to align it with IFRS 17 at 1 January 2022.

As Groupe BPCE is a financial conglomerate, it decided to apply this provision for its insurance business which, consequently, remains under IAS 39. The entities concerned by this measure are mainly CEGC, the Coface insurance subsidiaries, Natixis Assurances, BPCE Vie and its consolidated funds, Natixis Life, BPCE Prévoyance, BPCE Assurances, BPCE IARD, Muracef, Surassur, Prépar Vie and Prépar Iard.

In accordance with the adoption regulation of 3 November 2017, the Group took the necessary measures to prohibit any transfer of financial instruments between its insurance sector and the rest of the Group which would have a derecognition effect for the transferring entity, as this restriction is not required for transfers of financial instruments assessed at fair value through profit or loss by the two sectors involved.

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. As a reminder, Groupe BPCE decided not to opt for the transitional neutralisation of IFRS 9 impacts at the prudential level because of the moderate impacts relating to implementation of the standard.

IFRS 16

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

IFRS 16 applies to contracts that, regardless of their legal name, meet the definition of a lease as described in the standard. This involves identifying an asset and the lessee’s control of the right to use said asset. Control is established when the lessee holds the following two rights throughout the period of use:

- the right to obtain substantially all of the economic benefits attached to the use of the asset;
- the right to decide how to use the asset.

IFRS 16 affects Lease accounting for operating leases under which the related rental payments were recorded on the income statement. From the perspective of the lessor, the main requirements remain unchanged compared to the former IAS 17.

IFRS 16 requires lessees to recognise leases, except for certain exemptions permitted by the standard, on the balance sheet in the form of a right of use under property, plant and equipment on the assets side, and a rental liability under other liabilities.

The accounting principles applied by Groupe BPCE are set out in Note 12.2.2.

More detailed information on the application of IFRS 16 was provided by the decision of IFRS Interpretations Committee (IFRS IC) on 27 November 2019. Work is currently underway to assess the impacts. They may lead the Group to review its application of the accounting principles as applied at 31 December 2019, in particular for the determination of lease terms.

Groupe BCPE opted to apply the exceptions provided by the standard by choosing not to modify the accounting treatment of short leases (less than 12 months) or relating to low-value underlying assets, which will still be recognised as expenses for the period, under general operating expenses.

As the lessee, Groupe BPCE also decided not to apply IFRS 16 to intangible asset contracts.

For leases recognised on the balance sheet, the expense related to the lease liability is included in the interest margin under net banking income while the amortisation expense of the right of use is recognised as an amortisation under gross operating income.

In light of Groupe BPCE’s activities, the implementation of IFRS 16 largely focuses on real estate assets leased for operational purposes as offices and commercial branches.

For the first application of this standard, the Group decided to use the modified retrospective method. This method involves measuring the amount of the rental liabilities on the basis of residual payments by using the discount rates relating to the remaining durations of the leases. In particular, the option not to recognise on the balance sheet contracts covering low-value assets and contracts with a remaining term of less than 12 months (in particular concerning leases tacitly extended as of 1 January 2019) has been applied.

The amount of rental liabilities thus calculated as at 1 January 2019 amounted to €26.2 million, presented under “Accrued expenses and other liabilities”. This corresponds to the present value of lease payments yet to be paid over the lease terms (as defined in IFRS 16) at 1 January 2019.

This amount can be reconciled with the information presented in Note 12.2.2 on minimum future lease payments in the 2018 Registration Document, by integrating the following differences:

- minimum future payments under leases to which the Group has committed but for which the underlying assets have not yet been made available are not recognised in the balance sheet, in accordance with IFRS 16, before the date on which said assets are made available, and are therefore not included under rental liabilities;
- rental liabilities are calculated excluding VAT (including non-recoverable VAT) while the information provided at 31 December 2018 does include it;
- rental liabilities are initially calculated by discounting rents over the term of the leases, pursuant to IFRS 16. Rents included under off-balance sheet commitments at 31 December 2018 are not discounted;
- in addition to the contractual period that cannot be cancelled, the term used for to calculate rental liabilities includes periods covered by options that the lessee is reasonably certain that they will (or will not) exercise;
- leases covering low-value assets and short-term leases (including short-term leases at the IFRS 16 transition date) are excluded from the calculation of rental liabilities, pursuant to the exemptions provided for in IFRS 16.

Reconciliation between minimum future payments at 31/12/2018 and rental liabilities at 01/01/2019

Minimum future lease payments on operating leases at 31 December 2018, Group contribution	27.1
Minimum future lease payments on operating leases at 31 December 2018	0
Lease commitments not yet started	0
Exemption for short-term contracts	(0.3)
Exemption for low-value contracts	(0.4)
Methodological differences (assessment of contract term, VAT and other effects)	(0.2)
Gross rental liabilities at 1 January 2019	26.2
Discounting effect	0
RENTAL LIABILITIES RECOGNISED ON THE BALANCE SHEET AS AT 1 JANUARY 2019	**26.2**

Rights of use are measured by reference to rental liabilities calculated at that date, and adjusted for items relating to rental contracts already recognised on the balance sheet before the application of IFRS 16.

The corresponding amount recognised under property, plant and equipment as at 1 January 2019 was €26.2 million.

The application of IFRS 16 had no effect on the Palatine Group's opening equity at 1 January 2019. The application of this standard did not have a significant impact on Groupe BPCE's results.

IFRIC 23

As IAS 12 "Income tax" does not provide any particular precision on the way tax implications relating to the uncertain nature of the tax must be taken into consideration in the accounting, the IFRIC 23 interpretation "Uncertainties relating to tax treatment" adopted by the European Commission on 23 October 2018 and mandatory from 1 January 2019 has specified the treatment to be used.

This interpretation clarifies the recognition and measurement of current and deferred tax where there is uncertainty about the tax treatment applied. If there is doubt surrounding the acceptance of the tax treatment by the tax authorities under the tax legislation, the tax treatment is therefore an uncertain tax treatment. If it is likely that the tax authorities will not accept the tax treatment applied, IFRIC 23 states that the amount of uncertainty to be reflected in the financial statements must be determined using the method providing the best possible prediction of the outcome of such uncertainty. To determine this amount, two methods may be used: the most probable amount method, or the expected value method (*i.e.* the weighted average of the various possible scenarios). IFRIC 23 also calls for a follow-up of the evaluation of tax uncertainties.

Tax uncertainty is recorded depending on whether it relates to current or deferred tax under balance sheet items "Deferred tax assets", "Current tax assets", "Deferred tax liabilities" and "Current tax liabilities".

The application of IFRIC 23 on 1 January 2019 had no impact on Groupe BPCE's opening equity. The impact only concerns the presentation of uncertainties relating to tax treatments, which are now classified under "Tax assets and liabilities" for all Group entities, and no longer under "Provisions" in accordance with the IFRIC update issued in September 2019.

However, the process for identifying, assessing and monitoring uncertainties has been reviewed to better document the compliance of the recognition and measurement methods applied by Groupe BPCE with the requirements set out in the interpretation.

Amendments to IAS 12 issued in December 2017 applicable as at 1 January 2019

In December 2017, the IASB published an amendment to IAS 12 specifying whether the tax impacts on distributions related to instruments and coupons paid recognised under equity, in accordance with IAS 32, should be recognised through profit or loss, under other comprehensive income (OCI) or under equity, depending on the origin of the amounts paid out. As such, if the amounts can be classified as dividends (within the meaning of IFRS 9), any tax effects should be recognised in the income statement when the dividend liability is recognised. If they do not qualify as dividends, the tax effects are recognised through equity.

Given that judgement must be exercised in this case, the Group was required to consider interest on issues of perpetual deeply subordinated notes due as from 1 January 2019 as dividends. The tax saving relating to the payment of coupons to holders of these instruments has until now been recorded under consolidated reserves; the impact on the income statement was €1.4 million at 31 December 2019.

The retrospective restatement as of 1 January 2019 had no impact on shareholders' equity, given that tax on this remuneration is already included under this line item.

Amendment to IAS 39 and IFRS 9: benchmark rate reform

In September 2019, the IASB published amendments to IFRS 9 and IAS 39 intended to secure hedge accounting during the pre-implementation phase of the benchmark rate reform. These amendments were adopted by the European Commission on 16 January 2020, and the date of application was set at 1 January 2020, with the option to apply the updated standards early. Groupe BPCE opted for early application on 31/12/2019.

Under the amendments:

- transactions designated as cash flow hedges may be considered as "highly probable", as the hedged cash flows are not considered to be affected by the reform;
- prospective hedge effectiveness tests for fair value hedges and cash flow hedges are not called into question by the effects of the reform; hedge accounting can be continued if the retrospective tests go beyond the 80-125% limit during this transitional period, however the ineffectiveness of the hedging relationships will still have to be recognised in the income statement;
- the hedged risk component, when designated on the basis of a benchmark rate, is considered separately identifiable.

These amendments apply until the uncertainties associated with the reform no longer exist, or when the hedging relationship ends.

Groupe BPCE considers that all of its hedging contracts, which have a BOR or EONIA component, are affected by the reform, and can therefore benefit from these amendments wherever uncertainty exists regarding the contractual changes to be made as a result of the regulations, regarding the substitute index to be used or regarding the application period for provisional rates. Groupe BPCE is primarily exposed under its derivative contracts and loan and borrowing contracts at EURIBOR, EONIA and US LIBOR rates. Hedging transactions are presented in Note 5.3.

Uncertainty relating to the benchmark rate reform and the organisation in place at Groupe BPCE are presented in Note 2.3. The level of uncertainty regarding derivatives or hedged items indexed to EURIBOR or EONIA, concerning most of Groupe BPCE's hedging relations, is lower than on the LIBOR index.

New standards published and not yet applicable

IFRS 17

IFRS 17 "Insurance Contracts" was published by the IASB on 18 May 2017 and will replace IFRS 4 "Insurance Contracts". Initially applicable as of 1 January 2021, with a comparison with 1 January 2020, this standard is not expected to enter into effect until 1 January 2022. At its meeting of 14 November 2018, the IASB resolved to postpone the standard's application by one year, as clarifications still needed to be made regarding structural elements. It also decided to align the expiry date of the temporary waiver of IFRS 9 for insurers so that it coincided with IFRS 17 at 1 January 2022. A draft amendment "Exposure draft ED/2019/4 Amendments to IFRS 17" was published on 26 June 2019.

IFRS 17 sets out the principles of recognition, assessment, presentation and information to be provided relating to insurance contracts and investment contracts with discretionary participation falling within the scope of the standard.

Measured today at historical cost, the obligations imposed by contracts should be recognised, in application of IFRS 17, at present value. For this, insurance contracts will be measured, depending on the cash flow they will generate in the future, by including a risk margin to take into account the uncertainty related to this flow. On the other hand, IFRS 17 introduces the concept of contractual service margin. This represents the profit not acquired by the insurer and will be released over time, depending on the service the insurer provides to the insured party. The standard demands greater calculation granularity than previously since it requires estimates by groups of contracts.

These accounting changes could modify the result of the insurance profile (particularly that of life assurance) and also introduce more volatility in the result.

Despite the uncertainties still weighing on the standard (application date, actions underway to change certain positions, the exposure draft published on 26 June 2019), Groupe BCPE's insurance entities have set up project structures in line with the changes introduced by the standard, and are continuing their preparatory work: examination and documentation of normative choices, modelling, adaptation of systems and organisations, preparation of accounts and changeover strategy, financial communication and change management.

2.3 Use of estimates and judgements

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 2019, the accounting estimates involving assumptions were mainly used for the following measurements:

- the fair value of the financial instruments determined on the basis of the valuation techniques (Note 9 "Fair value measurement");
- the amount of expected credit losses on financial assets, and financial and guarantee commitments (Note 7.1 "Credit risk");
- the provisions recorded under liabilities on the balance sheet and, more specifically, the provisions for regulated home savings products (Note 5.14 "Provisions") and provisions for legal defence costs;
- the calculations relating to pension and future employee benefit obligations (Note 8.2 "Employee benefits");
- the deferred tax assets and liabilities (Note 10.2 "Deferred taxes");
- the goodwill impairment testing (Note 3.5 "Goodwill").

Moreover, judgement must be exercised to understand the business model, as well as the basic characteristic of the financial instrument. The methods are detailed in the relevant paragraphs (Note 2.5.1 "Classification and assessment of the financial assets").

The application of IFRS 16 led Groupe BPCE to continue to apply its judgement in estimating the lease terms to be used when accounting for rights of use and rental liabilities.

Brexit: exit agreement on 31 January 2020 and start of the transition period

Following the referendum, on 23 June 2016 the British public chose to leave the European Union ("Brexit"). Following the triggering of Article 50 of the Treaty on European Union on 29 March 2017, the United Kingdom and the 27 other European Union Member States gave themselves two years to prepare for the country's effective exit. This deadline was extended three times, finally taking place on 31 January 2020. The British parliament recently approved the exit agreement negotiated with Brussels, with ratification by the European Parliament expected on 29 January 2020. A transition period will run until 31 December 2020, during which time future trade agreements covering goods and services will be negotiated. In the meantime, the current EU rules will continue to apply.

The political and economic consequences of Brexit now depend on the agreements entered into in 2020, keeping in mind that MEPs already consider this timetable extremely tight.

In this context, Groupe BPCE has anticipated various possible exit scenarios, and will closely monitor the outcome of negotiations in order to take them into account, if appropriate, in the assumptions and estimates used to prepare the consolidated financial statements. The risk of non-recognition of UK CCPs by European regulations is no longer a short-term risk.

Uncertainty relating to the application of certain provisions of the BMR regulation

European Union (EU) Regulation No. 2016/1011 of 8 June 2016 on indices used as benchmarks ("Benchmarks Regulation" or "BMR") sets out a common framework ensuring the accuracy and integrity of indices used as benchmarks for financial instruments and contracts, as well as indices measuring the performance of investment funds in the European Union.

The BMR is designed to regulate the provision of benchmarks, the provision of underlying data for a benchmark and the use of benchmarks within the European Union. It provides for a transitional period for administrators, who have until 1 January 2022 to be authorised or registered. After this date, the use of benchmarks by EU-supervised entities, by unapproved or unregistered administrators (or, if not located in the EU, those not subject to an equivalent scheme or otherwise recognised or endorsed) will be prohibited.

Under BMR, the EURIBOR, LIBOR and EONIA interest rate benchmarks were identified as critically important benchmarks.

During the first half of 2019, a number of uncertainties in the Euro zone regarding the definition of new benchmark rates were addressed. In this respect, work to propose new indexes has been finalised for the EONIA which, from 1 October 2019 to 31 December 2021, will become a €STR rate tracker. This will replace the "recalibrated" EONIA as of 1 January 2022. Concerning EURIBOR, the development of a "hybrid" methodology for EURIBOR, recognised by the Belgian regulator as compliant with the requirements of the Benchmark Regulation, was finalised in November 2019. The valuation of EURIBOR-indexed contracts may also be impacted by changes in the remuneration of collateralisation agreements (normally EONIA-indexed).

However, regarding LIBOR, at this stage alternative "risk-free rates" have been defined for GBP, UK, CHF and Yen LIBOR; however, work is still in progress for forward structures based on these alternative rates. There is therefore still significant uncertainty for transactions that use the LIBOR index.

Since the first half of 2018, Groupe BPCE has had a project structure in place that anticipates the impacts of the benchmark index reform, from a legal, commercial, financial and accounting standpoint. From an accounting perspective, amendments to IFRS 9, IAS 39 and IFRS 7 were published by the IASB in September 2019 on matters relating to hedging. The amendments to IAS 39 and IFRS 9 presented provide for temporarily applicable exceptions to the hedge accounting requirements of these standards, while amendments to IFRS 7 require, for hedging relationships to which these exceptions apply, information on entities' exposure to the IBOR reform, on how they have managed the transition to alternative benchmark rates, and on the main assumptions or judgements they made when applying these amendments.

The IASB's aim is to enable entities to avoid the breakdown of hedging relationships, resulting from uncertainties linked to the IBOR reform. IASB discussions are currently underway on post-IBOR reform matters. No draft text has been issued at this stage. Specific attention therefore still needs to be paid to the possible effects of the reform on the derecognition of IBOR-indexed financial assets and liabilities, fair value matters, the application of the SPPI criterion and hedging relationships under the transition.

Uncertainties relating to the tax treatment of income taxes

The Group presents any uncertainties relating to the tax treatment of income taxes financial statements, when it deems it likely that the tax authorities will not accept them. To ascertain whether a tax position is uncertain, and assess its effect on the taxation amount, the Group assumes that the tax authorities will review all reported amounts, with access to all available information. It bases its judgement on administrative documentation, French case law, as well as any corrections made by the authorities for similar tax uncertainties. The Group reviews its estimate of the amount it expects to pay to or recover from the tax authorities in relation to any tax uncertainties in the event of any changes in the relevant facts and circumstances, which may result from (but which are not limited to) changes in tax laws, a statute of limitations, audit findings, and action taken by the tax authorities.

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. 2017-02 issued by the *Autorité des normes comptables* (ANC – French Accounting Standards Authority) on 2 June 2017.

The consolidated financial statements are based on the financial statements at 31 December 2019. The Palatine Group's consolidated financial statements for the period ended 31 December 2019 were approved by the Board of Directors on 4 February 2020. They will be presented to the General Meeting on 26 May 2020.

Unless stated otherwise, the amounts presented in the financial statements and in the notes to the financial statements are expressed in millions of euros. The impacts of rounding may result in differences between the amounts reported in the financial statements and those disclosed in the notes to the financial statements.

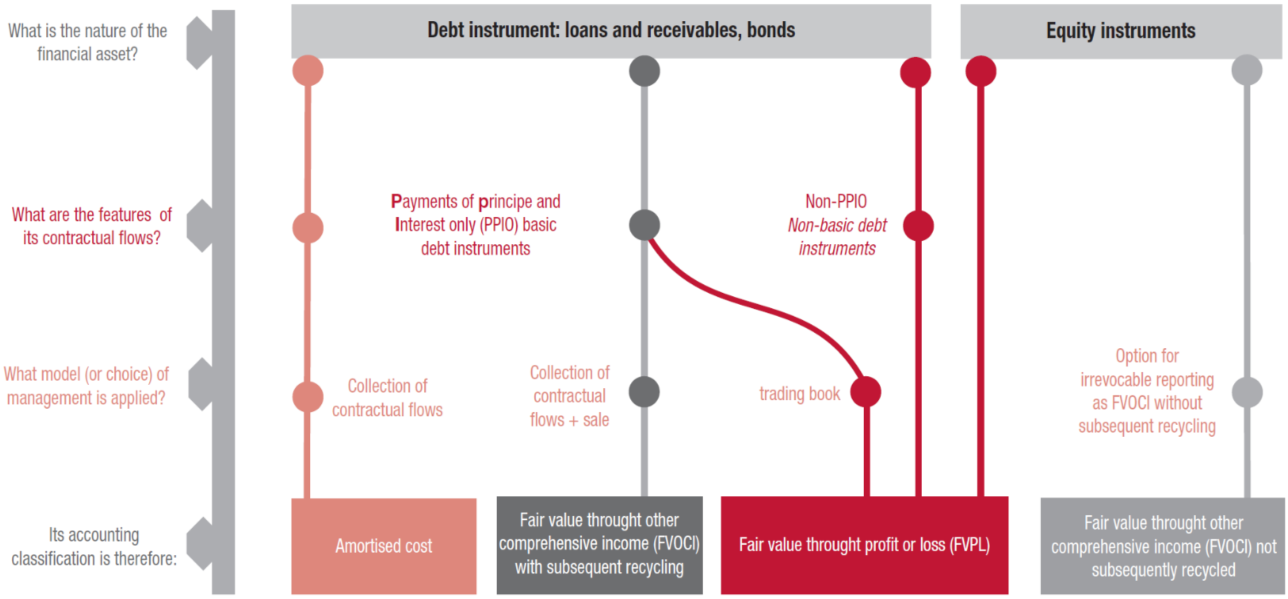
2.5 General accounting principles and basis of measurement

The general accounting principles presented below apply to the main items in the financial statements. Specific accounting principles are presented in the various appended notes to which they relate.

2.5.1 Classification and assessment of the financial assets

IRFS 9 is applicable to Groupe BPCE, excluding insurance subsidiaries which apply IAS 39.

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).



Business model

The entity's business model is the way said entity manages its financial assets with a view to generating cash flows. Judgement must be exercised 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 reason for 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). This model, whose holding concept is quite close to holding to maturity, is not however called into question if sales are made in the following specific cases:
  - the sales result from the increased credit risk,
  - the sales take place shortly before maturity and at a price reflecting the contractual cash flow still due,
  - the other sales may also be compatible with the contractual flow collection model if they are infrequent (even if they are of significant value) or if they are not of significant value considered both individually and globally (even if they are frequent).

  For Groupe BPCE, the collection model particularly applies to the financing activity (excluding syndication) carried on within the Retail Banking, Major Customers Banking and Specialised Financial Services divisions;
- a combined model where assets are managed with a view to both generating contractual cash flows and selling the financial assets (a collection and sales model).

  Groupe BPCE applies the collection and sale model primarily to the part of the securities portfolio management activities of the liquidity reserve which is not exclusively managed according to a collection model;
- a model specific to other financial assets, particularly transaction, in which the collection of contractual flows is incidental. This business model applies to the syndication activity (for the portion of the outstanding for sale identified at the outset) and the market activities primarily implemented by the Major Customers Banking.

Characteristic of the contractual flows: Establishing basic nature or SPPI (Solely Payments of Principal and Interest)

A financial asset is considered 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 basic character is to be established for each financial asset upon initial recognition.

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 and the credit risk. For example:

- the events that would change the amount and date of generation of the cash flows.

  Any contractual model which would bring about exposure to risks or volatility of the flows without any link to a basic loan contract, such as exposure to changes in share prices or a stock market index, or again the introduction of a leverage effect, would not allow the contractual cash flow to be considered as being basic;
- the characteristics of the applicable rates (*e.g.* consistency between the rate reset period and the interest calculation period).

  In the case where a qualitative analysis would not enable a precise result to be obtained, a quantitative analysis (benchmark test) is carried out consisting in comparing the contractual cash flow of the asset studied with that of the benchmark asset;
- the terms of early redemption and extension.

The contractual terms, for the borrower or for the lender, for early redemption of the financial instrument remain compatible with the basic nature of the contractual cash flow when the amount of the early redemption mainly represents the principal due and the related interest, as well, if applicable, reasonable compensation.

In the case where a qualitative analysis would not enable a precise result to be obtained, a quantitative analysis (benchmark test) is carried out consisting in comparing the contractual cash flow of the asset studied with those of the benchmark asset.

Furthermore, although not strictly meeting the remuneration criteria of the money's time value, certain assets with a regulated rate are considered as basic when this regulated interest rate provides a counterparty which, to a large degree, corresponds to the passage of time and without any exposure to a risk inconsistent with a basic loan. This is particularly the case with financial assets representing the part of the collection of Livret A savings accounts centralised with the *Caisse des dépôts et consignations* (CDC).

Basic financial assets are debt instruments which particularly include: fixed-rate loans, variable-rate loans without any differential (mismatch) in rates or without indexation to a value or a stock market index and fixed-rate or variable-rate debt securities.

Non-basic financial assets particularly include: units in UCITS, debt instruments that are convertible or redeemable into a fixed number of shares, and structured loans granted to local authorities.

To be described as basic assets, the securities held in a securitisation vehicle must meet specific conditions. The contractual terms of the tranche must meet the basic criteria. The underlying asset pool must meet the basic conditions. The risk in the tranche must be equal to or lower than the exposure to the underlying assets in the tranche.

A non-recourse loan (example: an infrastructure financing type project) is a loan guaranteed solely by collateral. With no recourse possible against the borrower, to be described as a basic asset, the structure of other possible recourses or systems for protecting the lender in the case of default must be studied: recovery of the underlying asset, collateral provided (guarantee deposit, margin call, etc.) or enhancements provided.

Accounting categories

Debt instruments (loans, receivables or debt securities) can be measured at amortised cost, at fair value through recyclable 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 the objective of which is to collect contractual cash flow;
- 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 the objective of which 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 are 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 non-recyclable 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. 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 option makes it possible to eliminate distortions arising from different valuation rules applied to instruments managed as part of the same strategy.

The derivatives incorporated are no longer recognised separately from the host contract when the latter are financial assets, so that the whole hybrid instrument must now be recognised at fair value through profit or loss when it is not of a basic debt nature.

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. The IFRS 9 amendment dated 12 October 2017 clarified the treatment under IFRS 9 of changes in liabilities recognised at amortised cost, in the event that the change does not result in derecognition: the gain or loss resulting from the difference between the original cash flows and the modified cash flows discounted at the original effective interest rate should be recorded in profit or loss.

2.5.2 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:

- the only component of the foreign currency gains and losses calculated on the amortised cost of financial assets at fair value through equity is recognised in income, with any additional gains and losses recognised in "Gains and losses recognised directly in equity";
- the foreign currency gains and losses arising on monetary items designated as cash flow hedges or as part of a net investment in a foreign entity are recognised in "Gains and losses recognised directly in equity".

Non-monetary assets carried at historical cost are translated at the exchange rate ruling at the transaction date. Non-monetary assets recognised at fair value are translated using the exchange rate on the date on which the fair value was determined. Foreign currency gains and losses on non-monetary lines are recognised in profit or loss if the gain or the loss on the non-monetary line is recorded in income and in "Gains and losses recognised directly in equity", and if the gain or the loss on the non-monetary line is recorded in "Gains and losses recognised directly in equity".

Note 3 Consolidation

3.1 Consolidating entity

Banque Palatine is the Banque 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 the entities consolidated by Banque Palatine is shown in Note 13 "Details of the 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 lease benefiting from specific tax treatment, 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 equity) are apportioned between the Group and non-controlling interests. The comprehensive income of subsidiaries is apportioned between the Group and non-controlling interests, even where this results in the allocation of a loss to non-controlling interests.

Changes to the percentage ownership of subsidiaries that do not lead to a change in control are recognised as transactions affecting equity. The effects of such transactions are recognised in equity at their amount net of tax and therefore do not impact consolidated net income attributable to equity holders of the parent.

Exclusion from the scope of consolidation

Non-material controlled entities are excluded from the scope of consolidation in accordance with the principle outlined in Note 13 "Details of the 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 Investment 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.

Net investment in an associate or a joint venture is subjected to an impairment test if there is any objective indication of impairment arising from one or more events occurring after the net investment's initial recognition and that these events have an impact on the estimated future cash flow from the net investment, which may be reliably estimated. In such a case, 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. The revised IAS 28 "Investment in Associates", in this case, allows the investor to recognise the investment at its fair value (with changes in fair value recognised in profit or loss) in accordance with IFRS 9.

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 equity.

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 impacts of intercompany transactions on the consolidated balance sheet and consolidated income statement were 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 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 debts, and subsequent price adjustments are recognised in the income statement (financial liabilities) or according to the appropriate standards (other financial liabilities outside the scope of IFRS 9);
- 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 for consolidated entities

The reporting date for entities in the scope of consolidation is 31 December.

3.4 Changes in the scope of consolidation during 2019 financial year

There were no changes in Palatine Group's scope of consolidation in 2019.

	31/12/2019				
	Country of incorporation or residence	Consolidation method	Changes in scope compared with 31 December 2018	Percentage control	Percentage interest
Banque Palatine	**France**	**Full consolidation**			**Consolidating entity**
Palatine Asset Management	France	Full consolidation	-	100.0%	100.0%
Ariès Assurances	France	Full consolidation	-	100.0%	100.0%
Conservateur Finance	France	Equity method	-	20.0%	20.0%

3.5 Goodwill

3.5.1 Value of goodwill

in millions of euros	31/12/2019	31/12/2018
Opening net value	**3.1**	**3.1**
Impairment loss on Ariès	(3.1)	(3.1)
Goodwill at end of period, net	**0.0**	**0.0**

Tests carried out in 2018 led the Palatine Group to impair goodwill in full.

Note 4 Notes to the income statement

Overview

Net banking income combines:

- interest income and expense;
- fees and commission;
- net gains or losses on financial instruments at fair value through profit or loss;
- net gains or losses on financial instruments at fair value through equity;
- net gains or losses arising from the derecognition of financial assets at amortised cost;
- net income from insurance activities;
- income and expense from other activities.

4.1 Interest and similar income and expenses

Accounting principles

Interest income and expenses are recognised in the income statement for all financial instruments measured at amortised cost using the effective interest method, namely, loans and borrowings on interbank transactions and customer transactions, the portfolio of securities at amortised cost, debts represented by a security and subordinated debt as well as rental liabilities. The interest accrued and due on fixed-income securities recognised in the portfolio of financial assets at fair value in equity and hedging derivatives, it being specified that accrued interest on cash flow hedges is taken to the income statement in the same manner and period as the accrued interest on the hedged item.

Interest income also includes interest on non-basic debt instruments not held in a transaction model as well as interest from related economic hedges (by default classified as instruments at fair value through profit or loss).

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. Costs and transaction income that form an integral part of the effective rate of the contract, such as set-up fees or commissions paid to business providers, are similar to 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.

in millions of euros	FY 2019			FY 2018		
	Interest income	Interest expense	Net	Interest income	Interest expense	Net
Loans/borrowing to credit institutions[1]	30.3	(9.1)	21.2	33.6	(9.4)	24.2
Loans/borrowing to customers	198.9	(17.5)	181.4	199.3	(18.6)	180.7
Bonds and other debt securities held/issued	15.4	(1.1)	14.3	15.3	2.5	17.8
Subordinated debt	///	(3.3)	(3.3)	///	(3.3)	(3.3)
Rental liabilities[2]	///	(0.1)	(0.1)	///	0.0	0.0
Financial assets and liabilities at amortised cost (excluding finance lease contracts)[3]	**244.7**	**(31.1)**	**213.6**	**248.1**	**(28.8)**	**219.4**
Finance lease operations	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Debt securities	9.4	///	9.4	18.5	///	18.5
Financial assets at fair value through equity	**9.4**	**///**	**9.4**	**18.5**	**///**	**18.5**
TOTAL FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST AND AT FAIR VALUE THROUGH EQUITY	**254.1**	**(31.1)**	**223.0**	**266.7**	**(28.8)**	**237.9**
Non-standard financial assets not held for trading	**0.0**	**///**	**0.0**	**0.0**	**///**	**0.0**
Hedging derivatives	**16.0**	**(18.5)**	**(2.5)**	**7.5**	**(26.0)**	**(18.5)**
TOTAL INTEREST INCOME AND EXPENSE	**270.1**	**(49.7)**	**220.4**	**274.2**	**(54.8)**	**219.4**

(1) Interest income on loans and advances from credit institutions comprises €2.5 million (€2.6 million in 2018) collected on the Livret A, LDD and LEP passbook savings accounts centralised with Caisse des dépôts et consignations.

(2) Information at 31 December 2018 has not been restated for the impacts of the first-time application of IFRS 16 "Leases", in accordance with the option offered by this standard. The impacts of the first-time application of IFRS 16 on the balance sheet at 1 January 2018 are presented in Note 2.2.

(3) Of which interest income from financial assets at amortised cost, with a proven risk indicator (H3): €23 million.

The good performance of customer credit production, the decrease in the cost of financial resources as well as savings related to the macro-hedging operations for exchange risk, contributed to the increase in the net interest margins in 2019.

4.2 Fee and commission income and expenses

Accounting principles

Pursuant to IFRS 15 "Revenue from contracts with customers", the recognition of income from current activities now reflects the transfer of control of goods and services promised to customers in an amount corresponding to the consideration that the entity expects to receive in exchange for these goods and services. There are five steps in the revenue recognition process:

- 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.

This approach applies to agreements that an entity enters into with its customers, apart from leases (covered by IFRS 16), 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.

In light of the Group's activities, this method mainly concerns the following items:

- 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 (see Note 4.6 "Income and expense from other activities"), notably in the case of integrated services provided under leases;
- banking services rendered with the participation of Group partners.

Fee and commission income and expenses are therefore 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".

Service fee and commission income and expense

Service fees and commissions were analysed to distinguish the various items (or performance obligations) which comprise them and to allocate its share of the income to each item. Then each item is recognised in income by type of service provided and according to the method used to account for the associated financial instruments:

- 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.

When there is uncertainty about the assessment of the amount of a commission (asset management performance commission, financial engineering variable commission, etc.), only the amount the right to which the Group is already assured in view of the information available at closing is recognised.

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.

	FY 2019			FY 2018		
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	42.0	0.0	42.0	36.9	0.0	36.9
Financial services	5.6	(5.2)	0.4	4.8	(6.9)	(2.1)
Sales of life insurance products	13.2	///	13.2	12.9		12.9
Payment services	12.6	(6.4)	6.3	12.1	(6.5)	5.6
Securities transactions	1.4	(0.1)	1.3	1.6	(0.1)	1.5
Fiduciary and trust activities	25.8	///	25.8	31.5	0.0	31.5
Foreign exchange and arbitrage transactions	0.0	0.0	0.0	0.3	0.0	0.3
Other fee and commission income	6.9	0.0	6.9	6.4	(0.1)	6.3
TOTAL FEES AND COMMISSIONS	**107.6**	**(11.8)**	**95.8**	**106.6**	**(13.8)**	**92.8**

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

Accounting principles

The item “Gains and losses on financial instruments at fair value through profit or loss”, records trading financial gains and losses of assets and liabilities, or optionally recognised at fair value through profit or loss including the interest generated by these instruments.

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

in millions of euros	FY 2019	FY 2018
Gains and losses on financial instruments obligatorily measured at fair value through profit or loss(1)	9.2	17.4
Change in fair value hedges	(5.4)	11.2
Change in the hedged item	5.4	(11.2)
Gains and losses on foreign exchange transactions	8.0	(2.1)
TOTAL NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**17.1**	**15.2**

(1) Including economic currency hedging.

Net gains and losses on financial instruments at fair value by income increased by €1.9 million, as a result of the activity supported by the customer dealing room, and foreign exchange transactions in particular.

4.4 Net gains or losses on financial instruments at fair value through equity

Accounting principles

Financial instruments at fair value through equity include:

- basic debt instruments managed under a business model for the collection and sale at fair value through equity that is recyclable in profit or loss. If they are sold, these changes in fair value are transferred to income;
- equity instruments at fair value through equity that is non-recyclable in profit or loss. If they are sold, these changes in fair value are not transferred to income but directly to retained earnings in equity. Only dividends affect income if they correspond to a return on investment.

Changes in the value of basic debt instruments under a business model for the collection and sale at fair value through recyclable equity include:

- income and expenses recognised as net interest margin;
- net gains or losses on financial debt assets at fair value through equity;
- impairments recognised under cost of risk;
- gains and losses recognised directly in equity.

in millions of euros	FY 2019	FY 2018
Gains or losses on debt instruments	(0.1)	0.1
Net gains or losses on equity instruments (dividends)	0.1	5.0
TOTAL PROFITS OR LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**(0.0)**	**5.2**

In 2018, net gains and losses on instruments at fair value through equity included an advance on the liquidation gain from an investment account in the amount of €5 million.

4.5 Net gains or losses on financial instruments at amortised cost

Accounting principles

This item includes net gains or losses on financial instruments at amortised cost arising from derecognition of instruments at amortised cost of financial assets (loans or advances, debt securities) and financial liabilities at amortised cost.

	FY 2019			FY 2018		
in millions of euros	Gains	Losses	Net	Gains	Losses	Net
Debt securities	0.1	0.0	0.1	1.1	0.0	1.1
Gains and losses on financial assets at amortised cost	**0.1**	**0.0**	**0.1**	**1.1**	**0.0**	**1.1**
Gains and losses on financial liabilities at amortised cost	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL NET GAINS OR LOSSES ARISING FROM THE DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST	**0.1**	**0.0**	**0.1**	**1.1**	**0.0**	**1.1**

Gains recorded for the financial year after the sale of financial assets at amortised cost amounted to €0.1 million.

4.6 Income and expenses from other activities

Accounting principles

Income and expenses from other activities particularly recorded:

- income and expense on investment property (rental income and expense, gains and losses on disposals, depreciation and impairment);
- income and expenses on operational lease transactions;
- income and expenses on property development (revenue, purchases consumed).

in millions of euros	FY 2019			FY 2018		
	Income	Expense	Net	Income	Expense	Net
Income and expense on investment property	**1.3**	**0.0**	**1.3**	**0.4**	**0.0**	**0.4**
Transfers of expenses and income	*0.2*	*(1.0)*	*(0.8)*	*0.2*	*(1.5)*	*(1.3)*
Other miscellaneous operating income and expenses	*0.4*	*(1.1)*	*(0.7)*	*1.4*	*(2.0)*	*(0.6)*
Additions to and reversals of provisions to other operating income and expenses	*///*	*0.0*	*0.0*	*///*	*(0.8)*	*(0.8)*
Other banking income and expenses	**0.6**	**(2.1)**	**(1.5)**	**1.6**	**(4.3)**	**(2.7)**
TOTAL INCOME AND EXPENSES FROM OTHER ACTIVITIES	**1.9**	**(2.1)**	**(0.2)**	**2.0**	**(4.3)**	**(2.3)**

4.7 General operating expenses

Accounting principles

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.

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 €10.9 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €2.3 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 €8.6 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 delegated Regulation 2015/63 and the 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 2019. The amount of the contributions paid by the Group for the financial year was €4.6 million of which €3.9 million was recognised as an expense and €0.7 million in the form of cash deposit guarantees that are recognised on the balance sheet as assets (15% of calls for funds constituted in the form of cash deposit guarantees). The total contributions that are entered in the balance sheet assets amount to €3.1 million as at 31 December 2019.

in millions of euros	FY 2019	FY 2018
PAYROLL COSTS	**(136.2)**	**(133.4)**
Taxes, levies and regulatory contributions[1]	(8.9)	(11.2)
External services and other general operating expenses	(86.1)	(92.8)
Rental expenses[2]	(19.0)	0.0
OTHER ADMINISTRATIVE EXPENSES	**(114.1)**	**(104.0)**
TOTAL GENERAL OPERATING EXPENSES	**(250.3)**	**(237.4)**

(1) Taxes and regulatory contributions include the contribution to the SRF (single resolution fund) in an annual amount of €3.9 million (versus €3.9 million in 2018). The tax levied on banks for systemic risk (taxe de risque systémique des banques) was abolished in 2019 (€1 million in 2018).

(2) The item "rental expenses" was identified in 2019 following the application of IFRS 16. At 31 December 2018, the amount was €27.5 million.

The Bank is continuing the migration to the Group information system for Banques Populaires banks. The bulk of migration and transformation costs is now recorded under expenses, *i.e.* €58.9 million for the 2019 financial year.

The impact on the income statement of leases – lessee are analysed under Section 11.2.2.

The breakdown of payroll costs is provided in Note 8.1 "Payroll costs".

4.8 Gains or losses on other assets

Accounting principles

Gains and losses on other assets record the profit or loss on disposal of operating property, plant and equipment and intangible assets and the profits or losses from the disposal of investments in consolidated subsidiaries.

in millions of euros	FY 2019	FY 2018
Gains or losses on disposals of property, plant and equipment and operating intangible assets	7.2	0.0
Gains or losses on disposals of consolidated holdings	0.0	0.0
TOTAL GAINS OR LOSSES ON OTHER ASSETS	**7.2**	**0.0**

During the first half of 2019, the Bank carried out a leaseback transaction for one of its operating premises. These premises were taken over under a lease agreement, enabling the Bank to continue operating on the site.

Note 5 Notes to the balance sheet

5.1 Cash and net balance of accounts with central banks

Accounting principles

This item mainly comprises cash and assets placed with central banks at amortised cost.

in millions of euros	FY 2019	FY 2018
Cash	7.9	6.5
Cash placed with central banks	297.9	284.9
TOTAL CASH AND ASSETS PLACED WITH CENTRAL BANKS	**305.9**	**291.4**

5.2 Financial assets and liabilities at fair value through profit or loss

Accounting principles

Financial assets and liabilities at fair value through profit or loss consist of traded-for-trading transactions, including derivative financial instruments, certain assets and liabilities that the Group has elected to recognise at fair value, from their date of acquisition or issue, under the option offered by IFRS 9, and non-basic assets.

Date of recognition of securities

Investments are recorded on the balance sheet on the settlement/delivery date.

Securities lending transactions are also recognised on the settlement date.

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.

The First-In, First-Out (FIFO) method is applied to any partial disposals of investments, except in special cases.

5.2.1 Financial assets at fair value through profit or loss

Accounting principles

Financial assets at fair value through profit or loss are:

- financial assets held for trading, *i.e.* securities acquired or issued principally for the purpose of selling 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 IFRS 9. The conditions for the use of this option are described above;
- non-basic debt instruments;
- equity instruments measured at fair value through profit or loss (which are not held for trading).

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" with the exception of non-basic debt financial assets whose interest is recognised under "Interest income".

The financial assets of the trading portfolio mainly consist of securities transactions conducted on its own behalf, repurchase agreements and derivative financial instruments traded as part of the Group's position management activities.

in millions of euros	31/12/2019				31/12/2018			
	Financial assets that must be measured at fair value through profit or loss				Financial assets that must be measured at fair value through profit or loss			
	Financial assets related to a trading activity	Other financial assets that must be measured at fair value through profit or loss[2]	Financial assets designated at fair value (option)[1]	Total	Financial assets related to a trading activity	Other financial assets that must be measured at fair value through profit or loss	Financial assets designated at fair value through profit or loss (option)	Total
Bonds and other debt securities		19.4		19.4		13.8		13.8
Debt securities		**19.4**		**19.4**		**13.8**		**13.8**
Equity instruments			///				///	
Trading derivatives	**154.7**	///	///	**154.7**	**103.0**	///	///	**103.0**
Security deposits paid	**128.3**	///	///	**128.3**	**86.2**	///	///	**86.2**
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**283.0**	**19.4**		**302.4**	**189.2**	**13.8**		**203.0**

The financial assets of the trading portfolio mainly consist of securities transactions conducted on its own behalf, repurchase agreements and derivative financial instruments traded as part of the Group's position management activities.

The "Trading derivatives" item includes derivatives whose fair value is positive. These are mainly economic hedging derivatives that do not meet the restrictive hedging criteria required by IFRS 9.

The amount of this item is also reduced by the amount of the value adjustments of the entire CVA (Credit Valuation Adjustment) derivative portfolio (transaction and hedging), *i.e.* €1 million at 31 December 2019.

Assets at fair value through profit or loss (option)

IFRS 9 makes it possible, on initial recognition, to designate financial assets as being recognised at fair value through profit or loss, with said choice being irrevocable.

Compliance with the conditions set by the standard must be checked prior to any registration of an instrument under the fair value option.

The use of this option is reserved only for cases of an elimination or significant reduction of an accounting treatment gap. The use of the option makes it possible to eliminate the distortions arising from the different valuation rules applied to instruments managed as part of a same strategy.

5.2.2 Financial liabilities at fair value through profit or loss

Accounting principles

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or voluntarily classified in this category as of their initial recognition pursuant to the option provided by IFRS 9. The trading portfolio consists of short-selling debt, repurchase agreements and derivative financial instruments. The conditions for the use of this option are described above.

These liabilities are measured at fair value upon initial recognition and at each reporting date.

Changes in the fair value of the period, interest, and gains or losses related to these instruments are recorded under "Net gains or losses on financial instruments at fair value through profit or loss", except for changes in fair value attributable to changes in its own credit risk for financial liabilities at fair value through profit or loss (option) which are recorded, as of 1 January 2016, in "Remeasurement of own credit risk on financial liabilities designated at fair value through profit or loss" under "Gains and losses recognised directly in equity". If the liability is derecognised prior to maturity (for example, early redemption), the realised fair value gain or loss, attributable to own credit risk, is transferred directly to retained earnings in equity.

Financial liabilities at fair value through profit or loss (option)

IFRS 9 makes it possible, on initial recognition, to designate financial liabilities as being recognised at fair value through profit or loss, with said choice being irrevocable.

Compliance with the conditions set by the standard must be checked prior to any registration of an instrument under the fair value option.

The use of this option is reserved for the following situations:

Elimination or significant reduction of an accounting treatment gap

The use of the option makes it possible to eliminate the distortions arising from the different valuation rules applied to instruments managed as part of a same strategy.

Alignment of accounting treatment with management and performance measurement

The option applies in the case of liabilities managed and measured at fair value, provided that such management is based on a documented risk management policy or investment strategy and that internal monitoring is based on a measurement at fair value.

Compound financial instruments with one or more embedded derivatives

An embedded derivative is the component of a hybrid contract, whether financial or not, that meets the definition of a derivative. It must be extracted from the host contract and recognised separately if the hybrid instrument is not measured at fair value through profit or loss and the economic characteristics and associated risks of the embedded derivative are not closely related to the host contract.

The use of the fair value option for a financial liability is possible in the event that the embedded derivative materially modifies the flows of the host contract and that the separate recognition of the embedded derivative is not specifically prohibited by IFRS 9 (case of an early redemption option embedded in a debt instrument). The option allows the instrument to be measured at fair value in its entirety, making it possible to not extract, recognise or measure the embedded derivative separately.

This treatment applies in particular to certain structured issues with significant embedded derivatives.

	31/12/2019			31/12/2018		
in millions of euros	Financial liabilities issued for trading	Financial liabilities designated at fair value (option)	Total	Financial liabilities issued for trading	Financial liabilities designated at fair value (option)	Total
Trading derivatives	142.5	///	142.5	92.4	///	92.4
Guarantee deposits received	9.0	///	9.0	3.1	///	3.1
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**151.4**	**-**	**151.4**	**95.5**	**-**	**95.5**

The "Trading derivatives" item includes derivatives whose fair value is negative. These are mainly economic hedging derivatives that do not meet the restrictive hedging criteria required by IFRS 9.

The amount of this item is also reduced by the amount of the value adjustments of the entire DVA (Debit Valuation Adjustment) derivative portfolio (transaction and hedging), *i.e.* €0.2 million at 31 December 2019.

5.2.3 Trading derivatives

Accounting principles

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.

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".

The notional amounts of derivatives are merely an indication of the volume of activity and do not reflect the market risks associated with such instruments. Positive or negative fair values represent the replacement value of the instruments. These values may vary significantly depending on changes in market parameters.

	31/12/2019			31/12/2018		
in millions of euros	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Interest rate instruments	4,975.0	75.0	70.4	4,627.4	49.9	45.3
Currency instruments	2,387.8	50.4	49.0	2,366.8	30.4	29.9
Futures and forwards	**7,362.7**	**125.4**	**119.5**	**6,994.2**	**80.3**	**75.2**
Interest rate instruments	8,675.9	7.5	1.3	7,452.6	2.3	(3.2)
Currency instruments	3,253.1	21.7	21.7	1,868.8	20.4	20.4
Options	**11,928.9**	**29.2**	**23.0**	**9,321.5**	**22.7**	**17.2**
TOTAL TRADING DERIVATIVES	**19,291.6**	**154.7**	**142.5**	**16,315.7**	**103.0**	**92.4**

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

5.3 Hedging derivatives

Accounting principles

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 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.

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, and 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.

Groupe BPCE has chosen the option provided 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, as adopted by the European Union, *i.e.* excluding certain provisions on macro-hedging.

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 equity”, and the ineffective portion is recognised in the income statement 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

Some of the Group’s institutions document their macro-hedging of interest rate risk in cash flow hedges (hedging of loan or borrowing portfolios).

In this case, 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 whose nature can be considered highly probable (forecasts): in the case of a constant outstandings assumption, the entity bears a risk of variability of future cash flows on a future fixed-rate loan to the extent that the rate at which the future loan will be granted is unknown; in the same way, the entity may consider that it bears a risk of variability of future cash flows on refinancing that it will have to carry out on 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 considered to be equivalent to a proportionate share of one or more portfolios of floating rate instruments identified (portion of outstanding variable-rate deposits or loans); the effectiveness of the hedges is measured by constituting, for each maturity band, a hypothetical instrument whose changes in fair value since inception are compared with those of the derivatives documented as hedges.

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 instruments. 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

Some of the Group's entities document their macro-hedge of interest rate risk as fair value hedges, applying the provisions of IAS 39 as adopted by the European Union (known as a carve-out).

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 macro-hedging instruments used by the Group are mainly 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.

Hedging a net investment denominated in foreign currency

The net investment in a business abroad is the amount of the consolidating entity's interest in the net assets of that business.

The purpose of hedging a net investment denominated in foreign currency is to protect the consolidating entity against changes in the exchange rate of an investment in an entity whose functional currency is different from the presentation currency of the consolidated financial statements. This type of hedge is recognised in the same way as cash flow hedges.

Unrealised gains or losses recognised in equity are transferred to profit or loss on disposal (or partial disposal with loss of control) of all or part of the net investment.

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 macro-hedging is used for the overall management of interest rate risk, notably to cover:

- the fixed-rate loan portfolios;
- the demand deposits;
- the PEL-related deposits;
- the inflation component of Livret A savings accounts.

Fair value micro-hedging is used notably to cover:

- a fixed-rate liability;
- securities of the fixed-rate liquidity reserve and securities indexed to inflation.

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.

Cash flow hedges are used notably to:

- the hedge variable-rate liabilities;
- the hedge the risk of changes in the value of future variable debt flows;
- the macro-hedge variable-rate assets.

The main sources of hedge ineffectiveness stem from:

- the "bi-curve" inefficacy: the valuation of collateralised derivatives (subject to margin calls paid at EONIA) is based on the EONIA discount curve, whereas the valuation of the hedged component of the items hedged at fair value is calculated on the basis of a EURIBOR discount curve;
- the time value of the optional hedges;
- the over-hedging as part of macro-hedging base tests (notional hedging derivative amounts greater than the nominal amount of the hedged items, notably in the event that the hedged items have been repaid earlier than expected);
- the valuation adjustments linked to credit risk and own credit risk on derivatives (Credit Value Adjustment and Debit Value Adjustment);
- fixing differences between the hedged item and its hedge.

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.

	31/12/2019			31/12/2018		
in millions of euros	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Interest rate instruments	797.3	2.1	49.8	1,154.2	2.9	31.9
Futures and forwards	**797.3**	**2.1**	**49.8**	**1,154.2**	**2.9**	**31.9**
Options	0.0	0.0	0.0	0.0	0.0	0.0
Fair value hedge	**797.3**	**2.1**	**49.8**	**1,154.2**	**2.9**	**31.9**
TOTAL HEDGING DERIVATIVES	**797.3**	**2.1**	**49.8**	**1,154.2**	**2.9**	**31.9**

All hedging derivatives are presented under "Hedging derivatives" on the assets and liabilities sides of the balance sheet.

Timetable of the notional amount of hedging derivatives at 31 December 2019

	Under 1 year	1 year to 5 years	6-10 years	Over 10 years
Interest rate hedges	163.3	269.9	364.1	0.0
Cash flow hedging instruments	0.0	0.0	0.0	0.0
Fair value hedging instruments	163.3	269.9	364.1	0.0
TOTAL	**163.3**	**269.9**	**364.1**	**0.0**

Hedged items

Fair value hedge

	At 31 December 2019								
	Interest rate risk hedge			Exchange rate risk hedge			Hedging of other risks (gold, commodities, etc.)		
in millions of euros	Carrying amount	o/w remeasurement of the hedged component(1)	Hedged component yet to be spread(2)	Carrying amount	o/w remeasurement of the hedged component(1)	Hedged component yet to be spread(2)	Carrying amount	o/w remeasurement of the hedged component(1)	Hedged component yet to be spread(2)
Assets									
Financial assets at fair value through equity	**383.3**	**37.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities	383.3	37.3	-	-	-	-	-	-	-
Financial assets at amortised cost	**1,517.9**	**7.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances due from customers	1,517.7	6.8	-	-	-	-	-	-	-
Debt securities	0.2	0.2	-	-	-	-	-	-	-
TOTAL ASSETS	**1,901.2**	**44.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Liabilities									
Financial liabilities at amortised cost	**2,057.4**	**1.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Amounts due to customers	2,057.4	1.3		-	-	-	-	-	-
TOTAL LIABILITIES	**2,057.4**	**1.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(1) Fair value excluding accrued interest.

(2) De-designation, end of the hedging relationship (full term of the derivative).

The ineffective portion of hedging for the period is presented in Note 4.3 “Gains or losses on financial assets and liabilities at fair value through profit or loss” or in Note 4.4 “Net profit or loss on financial instruments at fair value through equity”.

Cash flow hedging and hedging of net investments in foreign currencies

Cash flow hedging and hedging of net investments in foreign currencies are not applicable to Banque Palatine.

5.4 Financial assets at fair value through equity

Accounting principles

Financial assets at fair value through equity are initially recognised at their fair value plus transaction costs.

Debt instruments measured at fair value through recyclable equity

At the reporting date, they are measured at fair value and changes in fair value (excluding accrued interest) are recorded in gains and losses recognised directly in recyclable equity (foreign currency assets being monetary, changes in fair value for the foreign exchange component affect income). The principles for determining fair value are described in Note 9 “Fair value of financial assets and liabilities”.

These instruments are subject to the IFRS 9 requirements regarding impairment. Credit risk disclosures are presented in Note 7.1 “Credit risk”. If they are sold, these changes in fair value are transferred to income.

Income accrued or acquired on debt instruments is recorded under “Interest income and similar income” according to the effective interest rate (EIR) method. This method is described in Note 5.5 “Assets at amortised cost”.

Debt instruments measured at fair value through non-recyclable equity

At the reporting date, they are measured at fair value and changes in fair value are recorded in gains and losses recognised directly in non-recyclable equity (foreign currency assets being non-monetary, changes in fair value for the foreign exchange component do not affect income). The principles for determining fair value are described in Note 9 “Fair value of financial assets and liabilities”.

The designation at fair value through non-recyclable equity is an irrevocable option that applies instrument-by-instrument only to equity instruments not held for trading. Unrealised and realised impairment losses are still recognised in equity without ever affecting income. These financial assets are not subject to impairment.

If they are sold, these changes in fair value are not transferred to income but directly to retained earnings in equity.

Only dividends affect income if they correspond to a return on investment. They are recorded under "Net gains or losses on financial instruments at fair value through equity" (Note 4.4).

in millions of euros	31/12/2019	31/12/2018
Loans or advances due from customers	0.0	0.1
Debt securities	1,214.9	1,240.0
Shares and other equity securities*	6.1	3.1
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**1,221.0**	**1,243.2**
O/w impairment for expected credit losses	*0.0*	*(0.1)*
O/w gains and losses recognised directly in equity (before tax)	*17.3*	*3.8*
• *Debt instruments*	*17.3*	*3.8*
• *Equity instruments*	*0.0*	*0.0*

** Including the share of non-controlling interests.*

At 31 December 2019, gains and losses recognised directly in equity include, in particular, treasury bills, bonds and other investments in unconsolidated subsidiaries.

Equity instruments designated at fair value through equity

Accounting principles

Equity instruments designated as at fair value through equity may be:

- investments in unconsolidated subsidiaries;
- shares or other equity securities.

During initial recognition, equity instruments designated as at fair value through equity are measured at fair value plus transactions costs.

On subsequent reporting dates, changes in the fair value of the instrument are recognised in equity (OCI).

The changes in fair value thus accrued in equity will not be reclassified in income during subsequent years (non-recyclable OCI).

Only dividends are recognised in income, when the criteria are met.

	31/12/2019				31/12/2018			
		Dividends recognised over the period	Derecognition over the period			Dividends recognised over the period	Derecognition over the period	
in millions of euros	Fair value	Equity instruments held at the end of the period	Fair value at the disposal date	Accumulated profit or loss at the disposal date	Fair value	Equity instruments held at the end of the period	Fair value at the disposal date	Accumulated profit or loss at the disposal date
Investments in unconsolidated subsidiaries	3.1	0.1		0.0	0.9	0.1	0.0	0.0
Shares and other equity securities	3.1	0.0		0.0	2.2	5.0	0.0	0.0
TOTAL	**6.1**	**0.1**	**0.0**	**0.0**	**3.1**	**5.0**	**0.0**	**0.0**

Investments in unconsolidated subsidiaries include strategic holdings, "tool" entities (*e.g.* IT) and certain long-term capital investment securities. Since these investments in unconsolidated subsidiaries are not held for sale, the categorisation as equity instruments designated as at fair value through equity is appropriate for this type of investment.

In 2018, an advance on a liquidation gain from an investment account was received in the amount of €5 million.

5.5 Assets at amortised cost

Accounting principles

Assets at amortised cost are basic financial assets held in a collection model. The vast majority of loans granted by the Group are classified in this category. Credit risk disclosures are presented in Note 7.1 "Credit risk".

Financial assets at amortised cost include loans and advances to credit institutions and customers as well as securities at amortised cost such as treasury bills and bonds.

Loans and receivables are initially recognised at fair value plus costs and less any income directly attributable to the implementation of the loan or issue.

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.

For subsequent reporting periods, these financial assets are measured at amortised cost using the effective interest rate (EIR) method.

The EIR is the rate used to discount future cash flows in respect of the carrying amount of the loan at inception. This rate includes discounts, recorded when loans are issued at below-market conditions, as well as external transaction income and costs directly related to the implementation of loans and analysed as an adjustment to the actual yield on the loan. No internal costs are included in the calculation of amortised cost.

Renegotiation and restructuring

When contracts are amended, IFRS 9 requires the identification of financial assets that have been renegotiated, restructured or reorganised, whether or not in view of financial difficulties, and which do not give rise to derecognition. Any gains or losses resulting from an amended contract is recognised in the income statement. The gross carrying amount of the financial asset is then recalculated to equal the present value – at the initial effective interest rate – of the renegotiated or amended contractual cash flows. An analysis of the substantial nature of the amendments is however to be carried out on a case-by-case basis.

Under IFRS 9, the treatment of restructuring resulting from financial difficulties remains similar to that of IAS 39: in the event of restructuring following an event that generates a proven credit loss, the loan is considered as an impaired outstanding (Stage 3) 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 cash and interest flows following restructuring. The discount rate used is the initial effective interest rate. This discount is expensed to the “Cost of credit 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. If there is no significant discount, the EIR of the restructured loan is adjusted and no discount is recorded.

The restructured loan is reclassified as performing (not impaired, Stage 1 or Stage 2) when there is no more uncertainty about the borrower’s capacity to honour its commitments.

When substantial restructuring takes place (*e.g.* the conversion of all or part of a loan into an equity instrument), the new instruments are recognised at fair value. The difference between the derecognised loan’s carrying amount (or part of the loan) and the fair value of the assets received in exchange is recognised in the income statement under “Cost of credit risk”. Any previously recorded loan impairment charges are adjusted. It is reversed in full if the loan is fully converted into new assets.

Fees and commissions

Costs directly relating to the implementation of loans include external costs, primarily consisting in commissions paid to third parties, such as those paid to business introducers.

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 *prorata 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.

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.

The First-In, First-Out (FIFO) method is applied to any partial disposals of investments, except in special cases.

For reverse repurchase transactions, a financing commitment given is recognised between the transaction date and the settlement-delivery date.

5.5.1 Securities at amortised cost

in millions of euros	31/12/2019	31/12/2018
Treasury bills and similar securities	0.2	0.4
Bonds and other debt securities	442.1	452.4
Impairment for expected credit losses	(23.0)	(6.4)
TOTAL SECURITIES AT AMORTISED COST	**419.3**	**446.4**

The fair value of securities is presented under Note 9 “Fair value of financial assets and liabilities”. The breakdown of outstanding amounts and impairment for credit losses by stage is presented under Note 7.1 “Credit risk”.

5.5.2 Loans and advances due from credit institutions at amortised cost

in millions of euros	31/12/2019	31/12/2018
Current accounts with overdrafts	30.6	14.2
Repurchase agreements	0.0	0.0
Accounts and loans*	2,533.9	3,766.6
Other loans and advances due from credit institutions	1.7	2.5
Security deposits paid	3.3	2.5
Impairment for expected credit losses	(0.2)	(0.4)
TOTAL	**2,569.3**	**3,785.4**

** Livret A, LDD and LEP savings accounts centralised with Caisse des dépôts et consignations and recorded under "Accounts and loans" amounted to €239.1 million at 31 December 2019, versus €247.3 million at 1 December 2018.*

The fair value of loans and advances due from credit institutions is presented in Note 9 "Fair value of financial assets and liabilities".

5.5.3 Loans and advances due from customers at amortised cost

in millions of euros	31/12/2019	31/12/2018
Current accounts with overdrafts	**617.4**	**565.0**
Other facilities granted to customers	**9,414.1**	**8,797.7**
• Short-term loans	1,639.5	1,507.5
• Equipment loans	2,455.9	2,207.8
• Home loans	2,588.6	2,366.7
• Export loans	75.9	90.5
• Subordinated loans	0.1	0.1
• Other loans	2,654.0	2,624.9
Other loans and advances due from customers	**2.3**	**3.3**
Security deposits paid	**3.1**	**2.9**
GROSS LOANS AND ADVANCES DUE FROM CUSTOMERS	**10,036.8**	**9,368.9**
Impairment for expected credit losses	(322.1)	(360.8)
TOTAL	**9,714.7**	**9,008.1**

The fair value of loans and advances due from customers is presented in Note 9 "Fair value of financial assets and liabilities".

5.6 Reclassification of financial assets

Accounting principles

Reclassifications of financial assets under IFRS 9 are more limited than under IAS 39. It is no longer possible to reclassify a security at amortised cost in the case of simple market illiquidity. A reclassification is only possible where the management model has changed due to a strategic decision of the management. As a result, this scenario is very infrequent (for example: sale of a business segment resulting in winding up the assets concerned, restructuring of activity, etc.).

In this case, the reclassification is forward-looking and does not involve any redefinition affecting prior periods.

Banque Palatine did not reclassify any financial assets in 2019.

5.7 Accrued income and other assets

in millions of euros	31/12/2019	31/12/2018
Collection accounts	20.2	19.2
Prepaid expenses	2.4	2.9
Accrued income	13.2	18.7
Other accrual accounts	43.3	46.4
ACCRUAL ACCOUNTS – ASSETS	**79.1**	**87.2**
Guarantee deposits in respect of GF	4.3	4.1
Guarantee deposits in respect of SRF	3.0	2.4
Miscellaneous debtors	14.8	13.6
SUNDRY ASSETS	**22.1**	**20.1**
TOTAL ACCRUED INCOME AND SUNDRY ASSETS	**101.2**	**107.3**

The “Collection accounts” line mainly includes checks sent for collection (*via* the Clearing House), as well as the expected Dailly receivables awaiting settlement.

“Other accrual accounts” mainly include pending transactions in the management modules.

5.8 Non-current assets held for sale and related liabilities

Accounting principles

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 IFRS 9.

A non-current asset (or group of assets) is held for sale when its carrying amount is recovered through a sale transaction. This asset (or group of assets) must be available immediately for sale and it must be highly probable that the sale will occur within twelve months.

These assets do not apply to Banque Palatine.

5.9 Investment property

Accounting principles

In accordance with IAS 40, investment property is property held to earn rentals or for capital appreciation, or both.

The accounting treatment of investment property is identical to that of property, plant and equipment for Group entities, with the exception of certain insurance entities that recognise their buildings representing insurance investments at fair value with recognition of the change in income. Fair value is based on a multi-criteria approach where rents are capitalised at market rates and compared with the transaction market.

The fair value of the Group’s investment property is reported on the basis of the results of regular appraisals, except in special cases significantly affecting the value of the property.

Leased property may have a residual value deducted from the depreciable base.

Gains or losses on the sale of investment property are recorded in the income statement under “Net income or expenses from other activities”, with the exception of insurance activities classified as “Income from insurance activities”.

	31/12/2019			31/12/2018		
in millions of euros	Gross	Accumulated depreciation and impairment	Net	Gross	Accumulated depreciation and impairment	Net
Property recognised at fair value	///	///		///	///	
Property recognised at historical cost	0.4	(0.1)	0.3	0.5	(0.1)	0.4
TOTAL INVESTMENT PROPERTY	**0.4**	**(0.1)**	**0.3**	**0.5**	**(0.1)**	**0.4**

The fair value of investment property is classified in Level 3 of the fair value hierarchy of IFRS 13.

5.10 Non-current assets

Accounting principles

This item includes operating property, plant and equipment, movable assets acquired with a view to an operating lease, non-current assets acquired under finance leases and movable assets temporarily not rented under a finance lease. Real estate company (French SCI) investments are treated as property, plant and equipment.

In accordance with IAS 16 and IAS 38, property, plant and equipment and intangible assets are recognised as assets only if they meet the following criteria:

- it is probable that the future economic benefits associated with the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Property, plant and equipment and intangible assets used in operations are initially recognised at cost plus any directly attributable acquisition costs. Internally developed software that satisfies the criteria for recognition as a non-current asset is recognised at its production cost, which includes external charges and the payroll costs of employees directly assigned to the project.

The component-based approach is applied to all buildings.

After initial recognition, non-current assets are measured at cost less any accumulated depreciation, amortisation and impairment. The depreciable amount of the asset takes account of its residual value where this is material and can be measured reliably.

Property, plant and equipment and intangible assets are depreciated or amortised in a manner reflecting the pattern in which the asset's expected economic benefits are consumed, which generally corresponds to the asset's useful life. Where an asset consists of a number of components that have different uses or economic benefits, each component is recognised separately and depreciated over a period that reflects the useful life of that component.

The depreciation and amortisation periods used by the Group are as follows:

- 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.

Assets under operating leases are presented on the assets side of the balance sheet as property, plant and equipment in the case of movable assets.

	31/12/2019			31/12/2018		
in millions of euros	Gross	Accumulated depreciation and impairment	Net	Gross	Accumulated depreciation and impairment	Net
PROPERTY, PLANT AND EQUIPMENT						
• Land and buildings	11.9	(9.3)	2.6	18.7	(15.3)	3.4
• Equipment, furniture and other property, plant and equipment	36.6	(24.0)	12.6	34.9	(23.8)	11.1
Rights of use under leases*	**42.4**	**(7.2)**	**35.2**	**0.0**	**0.0**	**0.0**
On real estate properties	42.4	(5.1)	29.2	0.0	0.0	0.0
TOTAL PROPERTY, PLANT AND EQUIPMENT	**90.9**	**(40.6)**	**50.3**	**53.6**	**(39.1)**	**14.5**
INTANGIBLE ASSETS						
• Leasehold rights	9.1	(1.4)	7.6	11.6	(1.4)	10.2
• Software	42.0	(40.6)	1.4	42.0	(40.2)	1.8
• Other intangible assets	0.1	(0.0)	0.1	0.3	(0.1)	0.2
TOTAL INTANGIBLE ASSETS	**51.1**	**42.0**	**9.1**	**53.9**	**(41.7)**	**12.2**

** Information at 31 December 2018 has not been restated for the impacts of the first-time application of IFRS 16 "Leases", in accordance with the option offered by this standard.*

5.11 Debt securities

Accounting principles

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".

Debt securities are classified based on the nature of the underlying, except for subordinated notes presented under "Subordinated debt".

Investments are recorded on the balance sheet on the settlement/delivery date.

The First-In, First-Out (FIFO) method is applied to any partial disposals of investments, except in special cases.

A new category of liabilities eligible for the TLAC numerator (Total Loss Absorbing Capacity requirement) was introduced by French law and is commonly referred to as "senior non-preferred". These liabilities have an intermediate rank between equity and other debts known as "senior preferred".

in millions of euros	31/12/2019	31/12/2018
Interbank market instruments and negotiable debt securities	2,218.1	3,023.0
TOTAL	**2,218.1**	**3,023.0**
Accrued interest	(1.2)	(2.4)
TOTAL DEBT SECURITIES	**2,216.9**	**3,020.6**

The fair value of debt securities is presented in Note 9 "Fair value of financial assets and liabilities".

5.12 Amounts due to credit institutions and to customers

Accounting principles

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".

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".

Securities lending transactions are recognised on the settlement-delivery date.

For securities repurchase agreements, a financing commitment received is recognised between the transaction date and the settlement date when said transactions are recognised as "Liabilities".

5.12.1 Amounts due to credit institutions and similar items

in millions of euros	31/12/2019	31/12/2018
Demand accounts	10.1	37.5
Repurchase agreements	0.0	0.0
Accrued interest	0.0	0.0
DEMAND ACCOUNT LIABILITIES TO CREDIT INSTITUTIONS AND SIMILAR INSTITUTIONS	**10.1**	**37.5**
Term deposits and loans	1,311.4	1,575.5
Repurchase agreements	0.0	5.0
Accrued interest	(8.1)	(4.3)
TERM LIABILITIES TO CREDIT INSTITUTIONS AND SIMILAR INSTITUTIONS	**1,303.3**	**1,576.2**
TOTAL AMOUNTS DUE TO CREDIT INSTITUTIONS	**1,313.3**	**1,613.8**

The fair value of amounts due to credit institutions is presented in Note 9 "Fair value of financial assets and liabilities".

5.12.2 Amounts due to customers

in millions of euros	31/12/2019	31/12/2018
Current accounts in credit	**7,590.5**	**7,411.1**
Livret A savings accounts	184.9	181.1
Regulated home savings products	206.6	214.7
Other regulated savings accounts	853.5	748.0
Regulated savings accounts	**1,245.0**	**1,143.8**
Demand accounts and loans	14.3	9.5
Term accounts and loans	642.2	576.1
Accrued interest	0.7	0.9
Other customer accounts	**657.1**	**586.6**
Guarantee deposits received	0.2	0.2
TOTAL AMOUNTS DUE TO CUSTOMERS	**9,492.9**	**9,141.7**

The fair value of amounts due to customers is presented in Note 9 “Fair value of financial assets and liabilities”.

5.13 Accrued expenses and other liabilities

in millions of euros	31/12/2019	31/12/2018
Collection accounts	44.6	23.0
Prepaid income	3.0	3.6
Accrued expenses	81.6	59.2
Other accrual accounts	11.1	18.0
ACCRUAL ACCOUNTS – LIABILITIES	**140.3**	**103.8**
Settlement accounts in credit on securities transactions	0.3	0.2
Sundry creditors	23.4	23.2
Rental liabilities(1)	34.6	0.0
OTHER LIABILITIES	**58.3**	**23.4**
TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES	**198.5**	**127.2**

(1) Information at 31 December 2018 has not been restated for the impacts of the first-time application of IFRS 16 “Leases”, in accordance with the option offered by this standard. The impacts of the first-time application of IFRS 16 on the balance sheet at 1 January 2018 (rental liabilities recorded under lease agreements) are presented in Note 2.2.

The “Collection accounts” line mainly includes transfers made (*via* the Clearing House), as well as deductions from promissory notes in the statement.

The “Accrued expenses” line is impacted by the increase in expenses mainly stemming from the migration of the IT system to the IBP platform.

5.14 Provisions

Accounting principles

Provisions other than those relating to employee benefit obligations and similar items, 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 (other than income tax).

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 outstanding:

- 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 recognised in interest income and expense.

Provisions are broken down in the table of changes below, with the exception of provisions for expected credit losses on financing and guarantee commitments, which are shown in Note 7 "Exposure to risks".

in millions of euros	31/12/2018	Increase	Use	Unused reversals	Other changes[1]	31/12/2019
Provisions for employee benefit obligations	21.8	1.1	0.0	(10.9)	0.8	12.8
Legal and tax risks	6.7	2.0	(2.0)	(1.1)	0.0	5.6
Loan and guarantee commitments	37.9	13.1	0.0	(6.7)	0.0	44.2
Provisions for regulated home savings products	2.5	0.0	0.0	(0.2)	0.0	2.3
Other operating provisions	4.6	0.6	0.0	(1.5)	0.0	3.7
TOTAL PROVISIONS	**73.4**	**16.8**	**(2.0)**	**(20.4)**	**0.8**	**68.6**

(1) Other changes mainly correspond to changes in actuarial liabilities on employee benefit obligations (€0.7 million).

5.14.1 Deposits collected *via* regulated home savings products

in millions of euros	31/12/2019	31/12/2018
Deposits held in PEL regulated home savings plans		
• plans in place for less than 4 years	5.9	16.4
• plans in place for more than 4, but less than 10 years	79.5	99.1
• plans in place for more than 10 years	101.0	85.4
Deposits collected *via* PEL regulated home savings plans	**186.4**	**200.9**
Deposits collected *via* CEL regulated home savings accounts	**17.3**	**16.9**
TOTAL DEPOSITS COLLECTED *VIA* REGULATED HOME SAVINGS PRODUCTS	**203.8**	**217.9**

5.14.2 Loans granted *via* home savings products

in millions of euros	31/12/2019	31/12/2018
Loans granted under CEL regulated home savings accounts	0.1	0.1
TOTAL LOANS GRANTED *VIA* HOME SAVINGS PRODUCTS	**0.1**	**0.1**

5.14.3 Provisions set aside for regulated home savings products

in millions of euros	31/12/2019	31/12/2018
Provisions for PEL regulated home savings plans		
• plans in place for less than 4 years	0.0	0.3
• plans in place for more than 4, but less than 10 years	0.4	0.5
• plans in place for more than 10 years	1.8	1.5
Provisions for PEL regulated home savings plans	**2.2**	**2.3**
Provisions for CEL regulated home savings accounts	**0.1**	**0.2**
TOTAL PROVISIONS SET ASIDE FOR REGULATED HOME SAVINGS PRODUCTS	**2.3**	**2.5**

5.15 Subordinated debt

Accounting principles

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 using the effective interest method.

in millions of euros	31/12/2019	31/12/2018
Term subordinated debt	200.0	200.0
SUBORDINATED DEBT AND SIMILAR ITEMS	**200.0**	**200.0**
Accrued interest	0.2	0.2
SUBORDINATED DEBT AT AMORTISED COST	**200.2**	**200.2**
TOTAL SUBORDINATED DEBT	**200.2**	**200.2**

The fair value of subordinated debt is presented in Note 9 “Fair value of financial assets and liabilities”.

Changes in subordinated debt over the year:

in millions of euros	31/12/2018	Issue	Repayment	Other changes	31/12/2019
Term subordinated debt	200.0	0.0	0.0	0.0	200.0
SUBORDINATED DEBT AT AMORTISED COST	**200.0**	**0.0**	**0.0**	**0.0**	**200,0**
SUBORDINATED DEBT AND SIMILAR ITEMS	**200.0**	**0.0**	**0.0**	**0.0**	**200.0**

Deeply subordinated notes classified as equity instruments are presented in Note 5.17.2 “Perpetual deeply subordinated notes classified as equity”.

5.16 Ordinary shares and equity instruments issued

Accounting principles

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 remuneration impacts shareholders’ equity. On the other hand, the tax impact on these distributions may be recognised, depending on the origin of the amounts, under consolidated reserves, gains and losses recognised directly under equity, or on the income statement, in accordance with the December 2017 amendment to IAS 12 applicable as of 1 January 2019. As such, when the distribution can be classified as dividends as defined by IFRS 9, the tax impact is recorded on the income statement. This provision applies to interest on issues of perpetual deeply subordinated notes considered dividends from an accounting perspective;
- 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.

5.16.1 Ordinary shares

in millions of euros	31/12/2019			31/12/2018		
	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
Capital increase	7,500,000	20	150.0			
Closing balance	**34,440,134**	**20**	**688.8**	**26,940,134**	**20**	**538.8**

In September 2019, Banque Palatine performed a €150 million capital increase, subscribed to in full by BPCE.

5.16.2 Perpetual deeply subordinated notes classified as equity

Issuing entity	Issue date	Currency	Amount *(in source currency)*	Date of redemption option	Date of interest step-up	Rate	Par value *(in millions of euros)* 31/12/2019	31/12/2018
BPCE	28/03/2018	EUR	100 million	28/03/2049	28/03/2023*	4.3%	100.0	100.0
TOTAL							**100.0**	**100.0**

** Date of interest step-up or of transition from fixed rate to variable rate.*

5.17 Non-controlling interests

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

5.18 Change in gains and losses recognised directly in equity

Accounting principles

If equity financial assets recognised in equity are sold, changes in fair value are not transferred to income. These are items that cannot be reclassified in income.

in millions of euros	FY 2019		
	Gross	Taxes	Net
Remeasurement of non-current assets			
Remeasurement (or actuarial gains and losses) in respect of defined-benefit plans	(0.7)	0.2	(0.5)
Other items recognised through equity of items that cannot be reclassified to net income	0.0	(0.1)	(0.1)
ITEMS THAT CANNOT BE RECLASSIFIED UNDER INCOME	**(0.7)**	**0.1**	**(0.6)**
Remeasurement of financial assets at fair value through recyclable equity	13.5	(3.5)	10.0
ITEMS THAT CAN BE RECLASSIFIED UNDER INCOME	**13.5**	**(3.5)**	**10.0**
GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY (AFTER TAX)	**12.7**	**(3.4)**	**9.3**
Attributable to equity holders of the parent	12.7	(3.4)	9.3
Non-controlling interests	0.0	0.0	0.0

5.19 Offsetting of financial assets and liabilities

Accounting principles

Financial assets and liabilities under netting agreements may only be offset for accounting purposes if they meet the strict offsetting criteria set out 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)”.

Pursuant to the IAS 32 rules on offsetting, the Palatine Group does not offset financial assets and liabilities on the balance sheet.

5.19.1 Financial assets

Impacts of netting agreements not taken into account for accounting purposes on financial assets

	31/12/2019				31/12/2018			
in millions of euros	Net amount of financial assets presented on the balance sheet	Associated financial liabilities and financial instruments received as collateral	Margin calls received (cash collateral)	Net exposure	Net amount of financial assets presented on the balance sheet	Associated financial liabilities and financial instruments received as collateral	Margin calls received (cash collateral)	Net exposure
Derivatives	156.8	15.4	2.3	7.3	22.0	19.2	1.8	1.0
TOTAL	**156.8**	**15.4**	**2.3**	**7.3**	**22.0**	**19.2**	**1.8**	**1.0**

Net exposure therefore does not reflect the accounting position, as it takes into account the reduction in exposure generated by agreements that do not meet the strict offsetting criteria under IAS 32.

5.19.2 Financial liabilities

Impact of netting agreements not taken into account for accounting purposes on financial liabilities

	31/12/2019				31/12/2018			
in millions of euros	Net amount of financial liabilities presented on the balance sheet	Associated financial assets and financial instruments granted as collateral	Margin calls paid (cash collateral)	Net exposure	Gross amount of financial assets	Gross amount of financial liabilities offset on the balance sheet	Margin calls paid (cash collateral)	Net exposure
Derivatives	192.3	15.4	3.0	91.5	83.8	19.2	52.2	12.5
Repurchase agreements	0.0	0.0	0.0	0.0	5.0	0.0	0.0	5.0
TOTAL	**192.3**	**15.4**	**3.0**	**91.5**	**88.8**	**19.2**	**52.2**	**17.5**

Net exposure therefore does not reflect the accounting position, as it takes into account the reduction in exposure generated by agreements that do not meet the strict offsetting criteria under IAS 32.

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

Accounting principles

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 debt is a financial liability recorded at amortised cost or at fair value through profit or loss when said liability is part of a transaction management model.

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 valued according to the methods specific to its category: amortised cost if it has been classified under "Loans and advances", or fair value through profit or loss if it falls under a transaction management model.

Outright securities lending

Outright 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 essentially expired. The Group considers substantial changes have arisen, including:

- 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 basic 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. The amendment to IFRS 9 dated 12 October 2017 clarified the treatment under IFRS 9 of changes in liabilities recognised at amortised cost, in the event that the change does not result in derecognition: the gain or loss resulting from the difference between the original cash flows and the modified cash flows discounted at the original effective interest rate should be recorded in profit or loss. To determine whether the amendment is of a substantive nature, IFRS 9 sets a threshold of 10% based on discounted cash flows including any potential costs and fees: if the difference is greater than or equal to 10%, all costs or fees incurred are recognised as profit or loss when the debt is extinguished.

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.

5.20.1 Financial assets transferred but not fully derecognised and other financial assets pledged as collateral

	Carrying amount				
in millions of euros	Loans of "outright" securities	Repos	Assets transferred or pledged as collateral	Securitisation	31/12/2019
Financial assets at fair value through equity	0.0	0.0	414.1	0.0	414.1
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**0.0**	**0.0**	**414.1**	**0.0**	**414.1**
o/w financial assets transferred but not fully derecognised	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***

Repurchase agreements

As at 31 December 2019, the Palatine Group had not entered into any repurchase agreements (*versus* €5 million at 31 December 2018).

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 2019, amounts pledged as collateral under funding arrangements only concerned advances provided to Banque de France under the TRICP system amounting to €414.1 million, compared to €406.7 million at 31 December 2018.

5.20.2 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 6 Commitments

Accounting principles

Commitments are characterised by the existence of a contractual obligation and are irrevocable.

The commitments that feature in this item should not qualify as financial instruments falling within the scope of IFRS 9 in terms of classification and measurement. However, the financing and guarantee commitments given are subject to the IFRS 9 provisioning rules as presented in Note 7.

The effects of the rights and obligations of these commitments are subject to the fulfilment of subsequent conditions or transactions. These commitments break down into:

- financing commitments (confirmed credit line or refinancing agreement);
- guarantee commitments (signed commitments or assets received as collateral).

The amounts disclosed represent the nominal value of commitments given.

6.1 Financing commitments

in millions of euros	31/12/2019	31/12/2018
Financing commitments given to:		
• credit institutions		
• from customers		
Confirmed credit lines	2,027.3	1,972.1
Other commitments	74.9	70.1
TOTAL FINANCING COMMITMENTS GIVEN	**2,102.2**	**2,042.2**
Financing commitments received:		
• from credit institutions	346.1	357.2
• from customers	0.0	0.0
TOTAL FINANCING COMMITMENTS RECEIVED	**346.1**	**357.2**

6.2 Guarantee commitments

in millions of euros	31/12/2019	31/12/2018
Guarantee commitments given to:		
• to credit institutions	49.3	54.5
• to customers	1,073.7	1,003.8
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,123.0**	**1,058.4**
Guarantee commitments received:		
• from credit institutions	255.3	203.9
• from customers	424.2	488.8
TOTAL GUARANTEE COMMITMENTS RECEIVED	**679.5**	**692.7**

Guarantee commitments are primarily off-balance sheet commitments.

The “securities pledged as collateral” are presented in Note 5.20 “Transferred financial assets, other financial assets pledged as collateral and assets received as collateral that may be sold or repledged”.

The “securities received as collateral” are presented in Note 5.20 “Transferred financial assets, other financial assets pledged as collateral and assets received as collateral that may be sold or repledged”.

Note 7 Exposure to risks

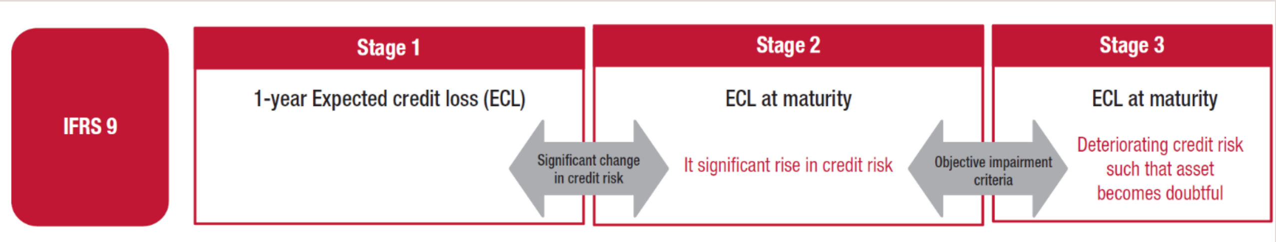
The risk exposures addressed below comprise credit risk, market risk, global interest rate risk, exchange rate risk and liquidity risk.

Information on capital management and regulatory ratios is presented in the “Risk management” section.

7.1 Credit risk

Overview

Credit risk is the risk that a party to a financial instrument will default on one of its obligations and thereby cause the other party to incur a financial loss.



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 Cost of credit risk

Accounting principles

The cost of risk relates to debt instruments classified as financial assets at amortised cost or financial assets at fair value through recyclable equity as well as to financing commitments and financial guarantee contracts not recognised at fair value through profit or loss. It also relates to receivables arising from lease agreements, trade receivables and contract assets.

This item thus covers the net cost of impairments and provisions made for credit risk.

Credit losses related to other types of instruments (derivatives or securities recognised at fair value through option) recorded after default by credit institutions are also included in this item.

Unrecoverable loans not covered by impairments are receivables that have acquired a definitive loss status prior to being the object of a provision in Stage 3.

Cost of credit risk for the period

in millions of euros	FY 2019	FY 2018
Net impairment losses and provisions	(48.3)	(38.3)
Recoveries of bad debts written off	2.8	2.2
Unrecoverable loans and receivables not covered by impairment losses	(3.5)	(5.3)
TOTAL COST OF CREDIT RISK	**(49.0)**	**(41.4)**

Cost of credit risk for the period by type of asset

in millions of euros	FY 2019	FY 2018
Interbank transactions	0.3	3.0
Customer transactions	(33.6)	(49.1)
Other financial assets	(15.7)	4.7
TOTAL COST OF CREDIT RISK	**(49.0)**	**(41.4)**

7.1.2 Change in gross carrying amounts and expected credit losses of financial assets and commitments

Accounting principles

Expected credit losses comprise impairment losses on assets at amortised cost and in fair value through equity, and provisions for financing and guarantee commitments.

From the date of initial recognition, the financial instruments concerned (see 7.1.1 "Cost of credit risk") are subject to an impairment or provision for expected credit losses (ECL).

Where there is no objective evidence of individual losses by financial instruments, the expected impairments or provisions for credit losses are measured on the basis of historical loss information and reasonable and justifiable forecasts of discounted future cash flows.

Financial instruments are divided into three categories (stages) according to the deterioration of credit risk observed since their initial recognition. Each loan category corresponds to a specific credit risk measurement method:

Stage 1 (or S1):

- these are performing loans where there is no significant increase in credit risk since the initial recognition of the financial instrument;
- an impairment or provision for credit risk corresponds to the credit losses expected at one year;
- interest income is recognised in income according to the effective interest method applied to the gross carrying amount of the instrument before impairment.

Stage 2 (or S2):

- performing loans where a significant increase in credit risk has been observed since the initial recognition of the financial instrument are transferred to this category;
- the impairment or provision for credit risk will then be calculated on the basis of expected credit losses over the residual life of the financial instrument (expected credit losses at maturity);
- interest income is recognised in income, as is this case for Stage 1 loans, according to the effective interest method applied to the gross carrying amount of the instrument before impairment.

Stage 3 (or S3):

- these are loans where there is objective evidence of impairment in relation to an event that characterises a proven credit risk and occurs after the initial recognition of the instrument concerned. This category covers, as under IAS 39, loans where a default event has been identified as defined in Article 178 of the European Regulation of 26 June 2013 on prudential requirements applicable to credit institutions;
- the impairment or provision for credit risk is calculated for the expected credit losses over the remaining useful life of the financial instrument (expected credit losses at maturity) on the basis of the recoverable amount of the loan, *i.e.* the discounted value of estimated recoverable future cash flows;
- interest income is recognised as income according to the effective interest method applied to the carrying amount of the instrument after impairment;
- also included in Stage 3 are financial assets acquired or created and impaired for credit risk upon initial recognition, the entity not expecting to fully recover contractual cash flows (purchased originated credit impaired or POCI). These assets can be transferred to Stage 2 in the event of an improvement of the credit risk.

For loans stemming from operating leases or financial leases that fall under IFRS 16, the Group has decided not to retain the option of applying the simplified method proposed by paragraph 5.5.15 of IFRS 9.

Methodology for measuring the deterioration of credit risk and expected credit losses

The principles for measuring the deterioration of credit risk and expected credit losses which are applicable to the vast majority of Group exposures are described below. Only BPCE International and some portfolios of Group institutions – corresponding to a limited volume of exposures – cannot be treated according to the methods described below and may be subject to *ad hoc* measurement techniques.

The significant increase in credit risk is 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 on the date of initial recognition. A counterparty approach (applying the contagion principle to all outstanding loans for the counterparty under consideration) is also possible, notably with regard to the Watch List qualitative criterion. NB: the contagion principle will not be applied to outstanding loans having just been originated which will therefore initially remain at Stage 1.

The assessment of the deterioration is based on a comparison of the probabilities of default or ratings upon the initial recognition of the financial instruments with those existing on the reporting date.

Moreover, according to the standard, there is a refutable presumption of a significant increase in the credit risk associated with a financial asset since its initial recognition where contractual payments are delayed by over 30 days.

In the vast majority of cases, the degree of risk degradation makes it possible to record a degradation to Stage 2 before the transaction is impaired individually (Stage 3).

Significant increase in credit risk

The evaluation of the significant increase in credit risk is carried out on the level of each instrument, on the basis of indicators and thresholds which vary depending on the nature of the exposure and the type of counterparty.

More specifically, the measurement of the change in credit risk is based on the following criteria:

- for the Individual Customers, Professionals, Small and Medium Enterprises, Public Sector and Social Housing portfolios: the measurement of credit risk degradation is based on a combination of quantitative and qualitative criteria. The quantitative criterion is based on the measurement of the change in the probability of default at one year (measured at average cycle) since initial recognition. The complementary qualitative criteria make it possible to classify in Stage 2 all contracts presenting payments past-due over 30 days (the presumption of payment 30-days-past-due is therefore not refuted), under sensitive rating, on a Watch List, or as being restructured due to financial difficulties (forbearance). For the individual customer portfolio, the Palatine Group does not benefit from the BPCE Group internal rating system. The process chosen is therefore based on qualitative criteria (past-dues, open incidents, Watch List contracts, forbearance) to differentiate between Stages 1 and 2. It uses a simplified matrix for calculating the probabilities of default;
- for the Large Corporates, Banks and Sovereign portfolios: the quantitative criterion is based on the level of variation of the rating since initial recognition. The same qualitative criteria as for Individual Customers, Professionals and Small and Medium Enterprises apply, as well as additional criteria depending on changes in sector rating and the level of country risk;

- for Specialised Finance: the criteria applied vary according to the characteristics of the exposures and the corresponding rating system. Exposures rated under the mechanism dedicated to large exposures are treated in the same way as Large Corporates; the other exposures are treated like Small and Medium Enterprises.

For all of these portfolios, the ratings on which the measurement of the risk degradation is based correspond to ratings from internal systems, when these are available, as well as to external ratings, notably in the absence of internal rating.

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 is applied to investment grade-rated debt securities held by Major Customers Banking.

Impairment for expected credit losses

Expected credit losses are defined as being an estimate of credit losses (*i.e.* the current value of any cash flow shortfall) weighted on the basis of the probability of such losses occurring during the expected useful life of the financial instruments. They care calculated individually for each case of exposure.

The expected credit losses of Stage 1 or Stage 2 financial instruments are measured on the basis of several parameters:

- expected cash flows over the useful life of the financial instrument, discounted at valuation date – these flows being determined according to the characteristics of the contract, its effective interest rate;
- loss given default (LGD);
- probability of default (PD), in the coming year in the case of Stage 1 financial instruments, and up to the maturity of the contract in the case of Stage 2 financial instruments.

The methodology developed relies on the existing concepts and devices used notably for the internal models developed in the framework of the calculation of regulatory capital requirements (Basel rules) and on the projection models used in the context of stress tests. Specific adjustments are made to comply with the specificities of IFRS 9:

- the goal of the IFRS 9 parameters is to estimate as accurately as possible the expected credit losses within an accounting provisioning framework, while the prudential parameters are prudently scaled within a regulatory framework. A number of the prudential margins applied to the prudential parameters are consequently restated;
- the IFRS 9 parameters must make it possible to estimate the expected credit losses up to the maturity of the contract, while the prudential parameters are defined in order to estimate expected 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 expected flows over the useful life of the financial instrument). The PD and LGD prudential parameters are therefore also adjusted according to these forecasts on the economic climate.

Inclusion of forward-looking information

The BPCE Group includes all forward-looking information both when estimating the significant increase in credit risk and when measuring the expected credit losses.

The figure for the expected credit losses is calculated on the basis of a weighted average of probable scenarios, taking past events into account, current circumstances and reasonable and justifiable forecasts regarding the economic climate.

Regarding the determination of the material increase of the credit risk, beyond the rules based on a comparison of the risk parameters between the date of initial recognition and the reporting date, this is completed using forward-looking information such as sector or geographical macro-economic parameters, liable to increase the size of the credit losses expected from certain exposure. So, the Group institutions assess the exposure considered with regard to the local and sector characteristics of their portfolio. The few portfolios not covered by the methodologies described above (non-material at the Group level) may also lead to valuations on the basis of this forward-looking information.

Regarding the expected credit losses measured, the adjustment of parameters according to the economic climate is based on the definition of three economic scenarios defined over a three-year period:

- the central scenario, in line with the scenario used in the context of the budget scenario;
- a pessimistic scenario, corresponding to less favourable macro-economic variables in the context of the central scenario;
- an optimistic scenario, corresponding to more favourable macro-economic variables in the context of the central scenario.

The variables defined in each of these scenarios allow the distortion of the PD and LGD parameters and the calculation of an expected credit loss for each of the economic scenarios. Forecasts of the parameters over periods greater than three years are based on the principle of a gradual return to their long-term average. The models used to distort the PD and LGD parameters are based on those developed under the stress tests mechanism for the sake of consistency. These economic scenarios are associated with probabilities of occurrence, ultimately allowing the calculation of a probable average loss used as the IFRS 9 impairment amount.

The weighting to be allocated to the expected credit losses calculated in each of the scenarios is defined as follows:

- 80% for the central scenario;
- 20% for the pessimistic scenario.

Primarily on the French market, the forecasts are defined using key macro-economic variables such as, for example, GDP and its component parts, the unemployment rate and interest rates.

The definition and review of these scenarios follow the same organisation and governance as the one used for the budget process, with an annual review based on proposals of the economic research team and validation by the Executive Management Committee. The probabilities of scenario occurrence are reviewed quarterly by the Group's Watch List and Provisions Committee. The parameters thus defined make it possible to evaluate the expected credit losses of all exposures, whether they belong to a scope certified through the internal method or one treated as standard for the calculation of risk-weighted assets.

The IFRS 9 parameter validation system is fully integrated into the model validation system already in place within the Group. The validation of the models therefore follows a review process involving an independent internal model validation unit, the review of this work at the Group Model Committee and the adoption of any recommendations issued by the validation unit.

Measurement of loans falling under Stage 3

Loans and advances are considered as impaired and falling under Stage 3 if the two following conditions are met:

- if there is objective evidence of impairment on an individual basis or on a portfolio basis: "triggering events" or "loss events" that characterise a counterparty risk and occur after the initial recognition of the loans concerned. Objective evidence of impairment is, notably, the existence of an amount past-due for at least three months or, independently of any past-due amount, with the identification of financial difficulties for the counterparty leading to the conclusion that all or part of the amounts due will not be recovered, or to recourse to litigation procedures;

- these events are likely to result in incurred credit losses, in other words, expected credit losses for which the probability of occurrence has become absolute.

Debt securities such as bonds or securities resulting from securitisation (ABS, CMBS, RMBS, cash CDO) are considered impaired and fall under Stage 3 when there is a proven counterparty risk.

The Group uses the same indicators of impairment for Stage 3 debt securities as those used for individually assessing the incurred impairment risk on loans and advances, irrespective of the portfolio to which the debt securities are ultimately allocated. For perpetual deeply subordinated notes meeting the definition of financial liabilities within the meaning of IAS 32, 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.

Impairment for expected credit losses of Stage 3 financial assets is calculated according to the difference between a loan's amortised cost and its recoverable amount, *i.e.* the discounted value of estimated recoverable future cash flows, whether the cash flows stem from the counterparty's business or from the activation of any collateral. For short-term assets (maturity of less than one year), there is no discounting of future cash flows. The impairment is calculated globally without distinction between interest and capital. Expected credit losses arising from off-balance sheet commitments in Stage 3 are taken into account through provisions recognised on the liability side of the balance sheet. It is calculated on the basis of the maturity schedules using collection histories for each category of loan.

For the purposes of the measurement of expected credit losses, estimates of expected cash flow shortfalls take into account assets pledged as collateral and other credit enhancements that form an integral part of the instrument's contractual terms and conditions and which the entity does not recognise separately.

Expected credit losses comprise impairment losses on assets at amortised cost and in fair value through equity, and provisions for financing and guarantee commitments

For debt instruments recognised on the balance sheet under financial assets at amortised cost, the impairments recorded correct the original item of the asset presented in the balance sheet for its net value (regardless of the asset's status: S1, S2 or S3). Impairment charges and reversals are recognised in the income statement under "Cost of credit risk".

For debt instruments recognised in the balance sheet as financial assets at fair value through equity, impairment losses are recognised as balance sheet liabilities at the level of recyclable equity, as the counterpart of the "Cost of credit risk" item in the income statement (regardless of the asset's status: S1, S2 or S3).

For financing and financial guarantee commitments given, provisions are recorded under "Provisions" on the liabilities side of the balance sheet (regardless of the status of the commitment given: S1, S2 or S3). Provision charges and reversals are recognised in the income statement under "Cost of credit risk".

7.1.2.1 Change in gross carrying amounts and expected credit losses of financial assets

Change in impairments for credit losses of financial assets through equity

	Stage 1		Stage 2		Stage 3		Total	
in millions of euros	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2019	**1,240.1**	**(0.1)**	**0.0**	**0.0**	**0.0**	**0.0**	**1,240.1**	**(0.1)**
New contracts originated or acquired	344.7	0.0	0.0	0.0	0.0	0.0	344.7	0.0
Variations connected to changes in credit risk parameters (excluding transfers)	(86.8)	0.0	0.0	0.0	0.0	0.0	(86.8)	0.0
Contracts redeemed in full or sold during the period	(337.1)	0.0	0.0	0.0	0.0	0.0	(337.1)	0.0
Other changes	54.0	0.0	0.0	0.0	0.0	0.0	54.0	0.0
BALANCE AT 31/12/2019	**1,214.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1,214.9**	**0.0**

Change in impairments for credit losses of debt securities at amortised cost

in millions of euros	Stage 1		Stage 2		Stage 3		Total	
	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2019	**416.1**	**(0.8)**	**30.8**	**(1.2)**	**6.0**	**(4.4)**	**452.8**	**(6.4)**
New contracts originated or acquired	29.1	(0.2)	0.0	0.0	0.0	0.0	29.1	(0.2)
Variations connected to changes in credit risk parameters (excluding transfers)	(1.1)	(1.0)	0.2	(4.7)	4.4	(9.8)	3.5	(15.5)
Contracts redeemed in full or sold during the period	(40.7)	0.0	(1.5)	0.0	0.0	0.0	(42.2)	0.0
Reclassification of financial assets	(7.1)	0.5	(2.7)	5.2	9.3	(6.8)	(0.5)	(1.0)
Transfers to S1	16.6	(0.0)	(16.8)	0.1	0.0	0.0	(0.2)	0.0
Transfers to S2	(23.6)	0.6	23.3	(0.6)	0.0	0.0	(0.3)	0.0
Transfers to S3	0.0	0.0	(9.2)	5.7	9.3	(6.8)	0.1	(1.1)
Changes in model	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	(7.2)	0.0	(0.5)	0.0	7.4	0.0	(0.4)	0.0
BALANCE AT 31/12/2019	**389.1**	**(1.4)**	**26.2**	**(0.6)**	**27.0**	**(21.0)**	**442.3**	**(23.0)**

Change in impairments for credit losses on loans and advances to credit institutions at amortised cost

in millions of euros	Stage 1		Stage 2		Stage 3		Total	
	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2019	**3,779.2**	**(0.0)**	**6.7**	**(0.4)**	**0.0**	**0.0**	**3,785.8**	**(0.4)**
New contracts originated or acquired	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Variations connected to changes in credit risk parameters (excluding transfers)	(1,212.5)	(0.1)	(4.2)	0.4	0.0	0.0	(1,216.7)	0.2
Contracts redeemed in full or sold during the period	(0.8)	0.0	0.0	0.0	0.0	0.0	(0.8)	0.0
Reclassification of financial assets	(0.3)	0.0	0.2	0.0	0.0	0.0	(0.1)	0.0
Transfers to S1	0.3	0.0	(0.4)	0.0	0.0	0.0	0.0	0.0
Transfers to S2	(0.7)	0.0	0.6	0.0	0.0	0.0	(0.1)	0.0
Transfers to S3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in model	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	1.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0
BALANCE AT 31/12/2019	**2,566.8**	**(0.2)**	**2.7**	**0.0**	**0.0**	**0.0**	**2,569.5**	**(0.2)**

Change in impairments for credit losses on loans and advances to customers at amortised cost

in millions of euros	Stage 1 Carrying amount	Stage 1 Impairment for expected credit losses	Stage 2 Carrying amount	Stage 2 Impairment for expected credit losses	Stage 3 Carrying amount	Stage 3 Impairment for expected credit losses	Total Carrying amount	Total Impairment for expected credit losses
BALANCE AT 01/01/2019	**8,142.9**	**(44.3)**	**713.4**	**(35.7)**	**512.6**	**(280.8)**	**9,368.9**	**(360.8)**
New contracts originated or acquired	1,800.0	(11.2)	3.1	0.0	0.0	0.0	1,803.1	(11.2)
Variations connected to changes in credit risk parameters (excluding transfers)	(419.5)	4.7	(249.5)	9.6	51.7	(37.7)	(617.2)	(23.4)
Contracts redeemed in full or sold during the period	(503.6)	0.7	(12.5)	0.1	(157.2)	72.2	(673.3)	73.0
Reduction in value (write-off)	0.0	0.0	0.0	0.0	(65.9)	57.9	(65.9)	57.9
Reclassification of financial assets	(291.9)	9.5	202.0	(8.2)	42.8	(13.0)	(47.1)	(11.7)
Transfers to S1	109.4	(0.7)	(110.7)	1.0	(6.6)	0.2	(7.9)	0.5
Transfers to S2	(337.4)	8.4	343.1	(13.8)	(4.7)	0.2	0.9	(5.3)
Transfers to S3	(63.9)	1.9	(30.3)	4.6	54.1	(13.3)	(40.1)	(6.9)
Other changes	(114.8)	0.0	329.8	1.1	53.4	(47.1)	268.3	(46.0)
BALANCE AT 31/12/2019	**8,613.1**	**(40.6)**	**986.3**	**(33.2)**	**437.4**	**(248.4)**	**10,036.8**	**(322.1)**

7.1.2.2 Change in gross carrying amounts and provisions for commitment losses

Change in provisions for credit losses of financing commitments given

in millions of euros	Stage 1 Carrying amount	Stage 1 Impairment for expected credit losses	Stage 2 Carrying amount	Stage 2 Impairment for expected credit losses	Stage 3 Carrying amount	Stage 3 Impairment for expected credit losses	Total Carrying amount	Total Impairment for expected credit losses
BALANCE AT 01/01/2019	**1,938.9**	**4.1**	**81.2**	**1.9**	**22.1**	**0.0**	**2,042.2**	**6.0**
New contracts originated or acquired	870.6	1.9	1.2	0.0	0.0	0.0	871.8	1.9
Variations connected to changes in credit risk parameters (excluding transfers)	(469.5)	(0.8)	(52.3)	(0.8)	12.4	2.6	(509.5)	1.0
Contracts redeemed in full or sold during the period	(350.0)	(0.1)	(15.8)	0.0	(14.7)	0.0	(380.5)	(0.1)
Reclassification of financial assets	2.9	(0.7)	(11.9)	0.7	0.2	(0.1)	(8.7)	(0.1)
Transfers to S1	37.0	0.1	(36.7)	(0.5)	(0.5)	0.0	(0.3)	(0.4)
Transfers to S2	(29.8)	(0.8)	26.8	1.3	(1.1)	(0.1)	(4.2)	0.4
Transfers to S3	(4.2)	0.0	(2.0)	0.0	1.9	0.0	(4.3)	0.0
Other changes	33.0	(0.2)	51.9	0.0	1.9	2.7	86.9	2.6
BALANCE AT 31/12/2019	**2,025.9**	**4.2**	**54.4**	**1.9**	**22.0**	**5.3**	**2,102.2**	**11.4**

Change in provisions for credit losses of guarantee commitments given

in millions of euros	Stage 1 Carrying amount	Stage 1 Impairment for expected credit losses	Stage 2 Carrying amount	Stage 2 Impairment for expected credit losses	Stage 3 Carrying amount	Stage 3 Impairment for expected credit losses	Total Carrying amount	Total Impairment for expected credit losses
BALANCE AT 01/01/2019	**934.8**	**2.4**	**70.7**	**6.2**	**52.9**	**23.3**	**1,058.4**	**31.8**
New contracts originated or acquired	406.0	1.1	0.1	0.0	0.0	0.0	406.0	1.1
Variations connected to changes in credit risk parameters (excluding transfers)	(182.2)	2.2	(10.5)	(0.4)	3.3	2.0	(189.4)	3.7
Contracts redeemed in full or sold during the period	(132.8)	(0.1)	(2.8)	(0.0)	(12.9)	(3.4)	(148.4)	(3.5)
Reclassification of financial assets	(24.3)	(2.7)	11.0	3.0	12.1	1.0	(1.2)	1.3
Transfers to S1	18.5	0.1	(18.8)	(0.7)	(0.3)	0.0	(0.6)	(0.6)
Transfers to S2	(30.3)	(2.3)	30.2	3.9	(0.4)	0.0	(0.5)	1.6
Transfers to S3	(12.5)	(0.5)	(0.4)	(0.1)	12.8	1.0	(0.1)	0.4
Other changes	(6.7)	0.1	4.7	(0.4)	(0.4)	(1.4)	(2.4)	(1.7)
BALANCE AT 31/12/2019	**994.8**	**3.0**	**73.1**	**8.4**	**55.0**	**21.4**	**1,123.0**	**32.9**

7.1.3 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.

7.1.4 Guarantees received on instruments impaired under IFRS 9

The table below shows the exposure of all of the Palatine Group's financial assets to credit risk and counterparty risk. The credit risk and counterparty risk exposure are calculated on the basis of the carrying amount of the financial assets without taking into account the impact of any unrecognised netting or collateral agreements.

in millions of euros	Maximum exposure to risk	Impairment	Maximum exposure net of impairment	Guarantees
Type of financial instrument impaired (S3)				
Debt securities at amortised cost	27.0	(21.0)	6.0	0.0
Loans and advances to customers at amortised cost	437.4	(248.4)	189.1	98.1
Financing commitments	22.0	5.3	16.7	0.0
Guarantee commitments	55.0	21.4	33.6	0.0
TOTAL	**541.5**	**(242.7)**	**245.4**	**98.1**

7.1.5 Guarantees received on instruments not subject to IFRS 9 impairment rules

in millions of euros	Maximum exposure to risk[1]	Guarantees
Financial assets at fair value through profit or loss		
Debt securities	19.4	0.0
Trading derivatives	154.7	0.0
TOTAL	**174.1**	**0.0**

(1) Balance sheet carrying amount.

7.1.6 Credit risk reduction mechanism: assets obtained by taking possession of collateral

The Palatine Group did not obtain any assets by taking possession of collateral.

7.1.7 Financial assets amended since the start of the year, whose impairment was calculated on the basis of expected credit losses at maturity at the start of the period

Accounting principles

Amended contracts are renegotiated, restructured or adjusted financial assets, whether or not in view of financial difficulties, which do not give rise to derecognition because the amendments made are not significant.

A profit or loss is recognised under "Cost of credit risk" 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.

Certain financial assets, whose impairment was calculated on the basis of expected credit losses at maturity, were amended since the start of the period. However, these financial assets are insignificant with regard to the balance sheet and the income statement.

7.1.8 Financial assets amended since their initial recognition, whose impairment was calculated on the basis of expected credit losses at maturity, and whose impairment was remeasured on the basis of expected credit losses at one year since the start of the period

Certain financial assets, whose impairment was calculated on the basis of expected credit losses at maturity, were amended since their initial recognition and their impairment was remeasured on the basis of expected credit losses at one year since the start of the period due to an improvement of their credit risk. However, these financial assets are insignificant with regard to the balance sheet.

7.1.9 Restructured loans

Adjustment in view of financial difficulties

	31/12/2019			31/12/2018		
in millions of euros	Loans and advances	Off-balance sheet commitments	Total	Loans and advances	Off-balance sheet commitments	Total
Impaired restructured loans	44.6	0.0	44.6	44.1	0.0	44.1
Performing restructured loans	26.0	0.0	26.0	8.9	0.0	8.9
TOTAL RESTRUCTURED LOANS	**70.6**	**0.0**	**70.6**	**53.0**	**0.0**	**53.0**
Impairment	**(28.5)**	**0.0**	**(28.5)**	**(28.3)**	**0.0**	**(28.3)**
Guarantees received	**15.6**	**0.0**	**15.6**	**12.2**	**0.0**	**12.2**

Analysis of gross loans

in millions of euros	31/12/2019 Loans and advances	31/12/2019 Off-balance sheet commitments	31/12/2019 Total	31/12/2018 Loans and advances	31/12/2018 Off-balance sheet commitments	31/12/2018 Total
Adjustments: amendments to the terms and conditions	37.3	0.0	37.3	6.2	0.0	6.2
Adjustments: refinancing	33.3	0.0	33.3	46.8	0.0	46.8
TOTAL RESTRUCTURED LOANS	**70.6**	**0.0**	**70.6**	**53.0**	**0.0**	**53.0**

Counterparty region

in millions of euros	31/12/2019 Loans and advances	31/12/2019 Off-balance sheet commitments	31/12/2019 Total	31/12/2018 Loans and advances	31/12/2018 Off-balance sheet commitments	31/12/2018 Total
France	70.6	0.0	70.6	53.0	0.0	53.0
Other countries	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL RESTRUCTURED LOANS	**70.6**	**0.0**	**70.6**	**53.0**	**0.0**	**53.0**

7.1.10 Assets reclassified as losses during the reporting period and still subject to implementation measures

Does not apply to the Banque Palatine Group.

7.1.11 Breakdown by risk category of financial instruments subject to calculation of expected credit losses pursuant to IFRS 9

Does not apply to the Banque Palatine Group.

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 information on the management of market risks required by IFRS 7, presented in the risk management report, breaks down as follows:

- the market risk measurement and monitoring framework;
- arrangements for monitoring market risks;
- banking law regarding the separation and regulation of banking activities and the Volcker rule;
- second-level controls for market risks;
- the work done in 2019.

7.3 Overall 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.

The disclosures relating to the management of liquidity risk required by IFRS 7 are set out in the risk management report: Pillar III, Balance sheet risk management.

Analysis by remaining term to maturity

The table below shows the amounts by contractual maturity date:

in millions of euros	No fixed maturity, non-standard	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Indeterminate	Total at 31/12/2019
Cash, central banks	0.0	305.9	0.0	0.0	0.0	0.0	0.0	305.9
Financial assets at fair value through profit or loss	302.4	0.0	0.0	0.0	0.0	0.0	0.0	302.4
Debt securities at fair value through equity	0.0	7.6	0.0	179.4	492.8	535.1	0.0	1,214.9
Shares and other equity instruments at fair value through equity	0.0	0.0	0.0	0.0	0.0	0.0	6.1	6.1
Hedging derivatives	2.1	0.0	0.0	0.0	0.0	0.0	0.0	2.1
Securities at amortised cost	1.2	0.0	0.0	94.0	273.6	50.4	0.0	419.3
Loans and advances due from credit institutions and similar items at amortised cost	0.0	1,575.1	201.4	495.5	291.8	5.6	0.0	2,569.4
Loans and advances due from customers at amortised cost	125.4	1,237.2	616.1	1,333.4	3,510.4	2,892.3	0.0	9,714.7
Remeasurement gains and losses on interest rate risk-hedged portfolios	7.0	0.0	0.0	0.0	0.0	0.0	0.0	7.0
FINANCIAL ASSETS BY MATURITY	**438.1**	**3,125.8**	**817.5**	**2,102.2**	**4,568.7**	**3,483.3**	**6.1**	**14,541.7**
Cash placed with central banks	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Financial liabilities at fair value through profit or loss	151.4	0.0	0.0	0.0	0.0	0.0	0.0	151.4
Hedging derivatives	49.8	0.0	0.0	0.0	0.0	0.0	0.0	49.8
Debt securities	0.0	66.6	485.5	1,591.7	37.8	35.3	0.0	2,216.9
Amounts due to credit institutions and similar items	6.1	227.6	126.7	298.5	652.8	1.7	0.0	1,313.3
Amounts due to customers	0.2	8,849.1	13.1	177.8	452.4	0.2	0.0	9,492.9
Subordinated debt	0.0	0.2	0.0	0.0	0.0	200.0	0.0	200.2
Remeasurement gains and losses on interest rate risk-hedged portfolios	1.3	0.0	0.0	0.0	0.0	0.0	0.0	1.3
FINANCIAL LIABILITIES BY MATURITY	**208.9**	**9,143.5**	**625.3**	**2,068.0**	**1,143.0**	**237.2**	**0.0**	**13,425.9**
Financing commitments given to credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing commitments given to customers	22.0	307.2	102.7	16.8	1,653.6	0.0	0.0	2,102.2
TOTAL FINANCING COMMITMENTS GIVEN	**22.0**	**307.2**	**102.7**	**16.8**	**1,653.6**	**0.0**	**0.0**	**2,102.2**
Guarantee commitments given to credit institutions	0.0	2.4	1.3	4.2	0.8	0.0	0.0	8.7
Guarantee commitments given to customers	55.0	22.0	19.4	108.9	707.5	160.9	0.0	1,073.7
TOTAL GUARANTEE COMMITMENTS GIVEN	**55.0**	**24.4**	**20.7**	**113.1**	**708.2**	**160.9**	**0.0**	**1,082.4**
Guarantee commitments given to credit institutions	0.0	21.0	7.1	11.3	1.2	0.0	0.0	40.6
TOTAL OTHER AMOUNTS PLEDGED AS COLLATERAL	**0.0**	**21.0**	**7.1**	**11.3**	**1.2**	**0.0**	**60.0**	**40.6**

These financial instruments are:

- either held for sale or redeemed prior to their contractual maturity;
- or held for sale or redeemed at an indeterminable date (particularly where they have no contractual maturity);
- or measured on the balance sheet for an amount impacted by remeasurement effects.

Accrued interest not yet due is shown in the “Less than 1 month” column.

The amounts shown are contractual amounts excluding projected interest.

Note 8 Employee benefits

Accounting principles

Employee benefits are classified in four categories:

- the short-term employee benefits, such as salaries, paid annual leave, bonuses, incentive schemes and profit-sharing which are expected to be settled within twelve months of the end of the period and relating to said period, are recognised as expenses;
- the post-employment benefits for retired employees break down into two categories: defined-contribution plans and defined-benefit plans:

  Defined-contribution plans such as the French national plans are those for which the Group’s obligations are limited only to the payment of a contribution and do not include any employer obligation regarding a benefit level. Contributions paid under these plans are recognised as expenses for the year.

  Post-employment defined-benefit plans refer to plans for which the Group has committed to providing an amount or level of benefits.

  A provision is made for defined-benefit plans, which is determined on the basis of an actuarial valuation of the commitment taking into account demographic and financial assumptions. When these plans are financed by external funds that meet the definition of plan assets, the provision is reduced by the fair value of said assets.

  The cost of defined benefit plans recognised as expenses for the period includes: the cost of services rendered (representative of the rights acquired by the beneficiaries during the period), the cost of past service (revaluation difference of the actuarial debt following an amendment or reduction of the plan), the net financial cost (accretion effect of the commitment net of the interest income generated by the hedging assets) and the effect of plan liquidations.

  Actuarial debt remeasurement differences related to changes in demographic and financial assumptions and to experience adjustments are recorded in gains and losses recognised directly in non-recyclable equity in net income;
- other long-term benefits include benefits paid to active employees and payable more than twelve months after the end of the period. They notably comprise long-service awards and deferred variable remuneration paid in cash and not indexed.

  They are measured using an actuarial method identical to that used for defined-benefit post-employment benefits. The way they are recognised differs for actuarial debt remeasurement differences, which are recognised as expenses;
- termination benefits are granted to employees on termination of their employment contract prior to their retirement date, whether as a result of redundancy or a decision by an employee to terminate a contract in exchange for a severance payment. A provision is made for them. Termination benefits not expected to be settled within the 12 months of the reporting date are discounted.

8.1 Payroll costs

Payroll costs include all personnel costs and related social and tax charges.

in millions of euros	FY 2019	FY 2018
Wages and salaries	(74.9)	(74.4)
including expenses represented by equity-based payments	0.0	0.0
Defined-contribution and defined-benefit plan expenses	(9.3)	(7.1)
Other tax and social security charges(1)	(44.2)	(41.1)
Profit-sharing and incentive plans	(7.8)	(10.8)
TOTAL PAYROLL COSTS	**(136.2)**	**(133.4)**

(1) The Employment Competitiveness Tax Credit (CICE) applied as a deduction from payroll costs totals €1 million for 2018. This was removed and converted into a reduction in social security charges on 1 January 2019.

The Group’s average headcount during the year, broken down by professional category, was as follows: 846 managers and 437 non-managers, representing a total of 1,283 employees.

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

8.2 Employee benefit obligations

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.

8.2.1 Analysis of employee-related assets and liabilities recorded on the balance sheet

in millions of euros	Post-employment benefits under defined-benefit plans		Other long-term benefits			
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Other long-term benefits	31/12/2019	31/12/2018
Actuarial liabilities	0.5	3.5	2.5	6.3	12.8	21.8
Asset cap effect	0.0	0.0	0.0	0.0	0.0	0.0
Net amount reported on the balance sheet	**0.5**	**3.5**	**2.5**	**6.3**	**12.8**	**21.8**
Employee benefits, liabilities	0.5	3.5	2.5	6.3	12.8	21.8
Employee benefits, assets	0.0	0.0	0.0	0.0	0.0	0.0

In 2019, Banque Palatine launched a project concerning the outsourcing of the management of termination benefits by entrusting an insurer with its €10.9 million-provision.

8.2.2 Change in amounts recognised on the balance sheet

Change in actuarial liabilities

in millions of euros	Post-employment benefits under defined-benefit plans		Other long-term benefits			
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Other long-term benefits	FY 2019	FY 2018
Actuarial liabilities at start of year	**0.5**	**13.5**	**2.3**	**5.6**	**21.8**	**24.2**
Service cost	0.0	0.8	0.3	0.0	1.1	1.2
Interest cost	0.0	0.2	0.1	0.0	0.3	0.2
Benefits paid	0.0	(0.8)	(0.2)	0.0	(1.0)	(2.1)
Other	0.0	(10.9)	0.0	0.7	(10.2)	(0.7)
Remeasurement gains and losses – Demographic assumptions	0.0	(0.7)	0.0	0.0	(0.7)	(0.3)
Remeasurement gains and losses – Financial assumptions	0.0	1.5	0.0	0.0	1.5	(0.4)
Remeasurement gains and losses – Experience adjustments	0.0	(0.1)	0.0	0.0	(0.1)	(0.4)
ACTUARIAL LIABILITIES AT END OF PERIOD	**0.5**	**3.5**	**2.5**	**6.3**	**12.8**	**21.8**

8.2.3 Cost of defined-benefit plans and other long-term employee benefits

Expenses for defined-benefit plans and other long-term employee benefits

in millions of euros	Post-employment benefits under defined-benefit plans		Post-employment benefits under defined-benefit plans	Other long-term benefits		Other long-term benefits	FY 2019	FY 2018
	Supplementary pension benefits and other	Termination benefits		Long-service awards	Other long-term benefits			
Service cost		0.8	0.8	0.3	0.0	0.3	1.1	1.2
Net financial cost		0.2	0.2	0.1	0.0	0.1	0.3	0.2
Benefits paid		(0.8)	(0.8)	(0.2)	0.0	(0.2)	(1.0)	(2.1)
Other (including income ceiling)		(10.9)	(10.9)	0.0	0.7	0.7	(10.2)	(0.7)
TOTAL EXPENSE FOR THE PERIOD		**(10.7)**	**(10.7)**	**0.2**	**0.7**	**0.9**	**(9.8)**	**(1.3)**

Gains and losses recognised directly in equity of defined-benefit plans

in millions of euros	Supplementary pension benefits and other	Termination benefits	FY 2019	FY 2018
Cumulative remeasurement gains and losses at start of period	**(0.7)**	**2.9**	**2.2**	**3.4**
Remeasurement gains and losses in reporting period		0.7	0.7	(1.2)
CUMULATIVE REMEASUREMENT GAINS AND LOSSES AT END OF PERIOD (PRE-TAX)	**(0.7)**	**3.6**	**2.9**	**2.2**

8.2.4 Other information

Main actuarial assumptions

	31/12/2019	31/12/2018
	CGP-CE	CAR-BP
Discount rate	0.65%	1.66%
Inflation rate	1.52%	1.52%
Life tables used	INSEE (TH 00-02 and TF 00-002)	INSEE (TH 00-02 and TF 00-002)

The 0.65% rate corresponds to that taken from the composite AA Bloomberg EUR curve for 15-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 Act of August 2003).

Sensitivity of actuarial liabilities to changes in key assumptions

At 31 December 2019, a 1% change in the discount rate would have the following impact on actuarial liabilities:

in millions of euros	End-of-career benefits	Long-service awards	End-of-career benefits healthcare
Discount rate	0.65%	0.65%	0.65%
Central scenario	3.5	2.5	0.5
1% increase	3.2	2.3	0.5
1% decrease	3.8	2.6	0.6

Note 9 Fair value of financial assets and liabilities

Overview

The purpose of this Note is to present the principles used to measure the fair value of financial instruments as defined by IFRS 13 "Fair Value Measurement" and to specify certain valuation methods used by BPCE Group entities to determine the fair value of their financial instruments.

Financial assets and liabilities are measured on the balance sheet either at fair value or at amortised cost. An indication of the fair value of the items measured at amortised cost is however presented in the appendix.

For instruments traded in an active market subject to quoted prices, the fair value is equal to the quoted price, which corresponds to Level 1 in the hierarchy of fair value levels.

For other types of financial instruments, which are not quoted on an active market, including loans, borrowings and derivatives traded on over-the-counter markets, the fair value is determined using valuation techniques favouring market models and observable data, which corresponds to Level 2 in the hierarchy of fair value levels. Otherwise, in the case where internal data or proprietary models are used (Level 3 fair value), independent controls are put in place to validate the valuation.

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 in particular for derivatives an assessment of counterparty risk (or CVA – Credit Variation 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 as it is rarely possible to exit;
- 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 9.1.3 "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 (securities)

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.

9.1 Fair value of financial assets and liabilities

9.1.1 Fair value hierarchy of financial assets and liabilities

The following statement provides a breakdown of financial instruments by type of price and valuation model:

	31/12/2019			
in millions of euros	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using unobservable inputs (Level 3)	Total
FINANCIAL ASSETS				
Debt instruments	0.0	128.3	0.0	128.3
Loans due from credit institutions and customers	*0.0*	*128.3*	*0.0*	*128.3*
Derivatives	0.0	72.5	0.0	72.5
Interest-rate derivatives	*0.0*	*16.0*	*0.0*	*16.0*
Currency derivatives	*0.0*	*56.5*	*0.0*	*56.5*
Financial assets at fair value through profit or loss – Held for trading	**0.0**	**200.8**	**0.0**	**200.9**
Derivatives	0.0	82.2	0.0	82.2
Interest-rate derivatives	*0.0*	*66.5*	*0.0*	*66.5*
Currency derivatives	*0.0*	*15.6*	*0.0*	*15.6*
Financial assets at fair value through profit or loss – Economic hedging	**0.0**	**82.2**	**0.0**	**82.2**
Debt instruments	0.2	14.4	4.8	19.4
Debt securities	*0.2*	*14.4*	*4.8*	*19.4*
Financial assets at fair value through profit or loss – Non-standard	**0.2**	**14.4**	**4.8**	**19.4**
Debt instruments	1,214.9	0.0	0.0	1,214.9
Loans due from credit institutions and customers	*0.0*	*0.0*	*0.0*	*0.0*
Debt securities	*1,214.9*	*0.0*	*0.0*	*1,214.9*
Equity instruments	0.0	3.1	3.1	6.1
Shares and other equity securities	*0.0*	*3.1*	*3.1*	*6.1*
Financial assets at fair value through equity	**1,214.9**	**3.1**	**3.1**	**1,221.0**
Interest-rate derivatives	0.0	2.1	0.0	2.1
Hedging derivatives	**0.0**	**2.1**	**0.0**	**2.1**

in millions of euros	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using unobservable inputs (Level 3)	Total
FINANCIAL LIABILITIES				
Derivatives	0.0	73.4	0.0	73.4
Interest-rate derivatives	*0.0*	*18.2*	*0.0*	*18.2*
Currency derivatives	*0.0*	*55.2*	*0.0*	*55.2*
Other financial liabilities	0.0	9.0	0.0	9.0
Financial liabilities at fair value through profit or loss – Held for trading	**0.0**	**82.4**	**0.0**	**82.4**
Derivatives	0.0	69.0	0.0	69.0
Interest-rate derivatives	*0.0*	*53.5*	*0.0*	*53.5*
Currency derivatives	*0.0*	*15.6*	*0.0*	*15.6*
Financial liabilities at fair value through profit or loss – Economic hedging	**0.0**	**69.0**	**0.0**	**69.0**
Interest-rate derivatives	*0.0*	*49.8*	*0.0*	*49.8*
Hedging derivatives	**0.0**	**49.8**	**0.0**	**49.8**

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

			Gains and losses recognised during the period			Management events during the period		Transfers of the period			
			In the income statement								
in millions of euros	01/01/2019	Reclassi-fications	On transactions still outstanding at the reporting date	On transactions no longer in the balance sheet at the reporting date	In equity	Purchases/ Issues	Sales/ Redemptions	To another accounting category	From and to another level	Other changes	31/12/2019
FINANCIAL ASSETS											
Debt securities	*4.6*		*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*4.8*
Financial assets at fair value through profit or loss – Non-standard	**4.6**		**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**4.8**
Debt instruments	0.1		0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans due from credit institutions and customers	*0.1*		*0.0*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Equity instruments	3.1		0.0	0.0	0.0	3.0	0.0	(3.1)	0.0	0.0	3.1
Shares and other equity securities	*3.1*		*0.0*	*0.0*	*0.0*	*3.0*	*0.0*	*(3.1)*	*0.0*	*0.0*	*3.1*
Financial assets at fair value through equity	**3.2**		**0.0**	**(0.1)**	**0.0**	**3.0**	**0.0**	**(3.1)**	**0.0**	**0.0**	**3.1**

9.1.3 Analysis of transfers between levels of the fair value hierarchy

No transfers were made between levels in the value hierarchy.

9.1.4 Sensitivity of Level 3 fair value to changes in principal assumptions

Financial instruments measured at Level 3 fair value mainly concern investments in unconsolidated subsidiaries and related certificates.

9.2 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 retail 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 9.1 “Fair value of financial assets and liabilities”.

in millions of euros	31/12/2019			31/12/2018		
	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using unobservable inputs (Level 3)	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using unobservable inputs (Level 3)
FINANCIAL ASSETS AT AMORTISED COST	**0.0**	**1,665.0**	**11,038.3**	**0.0**	**1,832.0**	**11,416.4**
Loans and advances due from credit institutions	0.0	1,124.2	1,445.1	0.0	1,357.0	2,436.3
Loans and advances due from customers	0.0	540.8	9,173.9	0.0	475.0	8,533.7
Debt securities	0.0	0.0	419.3	0.0	0.0	446.4
FINANCIAL LIABILITIES AT AMORTISED COST	**0.0**	**7,601.0**	**5,622.4**	**0.0**	**7,462.1**	**6,522.4**
Amounts due to credit institutions	0.0	10.1	1,303.3	0.0	42.6	1,571.2
Amounts due to customers	0.0	7,590.9	1,902.0	0.0	7,419.5	1,730.4
Debt securities	0.0	0.0	2,216.9	0.0	0.0	3,020.6
Subordinated debt	0.0	0.0	200.2	0.0	0.0	200.2

Note 10 Taxes

10.1 Income taxes

Accounting principles

Income tax includes all domestic and foreign taxes due on the basis of the taxable income. Income tax also includes tax such as withholding tax which is payable by a subsidiary, an associate partner or a joint venture on its own dividend payments to the entity submitting the financial statements. The CVAE charge (contribution on corporate added value) is not retained as an income tax.

Income tax comprises:

- firstly, all current taxes, which means the tax due (recoverable) for the taxable income (tax losses) for a given period. These are calculated on the basis of the tax results recorded for each period by a consolidated tax entity in application of the tax rules and rates in force established by the tax authorities and on the basis of which the tax is to be paid (recovered);
- secondly, deferred tax (see 10.2 “Deferred tax”).

When it is possible that the Group’s tax position will not be accepted by the tax authorities, this situation is reflected in the accounts when current tax (due or recoverable) and deferred tax (assets or liabilities) are recorded.

in millions of euros	FY 2019	FY 2018
Current tax	(6.0)	(3.8)
Deferred tax	(5.1)	(8.0)
INCOME TAX EXPENSE	**(11.1)**	**(11.9)**

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

	FY 2019		FY 2018	
	(in millions of euros)	Tax rate	(in millions of euros)	Tax rate
Net income attributable to equity holders of the parent	18.4		23.4	
Changes in the value of goodwill	0.0		3.1	
Share in net income of associates	(0.6)		(0.7)	
Taxes	11.1		11.9	
Income before tax and changes in the value of goodwill (A)	**28.9**		**37.7**	
Standard tax rate in France (B)		**34.43%**		**34.43%**
Theoretical tax expense/(benefit) at the tax rate applicable in France (AB)	**(10.0)**		**(13.0)**	
Impact of permanent differences	(0.6)		(2.4)	
Tax on prior periods, tax credits and other taxes	(0.9)		0.0	
Other items	0.4		3.4	
Tax expense/(profit) recognised	**(11.1)**		**(11.9)**	
EFFECTIVE TAX RATE (INCOME TAX EXPENSE DIVIDED BY TAXABLE INCOME)		**38.41%**		**31.56%**

10.2 Deferred tax

Accounting principles

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 if it is probable that the entity concerned can recover them over a given period.

Deferred tax assets and liabilities are recognised as a tax profit or expense in the income statement, except for those relating to:

- remeasurement gains and losses on post-employment benefits;
- unrealised gains and losses on financial assets at fair value through equity;
- 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 equity.

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

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	31/12/2019	31/12/2018
Unrealised capital gains on UCITS	0.0	0.0
Tax EIGs (Economic Interest Groups)	0.0	0.0
Provisions for employee benefit obligations	0.5	4.2
Provisions for regulated home savings products	0.8	0.9
Non-deductible impairment in respect of credit risk	11.8	13.3
Other non-deductible provisions	0.8	0.5
Fair value of financial instruments with changes recognised in other retained earnings	(5.4)	(0.7)
Other temporary differences(1)	11.6	10.4
Deferred tax assets and liabilities related to temporary differences	**20.1**	**28.6**
Deferred taxes related to the activation of tax losses carried forward	0.0	0.0
Deferred tax assets and liabilities on consolidation adjustments and eliminations	0.4	0.4
Deferred taxes not recognised for the sake of prudence	**0.0**	**0.0**
NET DEFERRED TAX	**20.5**	**29.0**
Recognised		
As an asset	20.5	29.0
As a liability	0.0	0.0

(1) At 31 December 2019, deductible temporary differences, tax losses and unused tax credits for which no deferred tax asset has been recognised in the balance sheet amounted to €15.6 million (long-term loss on sale of Cicobail shares – year of expiry: 2019).

Note 11 Other information

11.1 Segment information

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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Net banking income	316.4	311.4	16.4	19.5	0.5	0.5	333.3	331.4
Operating expenses	(253.8)	(243.7)	(8.5)	(8.5)	(0.2)	(0.3)	(262.5)	(252.5)
Gross operating income	**62.6**	**67.7**	**7.9**	**11.0**	**0.3**	**0.3**	**70.8**	**79.0**
Cost/income ratio	*80.2%*	*78.3%*	*51.8%*	*43.6%*	*35.6%*	*51.4%*	*78.7%*	*76.2%*
Cost of risk	(49.0)	(41.3)	0.0	0.0	0.0	0.0	(49.0)	(41.3)
Share in net income of associates	7.2	0.0	0.0	0.0	0.6	0.7	7.8	0.7
Net gains or losses on other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in value of goodwill	0.0	0.0	0.0	0.0	0.0	(3.1)	0.0	(3.1)
Income before tax	**20.8**	**26.4**	**7.9**	**11.0**	**0.9**	**(2.2)**	**29.5**	**35.2**
Income tax	(8.5)	(8.0)	(2.5)	(3.7)	(0.1)	(0.1)	(11.1)	(11.8)
Non-controlling interests (minority interests)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income attributable to equity holders of the parent	**12.2**	**18.3**	**5.4**	**7.3**	**0.8**	**(2.2)**	**18.4**	**23.4**
TOTAL ASSETS	**14,707.1**	**15,154.4**	**19.0**	**12.6**	**4.2**	**3.9**	**14,730.3**	**15,170.9**

11.2 Information on finance lease transactions

11.2.1 Leasing transactions as lessor

Accounting principles

Leases are analysed according to their substance and financial reality and are classified as either operating lease or finance lease transactions.

Finance lease contracts

A finance lease contract is defined as a lease that transfers virtually all the risks and benefits inherent in the ownership of the underlying asset to the lessee.

IFRS 16 on leases contains in particular five examples of situations that, individually or collectively, distinguish a finance lease from a simple operating lease:

- the lease transfers the ownership of the underlying asset to the lessee at the end of the term of the lease;
- the lease gives the lessee the option of purchasing the underlying asset at a price that should be sufficiently lower than its fair value at the date the option is exercised so that, from the start of the lease, one can reasonably assume the option will be exercised;
- the term of the lease covers most of the economic useful life of the underlying asset, even if there is no transfer of ownership;
- at the start of the lease, the present value of the lease payments amounts to at least most of the fair value of the underlying asset;
- the leased assets are of such a specific nature that only the lessee can use them without major changes.

In addition, IFRS 16 also describes three indicators of situations that, individually or collectively, may lead to a finance lease classification:

- if the lessee can terminate the lease, the losses suffered by the lessor relating to the termination are borne by the lessee;
- the gains or losses resulting from the change in the fair value of the residual value are borne by the lessee;
- the lessee has the option of extending the lease at a rent substantially below market price.

At the start of the lease, the assets covered by a finance lease are recorded in the lessor's balance sheet in the form of a receivable equal in value to the net investment in the lease. The net investment corresponds to the discounted value at the implied contract rate of all rate payments to be received from the lessee, plus any unguaranteed residual value of the underlying asset owed to the lessor. The rent payments used to value the net investment include more specifically the fixed payments, after deduction of lease incentives to be paid and the payment rent which varies on the basis of an index or a rate.

In accordance with IFRS 16, unguaranteed residual values are subject to regular review. A reduction in the estimated unguaranteed residual value leads to the modification of the profile for the allocation of income over the entire term of the lease. In this case, a new depreciation plan is drawn up and a charge recorded in order to correct the figure for financial income already recorded.

Potential impairments on the basis of the counterparty risk of receivables relating to finance lease contracts are calculated in accordance with IFRS 9 and using the method adopted for financial assets at amortised cost (Note 4.1.10). Their impact on the income statement is shown as the Cost of credit risk.

Income from finance leases are retained as financial income recognised in the income statement under “Interest and similar income”. This financial income is recognised on the basis of the implicit interest rate (IIR), which reflects a constant periodic rate of return on the lessor’s net investment outstandings. The IIR is the discount rate that makes it possible to make equal:

- the net investment;
- and the starting value of the asset (starting fair value plus starting direct costs comprised of the costs incurred specifically by the lessor in order to set up a lease).

Operating lease contracts

If a contract is not identified as a finance lease it is classified as an operating lease.

Assets under operating leases are presented as property, plant and equipment and intangible assets in the case of movable assets and as investment property when they are buildings. Rents from operating leases are recognised on a straight-line basis over the term of the lease under “Income and expense from other activities”.

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

11.2.2 Leasing transactions as lessee

Accounting principles

IFRS 16 applies to leases which, whatever the legal term used, comply with the definition of a lease as established by the standard. This means, firstly, identifying an asset and, secondly, the lessee’s right to use this specific asset. Control is established where the lessee holds the following two rights throughout the entire term of use:

- the right to obtain almost all of the economic benefits generated by the use of the asset;
- the right to determine the use made of the asset.

The existence of an identified asset is in particular subject to the absence, for the lessor, of substantial rights regarding the substitution of the leased asset, this condition being assessed with regard to those facts and circumstances in existence at the start of the contract. The lessor’s option to replace a leased asset without restriction means that the contract is not a lease, the subject thereof being then the provision of a capacity and not of an asset.

The asset may be comprised of one part of a larger asset, such as one floor of a building. In contrast, a part of an asset which is not physically separate within a complex without any precise pre-defined location does not constitute an identified asset.

Except for certain exemptions stipulated by the standard, IFRS 16 requires the tenant to recognise leases in the balance sheet in the form of the right to use the asset leased presented as an asset, among the property, plant and equipment, and a rental liability, among miscellaneous liabilities.

As of the date of the initial statement of accounts, no deferred taxation has been recorded as the value of the assets is equal to the value of the liabilities. Any temporary subsequent net differences resulting from fluctuations in the amounts recorded on the basis of user rights and leasehold liabilities shall lead to the recording of deferred tax.

The leasehold liabilities are assessed on the date on which the lease comes into force, using the discounted value of all payments due to the lessor over the entire term of the lease and which have not already been paid.

These payments include rent which is fixed or fixed in substance, variable rent based on an index or a rate applied on the basis of the latest applicable index or rate, any potential guarantees of residual value as well as, if applicable, all amounts to be paid to the lessor on the basis of the options which are reasonably certain to be exercised.

The rent payments retained to calculate the rental liability exclude any variable payments not based on an index or a rate, tax such as VAT, whether recoverable or not, and French council tax equivalent.

The right of use is recognised as an asset on the date on which the lease comes into force for an amount equal to the rental liabilities at this date, adjusted on the basis of any payments made to the lessor before or on this date and therefore not included in the valuation of the rental liabilities, after deduction of the promotional benefits received. If applicable, this amount is adjusted by the initial direct costs to the lessee and an estimate of the cost of removals and redecoration to the extent required by the terms and conditions of the lease, where the exit of the resource is probable and can be determined on a sufficiently reliable basis.

The right of use will be amortised on a straight-line basis and the lease liability actuarially by using, as the discount rate, the lessees’ incremental borrowing rate mid-lease.

The value of the rental liabilities is subsequently re-adjusted to include variations in the indices or rates used to index the rent. As this adjustment has the right of use as its counterparty, there is no impact on the income statement.

For entities which form part of the financial solidarity mechanism which pools their re-financing from Group cash resources, this rate is calculated on a group level and, if applicable, adjusted in the currency applicable to the lessee.

The term of the lease corresponds to the period during which termination is not possible during which the lessee has the right to use the underlying asset plus, if applicable, any periods covered by extension options which the lessee is reasonably certain to exercise and any periods covered by termination options which the lessee is reasonably certain not to exercise.

For French leases known as “3/6/9”, the term retained is in general 9 years. The reasonable certainty regarding the exercise or not of the options relating to the term of the lease is assessed on the basis of the real estate management strategy defined by the Group institutions.

At the end of the lease, the contract can no longer be enforced, lessee and lessor having each the right to terminate the lease without permission from the other party and with exposure to a negligible fine only.

Leases which are neither renewed nor terminated upon expiry, described as “tacitly renewed”, are considered as having a residual term of 9 months, corresponding to the period underway plus the termination notice period.

For leases recorded in the balance sheet, the expense related to the lease liability is included in the interest margin under net banking income while the amortisation expense of the right of use is recognised as amortisation of property, plant and equipment within gross operating income.

Leases not recorded on the balance sheet, together with variable payments excluded from the calculation of rental liabilities, are presented as charges for the period within the general operating charges.

Impact on leases on the income statement – lessee

in millions of euros	FY 2019
Interest due on rental liabilities	(0.1)
Amortisation of the basis of rights of use	(7.5)
Variable rent payments not included in the valuation of the rental liabilities	-
RENTAL EXPENSES RELATING TO LEASES RECOGNISED ON THE BALANCE SHEET	**(7.6)**

in millions of euros	FY 2019
Rental expenses on the basis of short-term leases	(2.2)
Rental expenses related to low-value assets	-
RENTAL EXPENSES RELATING TO LEASES NOT RECOGNISED ON THE BALANCE SHEET	**(2.2)**

Flows related to rental liabilities are allocated to cash flows generated by financing activities, whereas rental payments relating to leases or payments not recognised on the balance sheet (short-term leases, low-value assets and variable payments) are presented with the cash flows relating to operations.

Timetable for rental liabilities

	31/12/2019					
	Non-discounted future payments					
in millions of euros	Less than 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Discount rate	Total
Rental liabilities	**4.1**	**3.9**	**19.9**	**6.5**	**0.2**	**34.6**

Commitments under leases not yet recognised on the balance sheet

Minimum future payments relating to leases which are binding for the Group but for which the underlying assets are not yet available are not recorded on the balance sheet in accordance with IFRS 16 before the date of their delivery. The Palatine Group has no leases which have not yet been recognised on the balance sheet.

Profit or loss from leaseback operations

in millions of euros	FY 2019
Profits (or losses) generated by leaseback operations	7.4

During the first half of 2019, Banque Palatine completed a leaseback operation for a property in use. This transaction resulted in a gain of €7.4 million under the item “gains or losses on other assets” in the income statement.

11.3 Related-party transactions

The parties related to the Palatine Group are the consolidated companies, including associates, BPCE, IT centres and the Group’s main senior executives.

11.3.1 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.

In these circumstances, transactions with related parties include 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).

in millions of euros	31/12/2018		01/01/2018	
	BPCE	Associates	BPCE	Associates
Loans	2,281.3	0.0	3,484.4	0.0
Other financial assets				
Other assets				
TOTAL ASSETS WITH RELATED ENTITIES	**2,281.3**	**0.0**	**3,484.4**	**0.0**
Liabilities	1,349.9	4.8	1,625.5	3.4
Other financial liabilities				
Other liabilities				
TOTAL LIABILITIES WITH RELATED ENTITIES	**1,349.9**	**4.8**	**1,625.5**	**3.4**
Interest and similar income and expense	23.2	0.0	24.2	0.0
Fees and commission	(3.9)	0.0	(1.2)	0.0
Net income from financial transactions				
Net income from other activities				
TOTAL NBI GENERATED WITH RELATED ENTITIES	**19.4**	**0.0**	**23.0**	**0.0**
Commitments given				
Commitments received	30.1	0.0	45.1	0.0
Commitments on forward financial instruments				
TOTAL COMMITMENTS WITH RELATED ENTITIES	**30.1**	**0.0**	**45.1**	**0.0**

A list of fully consolidated subsidiaries is presented in the scope of consolidation section (see Note 13 “Details of the scope of consolidation”).

11.3.2 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 2019 (€1.8 million in 2018).

They include remuneration and benefits paid to corporate officers (basic remuneration, remuneration paid in respect of office, benefits in kind, variable portion and Directors’ fees).

Other transactions with corporate officers:

in millions of euros	FY 2019	FY 2018
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 €0.05 million at 31 December 2019 (unchanged from 31 December 2018).

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

11.4 Joint arrangements and associates

Accounting principles

See Note 3 “Consolidation”.

11.4.1 shares in associates

11.4.1.1 Joint arrangements and other associates

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

in millions of euros	31/12/2019	31/12/2018
Conservateur Finance	3.8	3.6
Financial companies	**3.8**	**3.6**
TOTAL INVESTMENTS IN ASSOCIATES	**3.8**	**3.6**

11.4.1.2 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	31/12/2019	31/12/2018
Dividends received	**0.4**	**0.6**
MAIN AGGREGATES		
Total assets	24.8	22.6
Total debt	5.7	4.4
Income statement		
NBI	23.4	25.0
Income tax	1.4	1.7
Net income	2.8	3.4
RECONCILIATION WITH THE BALANCE SHEET VALUE OF ASSOCIATES		
Equity of associates	19.0	18.1
Percentage interest	20.00%	20.00%
Value of shares in associates	**3.8**	**3.6**

11.4.1.3 Nature and scope of major restrictions

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

11.4.2 Share in net income of associates

in millions of euros	FY 2019	FY 2018
Conservateur Finance	0.6	0.7
Financial companies	**0.6**	**0.7**
SHARE IN NET INCOME OF ASSOCIATES	**0.6**	**0.7**

11.5 Interests in unconsolidated structured entities

11.5.1 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 (*e.g.:* 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 11.5.2 “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 by the Group 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

The management of financial assets (also known as portfolio management or Asset Management) consists in managing the capital or funds entrusted by investors by investing in equities, bonds, cash SICAVs, 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

This includes all the remaining activities.

11.5.2 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 by type of activity.

FY 2019

in millions of euros	Securitisation	Asset management	Structured financing	Other activities
Financial assets at fair value through profit or loss	**0.0**	**14.5**	**0.0**	**0.0**
Financial assets at fair value through profit or loss – Non-standard	0.0	14.5	0.0	0.0
TOTAL ASSETS	**0.0**	**14.5**	**0.0**	**0.0**
Maximum exposure to the risk of loss	0.0	14.5	0.0	0.0
Size of structured entities	**0.0**	**7,024.6**	**0.0**	**0.0**

FY 2018

in millions of euros	Securitisation	Asset management	Structured financing	Other activities
Financial assets at fair value through profit or loss	0.0	9.0	0.0	0.0
Financial instruments classified at fair value (option)	0.0	9.0	0.0	0.0
TOTAL ASSETS	**0.0**	**9.0**	**0.0**	**0.0**
Maximum exposure to the risk of loss	0.0	9.0	0.0	0.0
Size of structured entities	**0.0**	**6,830.8**	**0.0**	**0.0**

11.5.3 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.

11.6 Fees paid to Statutory Auditors

	Deloitte				PricewaterhouseCoopers				KPMG				Total			
	Amount		%		Amount		%		Amount		%		Amount		%	
in thousands of euros	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Role of certification of financial statements	**2**	**0**	**100%**		**204**	**341**	**95%**	**94%**	**177**	**226**	**93%**	**94%**	**383**	**567**	**94%**	**94%**
• *Issuer*	*2*	*0*			*162*	*301*			*169*	*218*			*333*	*519*		
• *Fully consolidated subsidiaries*	*0*	*0*			*42*	*40*			*8*	*8*			*50*	*48*		
Services other than the certification of the financial statements	**0**	**0**	**0%**		**10**	**23**	**5%**	**6%**	**13**	**14**	**7%**	**6%**	**23**	**37**	**6%**	**6%**
• *Issuer*	*0*	*0*			*10*	*23*			*13*	*14*			*23*	*37*		
• *Fully consolidated subsidiaries*	*0*	*0*			*0*	*0*			*0*	*0*			*0*	*0*		
TOTAL	**2**	**0**	**100%**		**214**	**364**	**100%**	**100%**	**190**	**240**	**100%**	**100%**	**406**	**604**	**100%**	**100%**
Change (%)	100%				(41)%				(21)%				(33)%			

The total fees of PricewaterhouseCoopers Audit included in the consolidated income statement for the year amounted to €214,000, including €204,000 for the certification of the financial statements, and €10,000 for services other than the certification of the financial statements;

The total fees of KPMG included in the consolidated income statement for the year amounted to €190,000, including €117,000 for the certification of the financial statements, and €13,000 for services other than the certification of the financial statements.

Note 12 Preparation of comparative data

Accounting principles and scope

The accounting principles and methods used to prepare *pro forma* data are those used by the Group to prepare its consolidated financial statements as described in Note 2 “Applicable accounting standards and comparability” and Note 3 “Consolidation” of this appendix.

The *pro forma* scope of consolidation includes the entities consolidated by the Group over 2019. It has been supplemented to take into account the effects of the transactions mentioned above.

Note 13 Details of the scope of consolidation

13.1 Scope of consolidation at 31 December 2019

Entities whose contribution to the consolidated financial statements is not significant are not eligible to enter the scope of consolidation. For entities that meet the definition of financial sector entities of Regulation (EU) No. 575/2013 of the European Parliament and Council of 26 June 2013 (so-called “CRR” Regulation), the accounting consolidation thresholds are aligned, from 31 December 2017, to those selected for the prudential scope of consolidation. Article 19 of the CRR refers to a €10 million threshold of total balance sheet and off-balance sheet items. For entities in the non-financial sector, materiality is assessed at the level of the consolidated entities. According to the principle of ascending significance, any entity included in a lower-level scope is included in higher-level consolidation scopes, even if it is not significant for them.

For each of the entities in the scope of consolidation, the percentage interest is indicated. The percentage interest expresses the share of capital held by the Group, directly and indirectly, in the companies in the scope of consolidation. The percentage interest makes it possible to determine the Group’s share of the net assets of the company held.

	Country of incorporation or residence	Consolidation method	Changes in scope compared with 31 December 2019	Percentage control	Percentage interest
Banque Palatine	**France**	**Full consolidation**			**Consolidating entity**
Palatine Asset Management	France	Full consolidation	-	100.0%	100.0%
Ariès Assurances	France	Full consolidation	-	100.0%	100.0%
Conservateur Finance	France	Equity method	-	20.0%	20.0%

13.2 Corporates not consolidated at 31 December, 2019

French Accounting Standards Authority Regulation No. 2016-09 of 2 December, 2016 requires companies that prepare their consolidated financial statements in accordance with international standards as adopted by the European Union to publish additional information relating to companies not included in their scope of consolidation, as well as investments in unconsolidated subsidiaries of a significant nature.

The companies not consolidated comprise:

- on the one hand, significant investments which are not covered in the scope of consolidation; and
- 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 GESTION DELEGUE SOCIALE	France	100%	Not significant
STE IMMOBILIERE D’INVESTISSEMENT	France	100%	Not significant

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STATUTORY AUDITORS' REPORT

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1 Statutory Auditors’ report on the parent-company financial statements

(Year ended 31 December 2019)

To the General Meeting

BANQUE PALATINE

42 rue d’Anjou

75382 Paris Cedex 08

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 for the year ended 31 December 2019, as appended to this report. These financial statements were approved by the Board of Directors on 6 February 2020 on the basis of information available on that date amid the evolving Covid-19 health crisis.

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 2019 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 risks of material misstatements which, in our professional judgement, were the most significant for the audit of the parent-company financial statements for the year, and our response to these risks.

The resulting assessments were part of the audit of the parent-company financial statements as a whole, approved under the conditions set out above, 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 – Impairments and provisions for customer credit classified as doubtful

Assessed risk	Our response
Banque Palatine constitutes impairments and provisions to cover the risks of losses resulting from the inability of its customers to meet their financial commitments. In particular, these impairments and provisions are recognised as doubtful loans outstanding. The valuation of provisions for doubtful loans and advances requires the exercise of judgement in classifying exposures (non-doubtful or doubtful loans) and/or assessing recoverable future cash flows and recovery periods. Given the importance of judgement in determining these impairments, we believed that the estimate of expected losses on doubtful loans and advances was a key point of our audit. At 31 December 2019, outstanding customer loans came to €10,037.9 million, and gross doubtful loans to €442.8 million. Impairments and provisions made to hedge credit risk totalled €253.8 million. For further details on accounting principles and exposures, see Notes 3.9 and 4.2 to the parent-company financial statements.	We examined the system set up by the risk management division to classify loans (non-doubtful and doubtful) and to assess the amount of expected or established losses on these loans. We tested the controls implemented by the management to identify non-doubtful or doubtful loans and to assess the likelihood of recovery and impairment. We also took note of the main conclusions by the specialised committees responsible for monitoring these loans. For impairments: • we carried out control tests on the system for identifying and monitoring doubtful and non-performing counterparties, of the credit review process and of the guarantee appraisal system; • lastly, we checked the impairment calculations on a portfolio basis; • on the basis of a statistical sample of credit files we carried out contradictory analyses of the amounts of impairments; • we also took note of the main conclusions by the specialised committees responsible for monitoring these loans and checked, on a sample of cases, that they were correctly included in the estimated impairments. We also ensured that the information presented in the notes was appropriate.

Specific verifications

We also performed, in accordance with the professional standards applicable in France, the specific checks required by law and regulations.

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 approved on 6 February 2020 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 issued to shareholders, with the exception of the points below.

The sincerity and consistency with the parent-company financial statements of the information on payment periods mentioned in Article D. 441-4 of the French Commercial Code require that we make the following observation:

As indicated in the management report, this information does not include banking and related transactions, as your company considers that they do not fall within the scope of the information to be disclosed.

In terms of events surrounding the Covid-19 crisis and information relating to this of which we became aware following the reporting date, management has notified us that these will be the subject of a report to the General Meeting called to approve the financial statements.

Corporate governance report

We certify that the section of the Board of Directors' report devoted to corporate governance contains the information required under Article L. 225-37-4 of the French Commercial Code.

Information required by other legal and regulatory obligations

Appointment of Statutory Auditors

We were appointed as Statutory Auditors of the company Banque Palatine SA 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 2019, KPMG Audit FS I had conducted its duties for 13 years without interruption and PricewaterhouseCoopers Audit had done so for 19 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.

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. In addition:

- 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 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 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, 23 April 2020

The Statutory Auditors

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

2 Statutory Auditors' special report on regulated agreements and commitments

(General Meeting held to approve the financial statements for the financial year ended 31 December 2019)

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 regulated agreements.

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 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. 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 prior to their approval.

In addition, we are required to inform you, in accordance with Article R. 225-31 of the French Commercial Code, of the execution, during the past year, of the agreements 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 subject to shareholder approval

Agreements authorised and concluded during the past year

Pursuant to Article L. 225-40 of the French Commercial Code, we have been informed of the following agreements entered into during the past financial year which have been subject to the prior authorisation of your Board of Directors.

1. Agreements with executives

a. Benefit in the event of enforced departure

- **Persons concerned:**

Christine Jacglin (Chief Executive Officer of Banque Palatine SA since 6 November 2019).

- **Nature and purpose:**

This agreement was approved by the Board of Directors on 21 October 2019.

The enforced departure benefit is payable to executives and former executives of the Banque Populaire banks and Caisse d'Epargne. Christine Jacglin is eligible for it due to her transfer within the Group.

The enforced departure benefit is only payable to senior executives without an employment contract whether it is "active" or suspended.

The benefit is only payable in the event of enforced departure (dismissal by the governing body or withdrawal of approval by the governing body or enforced resignation or if not reappointed by the governing body) other than for serious misconduct or transfer within Groupe BPCE.

Payment of the enforced departure 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.

The enforced departure benefit is not payable if the executive leaves the Group on their own initiative.

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 departure, carries a right, except in the event of gross or wilful misconduct, to payment of the only 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 departure, termination gives a right, except in the event of gross negligence or wilful misconduct, to payment of the enforced departure benefit, less any benefit paid in respect of termination of the employment contract.

- **Terms**

The enforced departure benefit is payable only if the company generated a positive net income for accounting purposes over the most recent financial year preceding the enforced loss of the relevant corporate office (year N-1).

The reference monthly remuneration used for the calculation is equal to 1/12 of the aggregate fixed remuneration (not including any specific uprating or benefits in kind) paid in respect of the most recent calendar year of service (N-1) and the mean variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service (N-1, N-2, N-3).

The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office within Banque Palatine and any previous office within a Banque Populaire bank or Caisse d'Epargne. In cases where the mean variable remuneration in respect of the three most recent calendar years of service cannot be calculated, the weighted average is calculated over the reduced period.

In cases where fixed remuneration cannot be calculated for the last calendar year, fixed remuneration is annualised.

In cases where the senior executive took up their position at a Group entity (Banque Palatine, Banque Populaire or Caisse d'Epargne) in year N, the reference remuneration is set following discussions by the governing body and the central body.

The amount of the enforced departure benefit is equal to the reference monthly remuneration × (12 months + 1 month per year of service within the Group). The length of service within the Group is calculated in years and fractions thereof. 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 cases where the senior executive took up their position at a Group entity (Banque Palatine, Banque Populaire or Caisse d'Epargne) in year N, the benefit is reduced or paid following discussions by the governing body and the central body.

In any event, this benefit is paid less any benefit payable for termination of an employment contract, where applicable.

This commitment did not have any financial impact on the financial statements at 31 December 2019.

b. Retirement benefits

- **Persons concerned:**

Christine Jacglin (Chief Executive Officer of Banque Palatine SA since 6 November 2019).

- **Nature and purpose:**

This agreement was approved by the Board of Directors on 21 October 2019.

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.

Terms of payment of the benefit: the retirement benefit may be paid only when the social security pension is claimed and provided that it is within the relevant scope at the time of this claim, which includes the Chief Executive Officer of Banque Palatine.

The payment of the retirement benefit is at the discretion of the governing body of the company to which the senior executive belongs, on the recommendation of the company's Remuneration Committee. The payment of the benefit should be subject to conditions related to the performance of the beneficiary, assessed in relation to the company's performance, in order to comply with the AFEP-MEDEF Code and, where relevant, Articles L. 225-42-1 and L. 225-90-1 of the French Commercial Code, as is the case of enforced departure benefit.

In the event that the enforced departure benefit is paid, the senior executive not covered by Article 82 loses any entitlement to the defined-benefit pension scheme which he or she may have been able to claim and is not entitled to retirement benefit.

- **Terms**

In this paragraph, the retirement is assumed to take effect in year N.

The reference monthly remuneration used for the calculation is equal to 1/12 of the aggregate fixed remuneration (not including any specific uprating or benefits in kind) paid in respect of the most recent calendar year of service (N-1) and the mean variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service (N-1, N-2, N-3).

The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office within Banque Palatine and any previous office within a Banque Populaire bank or Caisse d'Epargne.

In cases where the mean variable remuneration in respect of the three most recent calendar years of service cannot be calculated, the weighted average is calculated over the reduced period.

In cases where fixed remuneration cannot be calculated for the last calendar year, fixed remuneration is annualised.

In cases where the senior executive took up their position at a Group entity (Banque Palatine, Banque Populaire or Caisse d'Epargne) in year N, the reference remuneration is set following discussions by the governing body and the central body.

The amount of the benefit is equal to the reference monthly remuneration × (6 + 0.6 Y), where Y represents the number, or fraction of a number, of years in office in the relevant scope. It is capped at 12 times the reference monthly remuneration, which is earned through ten years of service with the Group.

It is excluded from the base used to calculate the annuities due under the defined-benefit pension plans of which the Director is a beneficiary.

In any event, this benefit is paid less any termination benefit paid under an employment contract.

This commitment did not have any financial impact on the financial statements at 31 December 2019.

c. No employment contract or suspended employment contract – Unemployment insurance

- **Persons concerned:**

Christine Jacglin (Chief Executive Officer of Banque Palatine SA since 6 November 2019).

- **Nature and purpose:**

This agreement was approved by the Board of Directors on 21 October 2019.

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:**

This commitment did not have any financial impact on the financial statements at 31 December 2019.

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

- **Persons concerned:**

Christine Jacglin (Chief Executive Officer of Banque Palatine SA since 6 November 2019).

- **Nature and purpose:**

This agreement was approved by the Board of Directors on 21 October 2019.

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 commitment did not have any financial impact on the financial statements at 31 December 2019.

e. Supplementary pension plans

- **Persons concerned:**

Christine Jacglin (Chief Executive Officer of Banque Palatine SA since 6 November 2019).

- **Nature and purpose:**

This agreement was approved by the Board of Directors on 21 October 2019.

Banque Palatine SA’s Chief Executive Officer is eligible for:

- under the same terms and conditions as Banque Palatine SA’s employees on the defined contribution plan applicable to unranked managers (Klésia). This scheme, which was modified following the merger of AGIRC and ARRCO on 1 January 2019, is funded by a contribution of:
  - Tranche A remuneration: 10.16% (7.62% payable by Banque Palatine S.A. and 2.54% payable by the Chief Executive Officer),
  - Tranche B remuneration: 9.45% (7.09% payable by Banque Palatine SA and 2.36% payable by the Chief Executive Officer);
- the supplementary “Pension scheme for senior executives of Groupe BPCE” under Article L. 317-11 of the French Social Security Code and its regulations from 1 July 2014, the main characteristics 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 of June 2018. 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.

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

For 2019, the amount of Klésia contributions (employee and employer) paid by Banque Palatine SA to the Chief Executive Officer was €2,384.03.

Agreements already approved by the shareholders

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

Pursuant to Article R. 225-30 of the French Commercial Code, we have been informed that the execution of the following agreements, already approved by the General Meeting in previous financial years, continued during the past year.

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

Agreement entered into with Natixis SA: 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 SA (Director and Shareholder of Banque Palatine SA and Natixis SA).

- Sylvie Garcelon (Director of Banque Palatine SA from 5 October 2016 and of Natixis SA from 10 February 2016).
- **Nature and purpose:**

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

Banque Palatine SA 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 SA decided to modify the organisation of this activity as follows:

- for institutional customers, Banque Palatine SA, in agreement with Palatine Asset Management S.A, 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 SA to a new service provider: Caceis, the main custody services provider to Groupe BPCE, in which Natixis SA holds an equity stake.

  Caceis took charge of custodial functions for institutional customers in July 2015;
- for Retail customers, Banque Palatine SA chose to grant custodial functions for financial instruments held by its customers to the Groupe BPCE service provider specialised in these activities, Natixis SA (EuroTitres department).

  The migration of custodial services for Retail customers to Natixis EuroTitres took effect in November 2017.
- **Quantity of supplies delivered/amounts paid:**

Following the relinquishment of the previous service providers, Banque Palatine SA must now bear additional costs for new IT developments needed for the IT migration of the custodial services for Banque Palatine SA's Retail customers to Natixis SA (EuroTitres department). Natixis SA agrees to compensate Banque Palatine SA in consideration of this relinquishment in accordance with the following amounts and terms (amounts shown inclusive of VAT, paid by Natixis SA to Banque Palatine SA):

- 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 impact on the 2019 financial year was income of €345,000 excluding tax.

2. Agreements with shareholders and their subsidiaries

Invoicing agreement formed with BPCE SA, majority shareholder of Banque Palatine SA

- **Nature and purpose:**

An invoicing agreement was signed on 11 December 2007 with CNCE SA, the central body of the former Groupe Caisse d'Epargne. This agreement remained in effect until 30 June 2010 and was replaced by the invoicing agreement signed on 21 December 2010 with BPCE SA. The purpose of this agreement is to set the amount of fees to be paid for services provided by BPCE SA within the context of the affiliation of Banque Palatine SA:

- guaranteeing Banque Palatine SA's liquidity and solvency;
- exerting administrative, technical and financial control over its organisation and management;
- ensuring compliance with legislative and regulatory provisions.

A new agreement, authorised by the Supervisory Board on 17 February 2012, was concluded on 5 March 2012 and replaced 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 SA on the basis of the actual cost of the public policy assignments carried out on behalf of Banque Palatine SA.

The financial impact on the financial year ended on 31 December 2019 was an expense of €2,600,000, excluding tax.

3. Agreements with executives

a. Retirement benefits

- **Persons concerned:**
  - Bertrand Dubus – (Executive Vice-President until 7 November 2019);
  - Patrick Ibry – (Executive Vice-President).
- **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 SA'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:**

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 impact on the financial statements at 31 December 2019.

b. No employment contract or suspended employment contract – Unemployment insurance

- **Person concerned:**
  - Pierre-Yves Dréan (Chief Executive Officer until 5 November 2019).
- **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:**

The amount of the expense for FY 2019 was €12,765.05.

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

- **Persons concerned:**
  - Pierre-Yves Dréan – (Chief Executive Officer until 5 November 2019).
  - Bertrand Dubus – (Executive Vice-President until 7 November 2019).
  - Patrick Ibry – (Executive Vice-President).
- **Nature and purpose:**

Banque Palatine SA's Chief Executive Officer and Executive Vice-Presidents are eligible for:

- the defined-contribution pension plan applicable to unclassified executives (Klésia), subject to the same conditions as Banque Palatine SA's employees. This scheme, which was modified following the merger of AGRIC and ARRCO on 1 January 2019, is funded by a contribution of:
  - Tranche A remuneration: 10.16% (7.62% payable by Banque Palatine SA and 2.54% payable by the Chief Executive Officer and the Executive Vice-Presidents),
  - Tranche B remuneration: 9.45% (7.09% payable by Banque Palatine SA and 2.36% payable by the Chief Executive Officer and Executive Vice-Presidents);
- the supplementary "Pension scheme for senior executives of Groupe BPCE" under Article L. 317-11 of the French Social Security Code and its regulations from 1 July 2014, the main characteristics 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 of June 2018. 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.

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

For the year ended 2019, the amount of Klésia contributions (employee and employer) paid by Banque Palatine SA to the Chief Executive Officer and the Executive Vice-Presidents was as follows:

- Pierre-Yves Dréan: €13,263.89;
- Bertrand Dubus: €15,604.04;
- Patrick Ibry: €15,604.04.

Paris-La Défense and Bordeaux, 21 April 2020

The Statutory Auditors

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

3 Statutory Auditors' report on the consolidated financial statements

Year ended 31 December 2019

To the General Meeting

BANQUE PALATINE

42 rue d'Anjou

75382 Paris Cedex 08

Opinion

Pursuant to the mission entrusted to us by your General Meeting, we conducted an audit of the consolidated financial statements of BANQUE PALATINE for the year ended 31 December 2019, as appended to this report. These financial statements were approved by the Board of Directors on 6 February 2020 on the basis of information available on that date amid the evolving Covid-19 health crisis.

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 2019 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.

Observations

Without calling into question the opinion expressed above, we draw your attention to the following point presented in Note 2.2. to the consolidated financial statements in respect of changes in the accounting method relating to the application of IFRS 16.

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 matters relating to the risks of material misstatement which, in our professional judgement, were the most significant for the audit of the consolidated financial statements for the year, and our responses to these risks.

The resulting assessments were part of the audit of the consolidated financial statements as a whole, approved under the conditions set out above, 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 – Impairment losses and provisions for customer credit (Stage 3)

Assessed risk	Our response
The Banque Palatine Group constitutes impairments and provisions to cover risks of losses arising from the inability of its customers to meet their financial commitments. The Banque Palatine Group recorded expected credit losses (ECL) primarily on non-performing loans (stage 3). Impairment of non-performing loans (stage 3) is determined on an individual or collective basis. Individual impairment charges are assessed by the management according to estimates of recoverable future cash flows taking available guarantees into account or using IFRS 9 parameters for collective impairments. The assessment of the provisions requires judgement to be exercised to classify exposures (stage 1, 2 or 3) or to estimate recoverable future cash flows or recovery times. Given the importance of judgement in determining these impairments on stage 3 receivables, we believed that the estimate of expected losses on loans at 31 December 2019 was a key point of our audit. At 31 December 2019, outstanding customer loans came to €10,036.8 million, including €437.4 million of stage 3 receivables. Impairments recorded on loans and other receivables outstanding came to €248.4 million for stage 3. For further details on accounting principles and exposures, see Notes 5.5.3 and 7.1 to the consolidated financial statements. do not italicise	We examined the system set up by the risk management division to classify loans (stage 3 or other) and to assess the amount of expected or established losses on these loans. We tested the controls implemented by the management to identify non-doubtful or doubtful loans and to assess the likelihood of recovery and impairment. We also took note of the main conclusions by the specialised committees responsible for monitoring these loans. For impairment: • we carried out control tests on the system for identifying and monitoring doubtful and non-performing counterparties, of the credit review process and of the guarantee appraisal system; • lastly, we checked the impairment calculations on a portfolio basis; • on the basis of a statistical sample of credit files we carried out contradictory analyses of the amounts of impairments; • we also took note of the main conclusions by the specialised committees responsible for monitoring these loans and checked, on a sample of cases, that they were correctly included in the estimated impairments. Finally, we examined the information provided on hedging credit risk in the notes to the consolidated financial statements.

Specific verifications

We also carried out a specific verification, as required by law and regulations, of information about the Group provided in the Board of Directors' management report approved on 6 February 2020, in accordance with professional standards applicable in France. In terms of events surrounding the Covid-19 crisis and information relating to this of which we became aware following the reporting date, management has notified us that these will be the subject of a report to the General Meeting called to approve the financial statements.

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 the company Banque Palatine SA 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 2019, KPMG Audit FS I had conducted its duties for 13 years without interruption and PricewaterhouseCoopers Audit had done so for 19 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.

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.

In addition:

- 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 parent-company annual 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, 23 April 2020

The Statutory Auditors

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

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2019 RISK MANAGEMENT

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Summary of risks

Type of risks

Given the diversity and development of Groupe BPCE's activities, risk management is based on the following main categories:

- credit and counterparty risk (including country risk): risk of losses resulting from the inability of group customers, issuers or other counterparties to meet their financial commitments. Credit risk includes the counterparty risk related to market-based operations (replacement risk) and to securitisation activities. In addition, credit risk may be aggravated by the risk of concentration, resulting from intense exposure to a given risk or to one or several counterparties, or again to one or several groups of similar counterparties;
- country risk emerges when exposure is liable to be adversely impacted by changes in the political, economic, social or financial conditions in the country in question;
- market risk: risk of a loss in value of financial instruments, resulting from fluctuations in market parameters, the volatility of these parameters and correlation between the parameters. The parameters in question are in particular the exchange rate, interest rates, and the price of securities (shares, bonds) and raw materials, derivatives and all other assets, such as real estate assets;
- liquidity risk: risk that the Group might not be able to meet its needs in terms of cash resources or collateral when due and at a reasonable cost;
- structural interest rate and exchange rate risks: risk of a loss of interest rate margins or of the value of a fixed-rate structural position in the event of fluctuations in interest rates or exchange rates. Structural interest rate and exchange rate risks are connected to commercial activities and proprietary management operations;
- legal risk: risk of judicial, administrative or disciplinary penalties or of material financial losses, resulting from non-compliance with the regulations applicable to the activity of the Group;
- non-compliance risk: risk of judicial, administrative or disciplinary penalties, of material financial losses or damage to reputation, resulting from non-compliance with the directly applicable regulations specific to banking and financial activities, whether statutory or legislative, domestic or European, or professional and ethical standards, or instructions from effective senior executives accepted notably in application of the guidance given by the supervisory body;
- operational risk: risk of losses resulting from unsuitability or weaknesses caused by procedures, personnel and internal systems such as, in particular, IT systems, or by external events, including events which are highly unlikely to occur, but which risk causing significant losses;
- climate risk: vulnerability of banking activities to climate change, where a differentiation is possible between the physical risk linked directly to climate change and the transition risk linked to the prevention of climate change.

Key figures

At 31 December 2019:

- the Common Equity Tier 1 ratio was **9.20%;**
- the Tier 1 equity ratio was **10.22%;**
- the total equity ratio was **12.26%.**

Supplemental indicators

in millions of euros	31/12/2019	31/12/2018
Total assets	14,730.3	15,170.9
Customer loans	9,714.7	9,008.1

IFRS cost of risk

in millions of euros	31/12/2019	31/12/2018
	49.0	41.4

Rate of doubtful loans

	31/12/2019	31/12/2018
	4%	4.7%

LCR

In %	31/12/2019
	114,6

Main risks and emerging risks

Groupe BPCE pays particular attention to anticipating and controlling emerging risks, given the constant changes in the environment (see pandemic linked to Covid-19).

The international geopolitical environment remains an area for attention under vigilance, with various geopolitical tensions continuing to weigh on the global economic context and feeding uncertainty.

The context of negative rates continues to weigh on the profitability of commercial banking activities, in connection with the significant share of fixed-rate home loans and life insurance activities.

The continuing digitalisation of the economy and of financial services is accompanied by constant vigilance on the part of the banks in relation to cyber risks. The sophistication of the attacks and the potential vulnerabilities of banks' IT systems are two major challenges for Groupe BPCE in connection with the expectations of the regulator.

Misconduct risk is addressed in the context of operational risk monitoring and is the subject of Ethics Charters, a Group Code of Conduct and Ethics and conflict of interest management systems at the different levels of Groupe BPCE.

The regulatory environment is another area of permanent supervision, with banking institutions operating under growing requirements and oversight by regulators.

Finally, climate change and social responsibility are topics which are increasingly to the fore in risk management policy. Climate risk management is also referred to in the guidelines established by the CRR2-CRD5 Regulation (revised equity capital requirements guidelines and regulation).

Risk factors for Groupe BPCE including Banque Palatine

The risk factors presented below concern Groupe BPCE as a whole, including Banque Palatine and are addressed in detail in Groupe BPCE's annual financial 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 financial report), 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 arising from the strategic plan and from technological developments in particular;
- 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 advances 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; On this basis, business continuity planning and emergency plans ("PUPA") are reviewed regularly and exercises are carried out in particular to maintain continuity of those services deemed to be essential;
- 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

More specifically, Banque Palatine is also exposed to a certain number of risks identified by its macro risk map:

- the credit risk in its various markets, first of which is the corporate market, Banque Palatine having a particularly strong presence in the market for medium-sized companies. To a lesser extent, the Bank is exposed to credit risk relating to the retail banking segment and, more specifically, the private client market.

  Given the Bank's position in the medium-sized companies market, the risk of concentration forms part of the risks which are monitored in the context of credit risk. For example, the concentration of the first 20 exposures fell between 2018 and 2019 from 8.1% of outstanding amounts to 7.7%. The Risk Appetite Framework (RAF) consists of 10 limits which define the credit business. None of these limits was breached during the 2019 financial year;
- the 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;
- the non-financial risks: external fraud, credit frontier and non-compliance risks, particularly regarding KYC where important actions are still on-going (in 2019: exhaustiveness of documentation for example, etc.).

Banque Palatine is exposed to a number of other risk factors which are complementary, and sometimes similar, to those of Groupe BPCE:

- 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 focusing on medium-sized companies, Banque Palatine is particularly sensitive to the national economic climate;

- Banque Palatine could also face a shortage of liquidity should any of the Groupe PCE 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.

General organisation of the internal control framework

Organisation of Groupe BPCE's internal control framework

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.

The functions

This framework operates in functions integrated within Banque Palatine and overseen by three BPCE divisions:

- the risk management division;
- the Group's compliance and permanent controls division, responsible for permanent control;
- and the Group general inspection division, responsible for periodic control.

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:

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

These links have been formally defined in charters covering each function. These charters or their implementation have been validated by the Executive Management Committee and then by the Risk Committee before being adopted by the Board of Directors.

Control stakeholders

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 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 or she oversees, makes sure that employees under his or her charge comply with the procedures. As a function of changes in the business, regulations, professional standards and transaction processes, he or she 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;
- the accounting review;
- the 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 steering department supervises the operational divisions' control framework:

- centralising the key controls for the divisions, departments and services;
- providing a reporting system;
- making sure the control frameworks of the different entities are updated as required, and providing support for them.

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.

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. The most recent presentations for updating by the Risk Committee and validation by the Board of Directors are dated July 2019. Any crossing of the quantitative limits defined in the RAF is the object of an alert and an appropriate remediation plan that can be decided by the Executive Management Committee and communicated to the Board of Directors if necessary, which was the case in establishing a comprehensive RCF (regulatory customer file) in 2018.

No resilience thresholds were breached in 2019.

Capital management and capital adequacy

Regulatory framework

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	31/12/2019	31/12/2018
Consolidated equity	1,037.31	863.92
Perpetual deeply subordinated notes classified as equity	(100.00)	(100.00)
Consolidated equity excluding perpetual deeply subordinated notes classified as equity	937.31	763.92
Non-controlling interests		
Common Equity Tier 1 (CET1) capital before deductions	911.54	763.92
• Deductions from common equity		
• Goodwill		
Other intangible assets	(9.10)	(12.23)
Other prudential adjustments	(1.66)	(1.40)
Common Equity Tier 1 (CET1) capital	900.78	750.30
Deeply subordinated notes		
Other Additional Tier 1 (AT1) capital	100.00	100.00
Tier 1 capital (A)	**1,000.78**	**850.30**
Tier 2 capital	200.00	200.00
Tier 2 capital (B)	**200.00**	**200.00**
TOTAL REGULATORY CAPITAL (A + B)	**1,200.78**	**1,050.30**
Credit risk-weighted assets	9,156.85	8,759.66
Market risk-weighted assets	3.67	0.79
Operational risk-weighted assets	603.33	592.69
CVA risk-weighted assets	29.70	38.14
TOTAL BASEL III RISK-WEIGHTED ASSETS	**9,793.54**	**9,391.27**
Capital adequacy ratio		
Core Tier 1 ratio	9.20%	7.99%
Tier 1 ratio	10.22%	9.05%
Total capital adequacy ratio	12.26%	11.18%

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.

The criteria for breakdown by category are defined by the decreasing degree of solidity and stability, the term and the degree of subordination.

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 €901.0 million includes the following elements:

- share capital, reserves, and undistributed profits: €937.3 million;
- prudential adjustments (including intangible assets, AVA, distribution of profits): -€36.5 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%.

In March 2018, Banque Palatine held a €100 million issue of the most deeply subordinated perpetual debt qualifying for AT1 equity.

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	Risk-weighted exposure 31/12/2019	Risk-weighted exposure 31/12/2018
Central governments and central banks	59	77
Public sector entities	0	2
Institutions	91	94
Secured obligations	3	0
Corporates	6,200	6,569
Retail customers	479	472
High-risk exposure	518	0
Exposures guaranteed by a mortgage on a real estate asset	1,372	1,077
Exposures in default	303	362
Collective investment undertakings	20	9
Exposure in the form of equities	8	10
Other items	102	89
Credit risk exposures	9,157	8,760
Market risk exposures	4	0.8
Operational risk exposures	603	593
CVA risk exposures	30	38
TOTAL AMOUNT OF RISK EXPOSURES	**9,794**	**9,391**
CET1 capital	901	750
CET1 ratio	**9.20%**	**7.99%**
T1 capital	1,001	850
AT1 ratio	**10.22%**	**9.05%**
Total capital	1,201	1,050
TOTAL ratio	**12.26%**	**11.18%**

At 31 December 2019, risk-weighted assets calculated in accordance with Basel III amounted to €9,794 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.

Group capital adequacy management

The Common Equity Tier 1 ratio was 15.7% at 31 December 2019, compared with 15.8% at 31 December 2018.

A number of non-recurring items had an impact on the Common Equity Tier 1 ratio in 2019:

- the implementation of IFRS 16 (-5 basis points);
- the deduction, under the instruction of the supervisor, of a portion of SRF and FGDR contributions in the form of irrevocable payment commitments (-14 basis points);
- consolidation of Factoring, Securities Custody, Guarantees, Leases, Consumer loans and Natixis securities within BPCE SA (-20 basis points);
- acquisition by BPCE SA of a 50.1% stake in Oney Bank (-12 basis points);
- the impact on methodology of calculating weighted risks related to the financing of speculative property assets (-17 basis points).

Furthermore, the change in the Common Equity Tier 1 ratio in 2019 is explained by:

- the growth in Common Equity Tier 1 capital, driven in particular by the income placed in reserve (+74 basis points) and the collection of shares (+39 basis points);
- the increase in risk-weighted assets linked to the activity (-74 basis points).

As of 31 December 2019, the Tier 1 ratio stood at 15.7% and the overall ratio at 18.8%, compared to 15.9% and 19.6% respectively as of 31 December 2018.

Groupe BPCE capital adequacy management

The goal in terms of equity and the Loss Absorbing Capacity are defined on the basis of the BCPE Group's ratings targets, in accordance with prudential constraints.

It is for this reason that capital adequacy is ensured using a high management buffer which, firstly, goes well beyond the prudential constraints in terms of capital adequacy, and, secondly, is well above the Maximum Distribution Amount.

In this manner, the management of equity and of the loss absorption mechanism is desensitised with regard to changes in the prudential regulations (*e.g.* independent from any GSIB classification) and leads the Group to construct its loss-absorbing capacity mainly on the basis of the CET1 and, on a supplemental basis, using indebtedness eligible for TLAC (mainly Tier 2 and senior non-preferred). In addition, in accordance with the single point of entry (SPE) principle, issues of TLAC-eligible debt are completed by BPCE.

Finally, in addition to this capacity to absorb losses, Groupe BPCE holds liabilities eligible for bail-in which are in their vast majority accepted for the calculation of the MREL subject to their ability to be activated being deemed high by the supervisory authority: on this basis, the preferred senior debt issued by BPCE is eligible for MREL, Groupe BPCE retaining the option to meet the MREL requirements, going beyond its capacity to absorb losses, using any "bail-inable" debt instrument.

In January 2020, the Single Resolution Board set the group MREL (equivalent to 24.2% of weighted risk at end 2017), complied with currently with some margin and which does not require the Group to modify or increase its issue programme.

Actions for the allocation of equity and management of capital adequacy

To guarantee the capital adequacy of its networks and subsidiaries, the Group put certain specific actions in place during 2019. BPCE therefore subscribed for a share capital increase by Banque Palatine (€150 million) and and for a Tier 2 issue by Oney Bank (€33 million).

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 6.08% at 31 December 2019 compared with 5.02% for the previous financial year, based on phase-in Tier 1 capital.

in millions of euros	31/12/2018	31/12/2019
TOTAL CONSOLIDATED ASSETS (PUBLISHED)	**15,171**	**14,730**
Adjustment for financial derivatives	104	105
Adjustment for commitments given (conversion of loan-equivalent amounts of off-balance sheet exposures)	1,664	1,652
Adjustments for capital assets	(12)	(16)
TOTAL LEVERAGE EXPOSURE	**16,927**	**16,471**

Governance and range of risk management measures

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 effective 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.

Globally speaking, the risk management, compliance, permanent control and financial security division (RC^2S):

- 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;
- disseminates the risk and compliance culture and share best practices with the other Groupe BPCE institutions.

The risk management division was heavily involved in this issue, leading numerous training sessions on a range of issues such as forbearance, RWA or on Leverage Finance (LF) guidance.

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

It operates independently of the 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 on 29 March 2017.

Governance of risk management

Governance of the internal control framework is predicated on:

- **the 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 through general objectives on administration and risk management, the relevance of which is regularly assessed. It ensures regular monitoring of 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 Committee and Risk Committee;
- **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 (CCICF)

Permanent control, periodic control and compliance functions are all represented on the CCICF, which met twice in 2019. It is chaired by the Chief Executive Officer.

The other committee members are: the Executive Vice-President, 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 main duties of this committee 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 central Head of risk management, compliance, permanent controls and financial security or his or her deputy.

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 the Executive Vice-President, the central Head of risk management, compliance, permanent controls and financial security, as well as his or her deputy, and 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 main duties are 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 2019.

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.

The central risk management, compliance, permanent control and financial security division (RC^2S)

The RC^2S central division, created in October 2017, reports hierarchically to the Chief Executive Officer and functionally to Group management and compliance division.

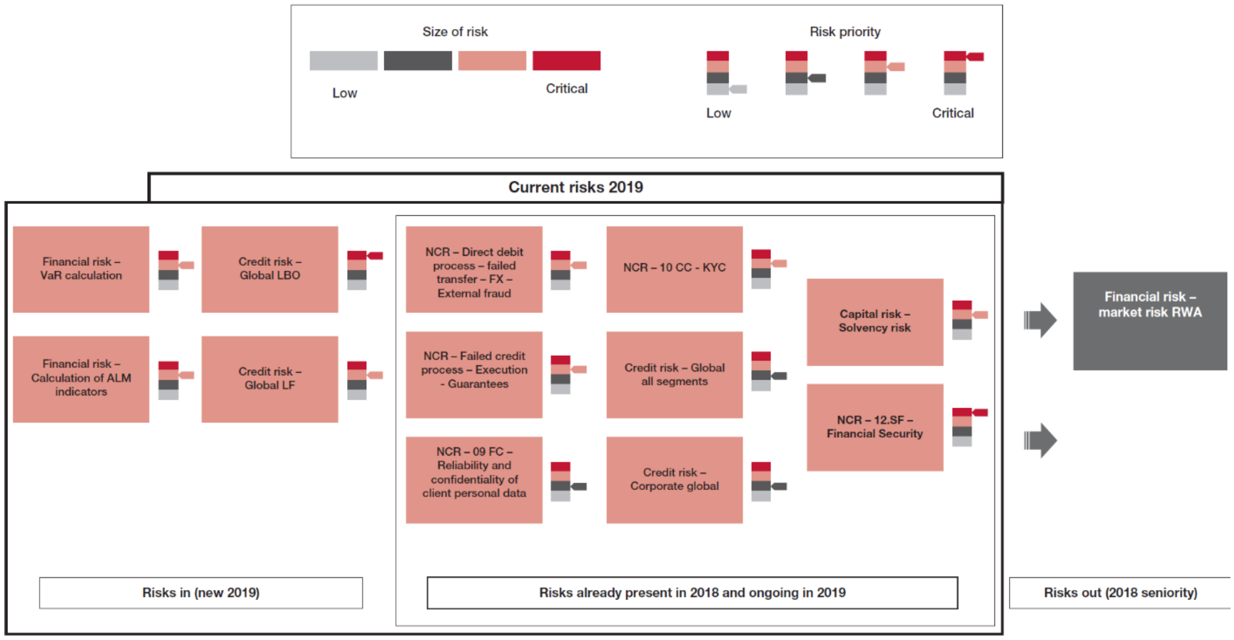
This division, like the Group divisions, covers all risks: credit risks, financial risks, operational risks and risks of non-compliance. In accordance with Article 75 of the order of 3 November 2014 regarding internal control, it provides for the measurement, monitoring and control of risks.

The RC^2S division comprises the risk management division and the non-financial risk division. In risk management, Banque Palatine applies all principles of the Group's Risk, Compliance and Permanent Controls Charters. RC^2S independently controls the correct application of standards and methods of risk measurement, including limits and delegation frameworks. It makes sure the risk policy is respected within the framework of its second-level permanent controls.

The effective managers ensure that the risk management systems implemented are adequate for the risk profile and business strategy of the institution, in accordance with Article 435 1 e) of EU Regulation No. 575/2013 regarding prudential requirements applicable to credit institutions and investment companies (CRR).

Banque Palatine macro-risk map

The global risk profile of Banque Palatine is that of a retail bank. Risks mainly derive from its lending to sustain and finance the economy.



Organisation of internal control for 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.

The Palatine Asset Management Head of compliance and internal control oversees second-level controls. He or she reports back to the Palatine Asset Management Audit Committee which includes, as permanent guests:

- the central risk management, compliance, permanent control and financial security division and his or her deputy;
- the Banque Palatine's Head of internal audit;
- the Head of Group general inspection.

The minutes of the meeting of Palatine Asset Management's Audit Committee are systematically sent to Banque Palatine's Audit Committee and Risk Committee.

In addition, in order to complete this system, the Head of Compliance and Internal Control (RCCI) of Palatine Asset Management sends his points to the RC^{2}S management, which represents him on the Operational Risks and Security Committee of Banque Palatine.

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.

Accounting and financial information is prepared and processed by the finance department headed by the Executive Vice-President, Finance. The accounting, legal and disputes department also comes under their responsibility.

Accounting

The main duties of the accounting division are:

- preparation of the parent-company financial statements;
- preparation of the consolidated financial statements for the Palatine Group in accordance with the standards governing Groupe BPCE;
- 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.

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. This tool was launched in 2014 and has now reached cruising speed. 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.

In the context of the "Pégase" project aimed at migrating Banque Palatine's SAB IT system to the i-BP Equinoxe platform, a new version of the COMPTABASE tool will be rolled out in 2020, accompanied for the Bank by a significant change, *i.e.* using the tool for accounting preparation to enter records in euros, as for the other institutions within the Group.

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.

Since 1 January 2018, in order to comply with the decisions of the 3CIG on the reinforcement of the independence of the review, 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 report on activity by the accounting review;
- functionally to Groupe BPCE's financial review department.

Therefore, this retains the strict separation of accounting preparation and review.

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*);
- controls performed by authorities under government supervision, such as France's anti-corruption authority (*Agence française anticorruption* or AFA).

Within BPCE

In 2019, the reinforcement of the independence of the review function remains a major subject:

At its session held on 23 October 2019, the Coordination Committee for Group internal control functions, further to the comments made by the European Central Bank and the Group General Inspection division in 2019, provided details to reinforce the independence of the review function within Group entities. Based on the observation that the review function today remains 75% attached to the finance function, 3CIG maintained the possibility of choosing between 2 attachments on a local level:

- either an attachment to the risk, compliance and permanent controls functions (central body scenario);
- or an attachment to the finance function with reinforcement of the independence conditions:
  - a hierarchical attachment applied at the highest level (finance executive or Chief Financial Officer),
  - a reinforcement of the participation by the operations manager in the setting of objectives for the Head of review and the evaluation of results,
  - the formalisation of bilateral points by the operations manager and the Head of review,
  - a formal approval of the Head of review by the operations manager (for future developments),
  - the final removal of the exception which allows an attachment on the level of the accounts department to be maintained.

Therefore, the framework for controlling the quality of accounting and financial information will soon be amended to take these decisions into account before release to all Group institutions.

Within the risk management, compliance and permanent controls division (RCPCD), the financial review is attached to the permanent controls coordination division which forms part of the four expert divisions within BPCE. 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.

At Banque Palatine

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.

During 2019, the financial review used the questionnaire forwarded by the Group general inspection division to the review function in the context of the assignment involving the control of Group accounts and financial review.

Feedback rates for this questionnaire reached 95% with detailed comments touching on coverage within the scope, organisation of bodies, the body of standards and documents, training, human resources.

Subjects such as the “benchmark use” of the review function and its designation, the principle of attachment further to the conclusions of the audit carried out by the ECB in January 2019, remain preponderant. The need to automate and pool requests from IT-CE or i-BP has also been noted.

Actions will be taken in 2020 at workshops:

- on the simplification of risk map for accounts and regulatory statements;
- on the review of the standards applicable to the accounting control procedures used to prevent and detect fraud, corruption and traffic in influence;
- on the BCBS 239 level of requirements.

In 2020, following the recommendations made by the Group, the Banks’ quality and accounting and financial information control measures will be reorganised. In this context, the attachment of the financial review to the central risk management, compliance, permanent controls and financial security division is anticipated.

Management control

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

Within Banque Palatine, this function is performed by the management control division, the Head of which reports to the Executive Vice-President, Finance.

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.

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

Operational risk

The process provides for immediate reporting to the Bank's executive management and Board of Directors, to BPCE, and to the *Autorité de contrôle prudentiel et de résolution* of any loss that is provisioned or definitive of more than 0.5% of its capital (*i.e.* €3.9 million) in relation to operational risks, in accordance with Article 98 of the order of 3 November 2014 on internal control, and with BPCE's decisions.

In this regard, no incidents were reported in 2019.

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 30 September 2019, is therefore €73.6 million.

In this regard, no incidents were reported in 2019.

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

The risk management division is made up of four departments whose duties are mainly to:

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;
- analyse the main sensitive cases on the watch list and report on its most important work to the Watch List Committee and quarterly forecasts.

For the prudential oversight and collective provision 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 the RWAs (risk-weighted assets), on a quarterly basis.
- control the correct application of the Group's rating system for corporate customers;
- approve the ratings suggested by the network;
- steer the ratings levels;
- produce reports on the collective provision, for the Provisions Committee;
- produce the Anacredit report.

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 establishment and transactions of the dealing room, negotiated and implemented by the front, middle and back offices;
- 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.

Credit and counterparty risks

Organisation of credit risk management

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 performing and doubtful Watch Lists (WL) on a quarterly basis.

The performing WL is analysed by the risk management division and the doubtful WL is for its part analysed by the special affairs division. These analyses are returned to the Watch List and Provisions Committee.

Finally, the risk management division analyses the annual cost of risk, which allows it to identify trends and take remedial action, particularly in the field of risk policy.

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, a ratings monitoring unit forms part of the risk steering department (RISP). This unit ensures on a local level that the rating tool is being used correctly by the network and the relevant business lines.

Commitment procedures and monitoring of transactions

In the framework of its risk appetite system, the institution's "credit risk management" function:

- 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;
- if a threshold is crossed: issues a notification to the operational managers and alerts the effective managers;
- registers loans that are alarming or deteriorated according to Group criteria 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 lending division that reports to the Executive Vice-President for finance, which has a second say on loan requests processed by the Bank's operational bodies. It has delegated authority for files under the Bank's delegation of powers framework and acts as secretary for the Development Credit Committees and the Credit Committee.

The credit risk department scrutinises major proposals from the Development Credit Committee and all Credit Committee and Executive Management 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, the lending division and the Development Credit Committee.

The delegation system 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 13 December 2019, 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 16 December 2019.

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 the Group's risk management division. This credit risk framework covers the standards and best practices to follow in each of the Groupe BPCE institutions and the management and reporting standards established by the BPCE Supervisory Board or Management Board upon the recommendation of the Group's Risk 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's risk management division, 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);
- approving 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.

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.

Work done in 2019

In 2019, the Bank managed to achieve a rating in the Group's best standards, and more specifically the regulatory threshold of 95% at 31 December 2019.

In 2019, considerable work in preparation for the IT migration was carried out, notably concerning the attachment points for Group rating tools concerning retail and professional counterparties.

The operational launch of the Leverage Finance standard took place in 2019. The implementation of this standard at Banque Palatine has been completed, in close collaboration with BPCE, which coordinated the work for the entire Group.

Part of the standard had already been implemented in 2018, notably as regards the framework for LBO financing. This work was carried out jointly with the corporate division and its outcome was an update of the risk policy on LBOs.

In addition, Banque Palatine's risk policy was updated by proposing specific risk policies. Thus, in addition to the risk policy dedicated to Leverage Finance operations, the risk policies on LBO, the assignment of receivables in recourse and housing loans were updated.

Moreover, work was done to improve COREP production, including efforts to make the reconciliation of accounting items and data quality more reliable.

Finally, the RWA optimisation work, launched in 2018, continued in 2019 in the context of the RWA reduction plan, which forms part of the Banque Palatine strategy plan (-€300 million per year). This enabled equity requirements to be revised downwards. A reduction of -€700 million in RWA was therefore achieved since the third quarter of 2018.

Risk mitigation techniques

Providers of sureties

Taking guarantees (or risk mitigation techniques) into account represents one of the important factors in reducing capital requirements.

Banque Palatine is responsible for the system to oversee the undertaking of guarantees, their validity, and their registration. The registration of guarantees follows procedures in force. Safe-keeping and archiving of our guarantees is done 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. All of the permanent controls were moreover standardised by the Group in early 2019.

In 2019, work was carried out in order to reduce the institution's exposure to credit risk and, therefore, its capital requirements. This work is on-going and involves:

- the management of customer loans;
- the data quality *via* four sub-projects:
  - the valuation of real estate assets by an expert body,
  - the Banque de France price within the scope of French corporates,
  - the pledging of life insurance,
  - the pledging of listed securities.

Groupe BPCE's risk management division 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 provision charges for exposures in default as of the reporting date of the test.

Impaired assets, past due payments and credit risk hedging

Stages 1 and 2

Provisions down in comparison with the previous year (€93.5 million at end-December 2019 compared with €97.2 million at end-December 2018) due to improved ratings in the corporate segment. The provision rate remains stable at 0.6%.

Stage 3

Doubtful loans and commitments totalled €541.5 million, compared with €593.5 million the previous year. This drop is due to the regular monitoring of disputed files with the settlement of doubtful financial assets and a programme for the disposal of doubtful receivables completed at the start of the second half of 2019 for a total of €15 million.

The non-performing loans[1] ratio is down, standing at 5.08% in comparison with 5.20% at 31 December 2018.

The receivables and commitments are covered by provisions, the coverage rate of which is up slightly at 54.8% compared with 52.3% in 2018.

The cost of risk came to €49.0 million, *i.e.* up €7.7 million from its 2018 level. In 2018, this saw a reversal of provisions amounting to €16.3 million, linked in particular to the improved ratings of counterparties affected by Stages 1 and 2.

The change in individual (Stage 3) and collective (Stages 1 and 2) impairment over the period breaks down as follows:

in millions of euros	Impairment for expected credit losses (Stages 1 and 2)	Specific impairments (Stage 3)	Total
Balance at 31/12/2018	(97.2)	(310.1)	(407.2)
Charges	(3.1)	(80.2)	(83.3)
Reversals used	0.0	64.2	64.2
Unused reversals	6.7	29.4	36.1
Other changes		0.0	0.0
BALANCE AT 31/12/2019	**(93.5)**	**(296.7)**	**(390.3)**

"Disclosure in accordance with IFRS 7".

(1) *Early adoption of the new definition of the gross "NPL" ratio for which demand accounts held by central banks and other demand deposits are henceforth excluded from the denominator.*

IFRS 9 provisioning rate – Stages 1 and 2

	2019			2018		
in millions of euros	Loans	Provisions	Provision rate	Loans	Provisions	Provision rate
Loans and advances due from credit institutions	2,569.4	0.2		3,785.9	0.4	
Loans and advances due from customers	9,599.4	73.7		8,856.3	80.0	
Debt securities at amortised cost	415.2	2.0		446.8	2.0	
BALANCE SHEET	**12,584.1**	**76.0**	**0.60%**	**13,089.1**	**82.5**	**0.63%**
Guarantee commitments given	1,027.3	11.5		957.5	8.6	
Financing commitments given	2,080.3	6.1		2,020.0	6.0	
Other provisions as liabilities		0.0			0.1	
BALANCE SHEET AND OFF-BALANCE SHEET	**15,691.7**	**93.5**	**0.60%**	**16,066.6**	**97.2**	**0.60%**

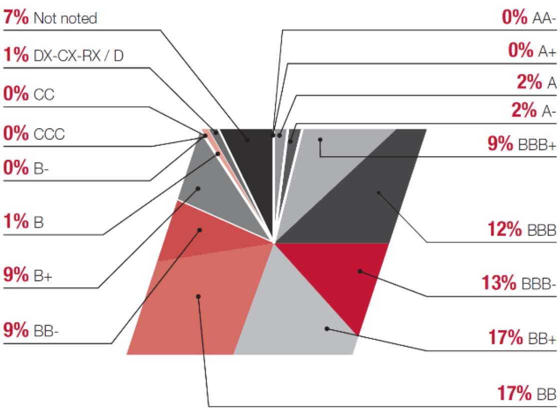
IFRS 9 provisioning rate – Stage 3

	2019			2018		
in millions of euros	Loans	Provisions	Provision rate	Loans	Provisions	Provision rate
Loans and advances due from credit institutions in default						
Loans and advances due from customers in default	437.4	248.4		512.5	280.8	
Debt securities at amortised cost in default	27.0	21.0		6	4.4	
DOUBTFUL BALANCE SHEET LOANS	**464.5**	**269.4**	**58.0%**	**518.5**	**285.2**	**55.0%**
Doubtful financing commitments given	55.0	21.4		52.9	23.3	
Doubtful guarantees given	22.0	5.3		22.1		
Other provisions as liabilities		0.7			1.6	
DOUBTFUL EXPOSURES, ON- AND OFF-BALANCE SHEET	**541.5**	**296.8**	**54.8%**	**593.5**	**310.1**	**52.3%**

Quantitative information

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 2019 using BPCE segmentation

	31/12/2019		31/12/2018	
	Top 10	Top 50	Top 10	Top 50
Retail individual customers	4%	11%	3%	9%
Retail professionals	6%	16%	5%	16%
Corporate	5%	14%	5%	15%

"Disclosure in accordance with IFRS 7".

Geographic exposure

The geographic exposure of outstanding loans primarily concerns the euro zone, and in particular France.

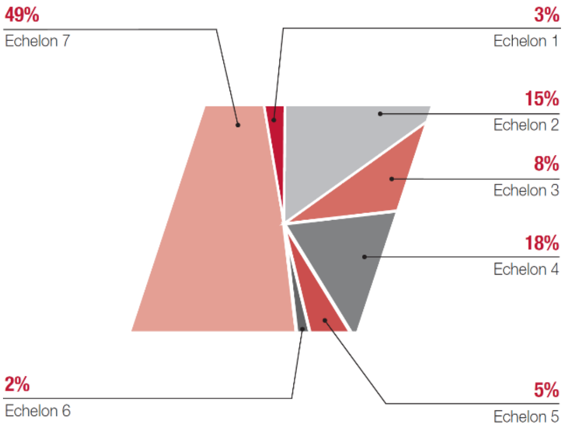
Total country risk exposure was €2,128 million, up from €1,957 million at 31 December 2018. These exposures mostly comprise securities (€939 million).

The Bank has sovereign risk exposure to the following countries: United Kingdom (€517 million), Luxembourg (€268 million), Italy (€210 million), Spain (€171 million), Ireland (€164 million) and Portugal (€156 million).

The Bank's exposure to sovereign risk was €1.394 billion at 31 December 2018. Aside from French government and equivalent exposures, the main sovereign risks borne by Banque Palatine are the following: Spain (€164 million), Ireland (€158 million), Portugal (€155 million) and Italy (€131 million).

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

In comparison, Segments 1 and 2 remain stable at 18% aggregate of total Corporate exposure. The scope of unrated companies (Segment 7) improved slightly in 2019 but remains high (49%).

Note that this data comes from Groupe BPCE's RWA calculation tool.

Loans in forbearance are, logically, distributed more towards the lower credit segments (14% in Segment 4, 32.66% in Segment 5 and 24.7% in Segment 6). There are no cases of forbearance in Segments 1 and 2. There are 24.7% of loans in forbearance on Segment 7. Loans in forbearance represent 0.59% of all corporate loans in 2019.

Monitoring of concentration rates for on- and off-balance sheet exposures

Basel classification	Group name	Gross exposures *(in thousands of euros)*
Corporate	Counterparty 1	100,161
Corporate	Counterparty 2	80,000
Corporate	Counterparty 3	58,151
Corporate	Counterparty 4	56,122
Corporate	Counterparty 5	53,249
Corporate	Counterparty 6	50,920
Corporate	Counterparty 7	50,051
Corporate	Counterparty 8	50,000
Corporate	Counterparty 9	48,658
Corporate	Counterparty 10	46,443
Corporate	Counterparty 11	46,367
Corporate	Counterparty 12	44,524
Corporate	Counterparty 13	44,049
Corporate	Counterparty 14	43,856
Corporate	Counterparty 15	43,629
Corporate	Counterparty 16	42,872
Corporate	Counterparty 17	40,860
Corporate	Counterparty 18	39,746
Corporate	Counterparty 19	39,361
Corporate	Counterparty 20	38,828
TOTAL		**1,017,847**

Breakdown of weighted risks

Risk-weighted assets of Banque Palatine at 31 December 2019

in millions of euros	Gross exposure 31/12/2019	Gross exposures 31/12/2018	Weighted exposures 31/12/2019	Weighted exposures 31/12/2018	Weighting (%) 31/12/2018
Central governments	1,670	1,649	59	77	4.66%
Public sector entities	24	24	0	2	7.14%
Institutions	2,734	3,941	91	94	2.40%
Secured obligations	32	0	3	0	
Corporates	8,647	9,041	6,200	6,569	72.66%
Balance sheet	*5,984*	*6,131*	*5,040*	*5,258*	*85.75%*
Off-balance sheet items	*2,664*	*2,910*	*1,160*	*1,311*	*45.06%*
Retail customers	802	774	479	472	60.92%
Balance sheet	*635*	*655*	*427*	*433*	*66.08%*
Off-balance sheet items	*168*	*119*	*52*	*39*	*32.67%*
Exposures guaranteed by a mortgage on a real estate asset	3,302	2,602	1,372	1,077	41.39%
High-risk exposure	431	518	518		
Exposures in default	585	630	303	362	57.50%
Equities	26	19	28	19	99.12%
Other items	131	107	102	89	82.55%
TOTAL	**18,385**	**18,787**	**9,157**	**8,760**	**46.63%**

Market risks

Organisation of the management of market risk

The decision-making committees are the Audit and Internal Control Committee, discussed above, and the Finance Committee.

The latter, 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;
- monitoring liquidity and rate management risks;
- managing regulatory ratios, BPCE ratios and monitor compliance with internal limits;
- taking 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 American law, the so-called Covered Funds.

At 31 December 2019, the mapping of the institution's market activities revealed, as in previous years, five internal units that were the object of an exemption as defined by Act No. 2013-672 of 26 July 2013 on the separation and regulation of banking activities (and four complementary units within the meaning of the Volcker law). These units are covered by a mandate that defines healthy and prudent management and risk characteristics.

In addition, Banque Palatine, through its membership of the BPCE "small group", signed, in 2019, certifications attesting its compliance with the US Legal Entity Management regulation. The date of the latest certification, pursuant to Group procedure, is 27 October 2019.

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. 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 risks are monitored in the following areas: 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.

Market risk measurement and surveillance

The overall limits of market risk are set and reviewed, as often as necessary and at least once per year, by the effective managers and 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 tests may be based on equity, interest-rate, credit, currency or commodity factors. Eleven historical stress scenarios have been devised for the Group 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 back office and middle office, within the banking services division, complete the range of organisational measures. They carry out permanent controls for the administrative section.

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.

Market risk measurement methodology

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 in relation to market risk

The “Market risk” RWAs, which measure exposure to market risk (interest rate, currency, option risk, etc.) were calculated by Banque Palatine until June 2019 using software provided by an external publisher and, from September 2019, by software developed in-house. The risk management division carries out 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 calculate the potential loss, in the event of such situations.

Since 2009, the Group’s risk management division has been 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 occurrence and identified 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 occurrence. 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 historical stress scenarios have been in place since 2010,
  - hypothetical scenarios that 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 (avian flu, for example). The Group runs six theoretical stress tests since 2010;
- the banking book stress tests are calibrated 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 a European sovereign crisis, similar to the 2011 crisis,
  - a fixed-income stress test calibrated using a mixed hypothetical and historical approach to reproduce a corporate issuers crisis similar to the 2008 crisis.

These stress tests are defined and applied jointly to the entire Group to enable Groupe BPCE to be able to carry out 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.

Quantitative information

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

in euros	Sub-segment	VaR at 31/12/2018	VaR at 31/03/2019	VaR at 30/06/2019	VaR at 30/09/2019	VaR at 31/12/2019	Change in VaR between 31/12/2018 and 31/12/2019
Segment							
Capital markets	Currency, interest rates...	16,461	16,290	19,818	22,624	13,869	(2,592)

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. No active breach (other than technical breaches) of the limit were identified in 2019.

Work done in 2019

The financial risk department notably worked on IT and regulatory projects.

IT projects

Launched in 2018, the project for the referral transactions to the Group risk management division (DRF) in the Positions Database for the calculation of VaR (Scenarisk), for compiling reports on held-to-maturity securities and for European regulatory reports, in order to comply with an ECB recommendation, continued during 2019. The scope of these daily flows was validated and completed manually at the end of each quarter. As a reminder, the Positions Database summarises all positions on a daily basis and also allows analyses and simulations to be run autonomously, without the requirement for any specific or dedicated collection of information from institutions.

Up until June 2019, maintenance was performed on the automated monthly Front-to-Back reconciliation process between Kondor (front-end system) and ECM (back-office system).

The financial risk department, assisted by EY, implemented a RWA Market Risk calculation tool which corrects any incomplete parameters in the previous Fermat CAD tool (which is moreover no longer supported in Windows 10).

Lastly, the financial risk department participated in specification and certification work as part of the Banque Palatine information system migration project, including the migration of the dealing room system to the Groupe ChRome system.

Regulatory projects

Work has been conducted or new controls introduced regarding developments in relation to the SRAB/Volcker and EMIR regulations, under the guidance of the ACPR and the AMF, steered by the Group's RCPCD (Volcker Office).

Liquidity, interest and exchange rate risk

Liquidity and rates risk management policy

Banque Palatine 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 Banque Palatine are in line with those included in the Group's asset-liability management framework.

The elaboration of scenarios is necessary to properly evaluate the interest rate and liquidity risks incurred by the institution, assessed 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).

Governance and organisation

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.

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, 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 interest rate, liquidity and exchange rate risks, on a static and dynamic basis;
- it looks into updating forecast net banking income at three years and follows the limits, including those relating to 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.

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 the period (t). It is calculated using average assets for period (t).

Banque Palatine ensures that it sufficiently balances its assets and liabilities in the long term, to avoid finding itself in a position of disequilibrium in terms of liquidity.

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, Banque Palatine respected its limits.

Monitoring interest rate risk

Further to changes to the guidelines issued by the European Banking Authority (EBA) on interest rate risk in the Banking book (IRRBB) published in May 2015, significant changes have been made to the methodology used to calculate the Standard Outlier Test (Sot). In addition, the regulation required the creation of a new internal monitoring indicator, the Economic value of equity (EVE).

The implementation timetable was as follows:

- 31 December 2018: double production with the previous SOT still subject to limits (in the RAF) + new calculation of SOT and EVE for the "pilot" institutions;
- 31 March 2019: exit from RAF and calculations of the previous SOT + calculation of new SOT and EVE and integration of a limit (17%) on EVE in the RAF;
- 30 June 2019: regulation comes into force.

The purpose of the two indicators is to calculate the current net value (CNV) of the equity capital on the basis of discounted flows for each scenario and then to measure the sensitivity of the CNV for each scenario compared with the reference scenario.

Regulatory indicators with a SOT (Supervisory outlier test) limit are followed in the ALM system:

- by a static interest rate gap indicator; and

- 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 2019, the rate gap limit was breached at the March, June and September reporting dates. Some actions were however taken to reduce the scale of the breaches (investments in sovereign debt, collection of DAV) however these remained insufficient. A note requesting revised limits was sent by the finance division to the Group finance division.

Management of structural exchange rate risk

Banque Palatine's level of exposure to structural exchange rate risk is not specifically monitored on a local basis other than in line with the regulatory thresholds.

Work completed in 2019 (liquidity, exchange rate and interest rate risk)

In 2019, the financial risk department worked on the due roll-out of changes to the ALM limits system of Groupe BPCE's GAP and on the reinforcement of controls, pursuant to the RCPCD's indications and/or in application of changes in regulations.

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 and tax affairs. For the service to operate smoothly, priority skills units have been set up:

- two employees are primarily tasked with handling legal consultations;
- two employees are primarily tasked with management projects;
- lastly, 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, international desks, 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 disseminated within the Bank in the following ways:

- general or targeted information on all legislative, regulatory and case-law developments;
- publication of new or updated 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 in function meetings allowing subjects deemed important by regional managers to be raised and any issues encountered in the context of consultations or subpoenas to be flagged up;
- 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 1,500 questions in 2019.

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.

Within the Bank, the inventory of loans in dispute at the end of 2019 was 113 loans broken down between 87 subpoenas totalling €20.5 million, and 26 claims filed by lawyers seeking a total of €0.71 million.

New loans in dispute in 2019 include 8 subpoenas amounting to €0.3 million and 15 claims filed by lawyers amounting to €0.5 million.

At end 2019, the surveillance and special affairs department is monitoring 510 cases for a total outstanding value of €180 million. In 2019, special affairs were involved in 44 new case representing exposure of €104 million.

Non-compliance, security and operational risks

Compliance

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 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 coordinates the Products and Partnerships Approval Committee in charge of validating the marketing process of any new product and service among customers.

Within the central risk management, compliance and permanent control and financial security division (RC^2S), the compliance functions in Banque Palatine are distributed as follows:

- a compliance-ethics department which ensures, in particular, the implementation of systems intended to guarantee the protection of customers and the integrity of the financial markets in compliance with the regulations in force. To this end, this department is in charge of analysing, measuring and monitoring non-compliance risks and monitors action plans designed to better frame them. Of special Note in 2018 is the project to implement the MIF2, IDD and PRIIPS regulations. The reliability and confidentiality of data have also been given particular attention in the context of the implementation of the General Data Protection Regulation (GDPR) within the Bank;
- 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 point for the Tracfin body, to which it reports on a regular basis. In 2018, work mainly focused on the reinforcement of operational controls in the context of trade activities and the updating of all the operating procedures specific to the department. For 2019, the development of a new tool (Fircosoft) enables international transactions to be filtered more accurately with the automated archiving of the databases checked;
- a permanent controls department, which provides second-level control, with the exception of IT, which falls under the scope of the HISS (see paragraph on "Information systems security"), and control in relation to loans, accounting and the safety of property and persons (see paragraph on "Emergency and business continuity plan").

After the work carried out in 2018 on the sampling standard rolled out by the Group, throughout 2019, the Bank has rolled out the new set of controls applicable to the entire Group.

Business continuity

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 Group's Risk, Compliance and Permanent Controls Charter is ensured.

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 Banque Palatine 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 progress monitoring meeting between the HEBCP and his or her manager is held on a bi-monthly basis.

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 which puts in place crisis communication tools;
- the hosting and repopulation plans which provide for the equipment and organisation of the backup sites;
- the human impacts management plan which manages competences and human resources in the event of a crisis;
- the IT recovery plan which gets IT hardware started up again, and is under the responsibility of BPCE-IT;
- the business line continuity plans which 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 which lays down the policy for reviewing cross-functional and business line plans.

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 which 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), which is supervised by the HBCP and registered in the Group's PRISCOP tool.

Highlights of the year and areas for improvement identified

In 2019, 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:

- test of the "Application recovery plan" on 21 May 2019, in a scenario where the IT system went down;
- conduct of an "IT systems recovery plan" which, given the pre-migration context, was reduced to a simple technical test of the switch-over, without user participation, and within a limited scope. The exercise was validated;
- test of BCP, on 17 October 2019, in a scenario where the physical sites were inaccessible "transfer of users from offices", including moving the user and restarting their production activity on the IT equipment at the back-up sites in Noisy-le-Grand and Val de Fontenay (for employees at the rue d' Anjou head office). Around 60 people took part, including 51 at the Noisy-le-Grand site. This exercise validated the crisis management and communication tools;
- on 28 November 2019, a crisis management test was run on a scenario where skills became unavailable to test the Human Impact Management Plan (HIMP);
- 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;
- continuation of the 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 49 of the Bank's critical activities.

The action plan for 2020 also includes:

- continuing to provide person-to-person training for new BCP correspondents (and deputies) on the roles, issues and responsibility of their function;
- 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;
- drafting the Business Lines Continuity Plans for non-critical activities, in order to raise awareness among a greater population regarding the issues of business continuity and, in particular, the organisation of the reintegration into day-to-day business of those activities abandoned during crisis periods;
- taking part in one of the PRA "Unavailability of IT systems" exercises run by BPCE-IT, with recovery of Bank activities from the back-up site. The exercise will be transparent for end 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. Please note that consideration is currently being given to a complete re-working of this "Unavailability of premises – transfer of users" exercise, given the IT migration scheduled for April 2020. A principle has however been agreed with IBM (transfer site) for the period 2020;
- completing the test of another "Unavailability of premises" specific to users in the Middle Office of the regulated real estate professions department and in the *Palatine et Vous* branch call centre. This exercise will take place after the telephone server has been migrated on to group tools;

- running a crisis management exercise simulating the scenario of unavailability of key competences;
- to activate any PUPA-related measures as needed as a result of the Covid-19 health crisis.

Information systems security (ISS)

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 and three organisational instruction documents. 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.

Banque Palatine's IT operations were outsourced to 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.

Permanent ISS controls are carried out by BPCE-IT and reported quarterly to the Bank.

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.

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 has set up a cyber security vigilance system called VIGIE.

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.

Groupe BPCE's information systems security (ISS) 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 HISSs (heads of information systems security) 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 HISS and more generally the HISS of all affiliates (parent companies, 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 (RC^{2}S) whose Head reports to the Chief Executive Officer. The ISS team has its own budget which allows it, where necessary, to resort to experts – for example, to carry out intrusion tests. Following a resignation, the HISS position remained vacant until February 2019.

Operational risk

Operational risk monitoring organisation

The framework for managing operation risks is part of the Group's Risk Assessment Statement (RAS) and Risk Appetite Framework (RAF). These provisions and indicators are broken down for each of the Group's establishments and subsidiaries.

Operational risk function covers:

- all entities consolidated or controlled by the establishment or subsidiary (bank, financial firm, insurer, etc.);
- all the activities having operational risks, including outsourced activities as defined by Article 10 q) and 10 r) of the order of 3 November 2014 "outsourced activities and provision of services or other essential or important operational tasks".

The operational risk department of Banque Palatine relies on a decentralised system of correspondents deployed throughout the Bank. The operational risk department leads its operational risk correspondents.

The operational risk department provides the first step in permanent second-level control of the operational risk management division. The second step is done by Group's risk management division.

The role of the correspondents is to:

- regularly identify and rate, as "business line" experts, operational risks liable to impact their scope/field of activity;
- provide and/or produce information to inform the operational risk management tool (incidents, indicators, action plans, mapping);
- mobilise implicated/authorised persons when an event occurs in order to undertake, as soon as possible, mitigation measures and then define or implement necessary actions to limit the impacts;

- limit the re-occurrence of incidents/risks through the definition and implementation of preventative action plans;
- handle and manage incidents/risks in conjunction with the heads of activity.

The operational risk management division of our institution, by its action and organisation, contributes to financial performance and to the reduction of losses, ensuring that the system for controlling operational risk within our institution is reliable and effective.

The Operational Risks and Security Committee 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.

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. It steers the operational risk control framework and monitors the level of risk, provides second-level approval and monitors action plans to reduce exposure. It reviews identified incidents and controls follow-up of the resulting action plans. It reviews the contribution of the risk management function to permanent controls and, if necessary, decides measures to improve procedures.

The Head of operational risk reports to the Banque Palatine Head of risk management. He or she is responsible for the different elements of the operational risk system: mapping, incidents, indicators, action plans, and reporting within the scope concerned. He or she also participates in the internal control framework of Banque Palatine.

In this role, he or 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 (Risk Assessment Framework – RAF and presentation of Group alerts and Art. 98);
- lead the committee in charge of operational risks;
- participate, where necessary, in committees associating other cross-cutting functions or business lines (quality, for example).

Within Banque Palatine, the guidelines and governance rules are defined in the following manner:

- Banque Palatine has opted for a decentralised system;
- the effective managers are informed of major incidents through two channels:
  - the Audit and Internal Control Committee which deals with key points from the Operational Risks and Security Committee,
  - any alerts triggered under Article 98 of 3 November 2014.

Banque Palatine now uses 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 risks, making it possible to define Banque Palatine's risk profile;
- collect and manage incidents generating or liable to generate a loss in accordance with new standards;
- update the rating of risks in the risk map and monitor the action plans.

Banque Palatine also has reporting items feeding into the Risk Assessment Framework – RAF.

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.

The duties of the operational risk department of Banque Palatine are carried out with the Group, which oversees the effectiveness of the systems deployed within the Group and analyses the principal demonstrated and potential risks identified in the institutions, notably during the Group's Operational Risk Committee Meetings.

Operational risk measurement system

In accordance with the Group's Risk Charter, Banque Palatine's operational risk management division is responsible for:

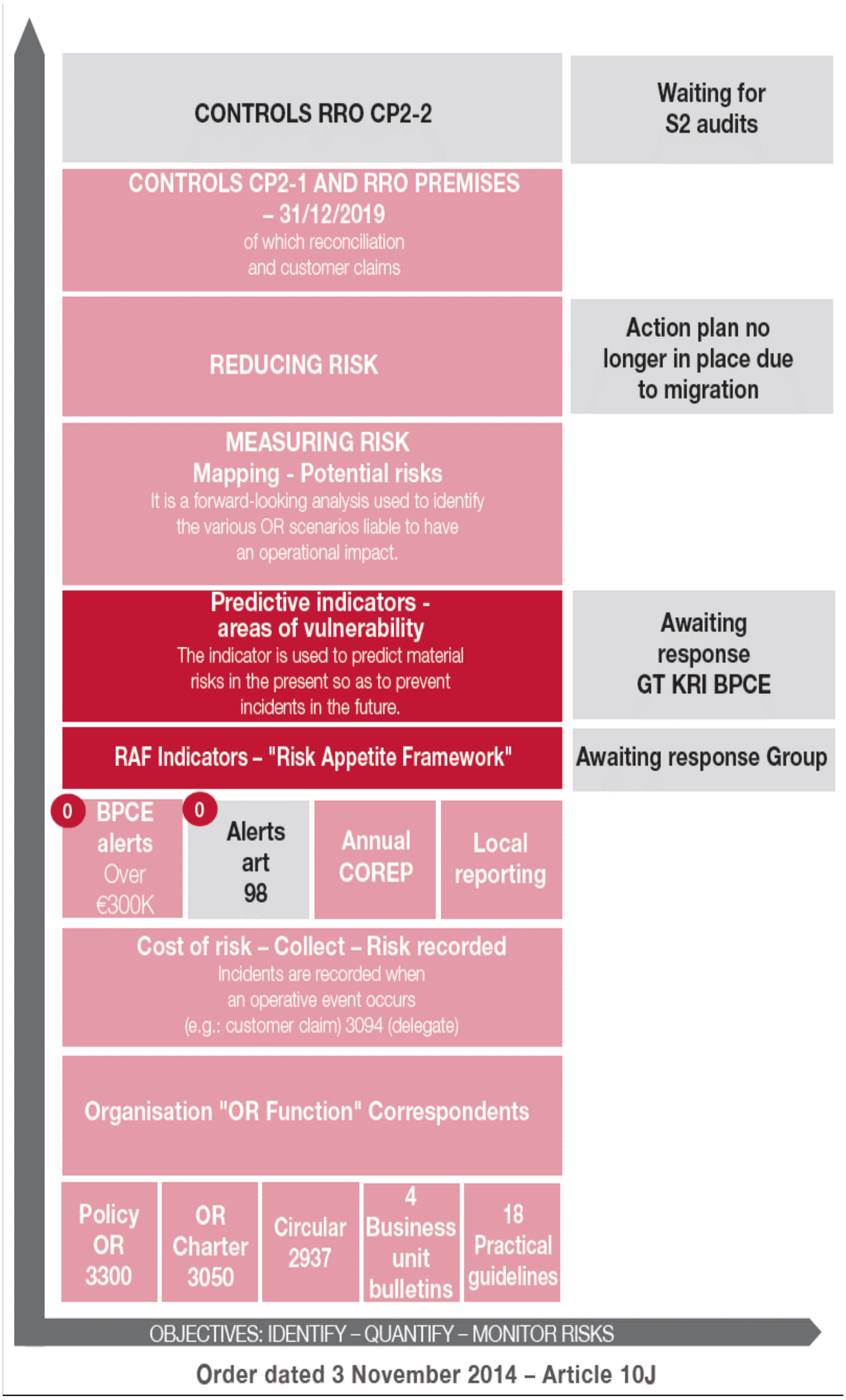
- the development of systems allowing the identification, evaluation, oversight and control of operational risk;
- the definition of policies and procedures for the management and control of operational risk;
- the design and implementation of an operational risk evaluation system;
- the design and implementation of the operational risk reporting system.

The duties of the operational risk division 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 mapping used by the permanent and periodic control functions;
- to implement warning procedures, and notably inform the operational managers according to the action plans implemented;
- to monitor the corrective action plans defined and implemented by the operational units concerned in the event of a severe or significant incident.

Work done in 2019

Operational risk systems at 31 December 2019.



These affected the whole operational risk system, the procedures, collection, risk-mapping, operational risk indicators and Risk Assessment Framework (RAF), controls and reporting.

Bank's cost of risk for operational risks at 31/12/2019

Company COREP	31/12/2015*	31/12/2016	31/12/2017	31/12/2018**	31/12/2019
TOTAL IN AMOUNT (920)	**3,987,039**	**6,415,576**	**7,250,973**	**1,353,319**	**2,009,327**
of which gross losses new events				2,072,018	2,521,372
of which adjustment previous net losses (+)				(718,699)	(214,139)
of which recovery of direct losses (-)					297,906

** Financial period in place of rolling periods by flows.*
*** Excluding RORC and new events.*

The main losses recorded relate to cheques and wire transfers (fraud/forgery involving cheques and execution errors for wire transfers).

Climate risk

Organisation

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 TEC 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.

In the context of the fight to prevent climate change and its contribution to the carbon neutral by 2050 target, in 2019, Groupe BPCE continued its commitment and investments in relation to the management and steering of climate risk.

The Group participates:

- in the AMF's Climate and Sustainable Finance commission, created on 2 July 2019, whose role is to move practices forward, increase transparency and facilitate the inclusion of sustainability factors as well as the mobilisation of funds to promote more sustainable activities;
- in the ACPR's Climate commission which carries out regular monitoring and assessment of the undertakings made by banks and insurance companies and ensures that these undertakings are coherent with the strategies adopted by these institutions. It also acts as a link to the work carried out by the network of central banks and supervisory authorities to promote the greening of the financial system (NGFS) created by France and which now includes nearly 50 supervisory authorities, central banks and international organisations;
- in the FBF's Climate Commission, chaired by Laurent Mignon, Chair of the Management Board of Groupe BPCE. The FBF encourages its members to adopt a strategy on coal and carry out methodological work in cooperation with the supervisory authorities on the assessment of portfolio exposure to climate risk and aligning investment portfolios with a 2°C scenario.

On 23 September 2019, Natixis and Groupe BPCE signed the "Principles for Responsible Banking" which define the role and responsibilities of the banking industry in the construction of a sustainable future, in continuation of the goals set by the United Nations and the 2015 Paris Climate Agreement.

Groupe BPCE also contributes to the work carried out by various European banking associations, the "Net Zero Initiative", in order to develop its strategy for the management of climate-related risks and reinforce its environmental expertise.

In line with the principles established by the working group on climate-related financial disclosure, further to the April 2015 G20, Task Force on Related Financial Disclosures, Groupe BPCE implemented the following in 2019, divided into four items:

GOVERNANCE

As part of the 2018-2020 "Financing a responsible economy" strategic plan, climate risk issues are addressed in the monitoring committees.
Creation of a Climate Risk Unit within the Risk Governance Department of the Risk Management Division since 1 January 2019, which works with the CSR Unit of the BPA Division of BPCE SA.
Representation of climate risk and CSR expertise on risk committees working on segment monitoring.

STRATEGY

trategic objectives set up by the "financing a responsible economy" plan:
- Reduce carbon emissions generated by the Group;
- Increase financing for the energy transition;
- Increase responsible savings deposits;
- Develop intermediation for sustainable financing (green or social).

Natixis Assurance's commitment to aligning its financing with the objectives of the Paris Agreement and a 2°C scenario.

RISK MANAGEMENT

Systematic integration of ESG criteria into credit risk policies.
Integration of climate risk in the Group's internal risk framework and risk macro-map.
Development of transparent sector policies on controversial activities in the Natixis scope, accompanied by an update of the coal policy.
Setting up the "Green Weighting Factor" tool, the first of its kind in the world, created by Natixis to analytically adjust the risk weighting of Natixis financing according to its impact on the climate.

INDICATORS AND METRICS

Definition (currently under way) of sector-specific ESG performance indicators.
Construction of a taxonomy to identify green assets in information systems.
Carbon footprint measurement tool to assess the carbon impact of fund strategies at Mirova.
Tool dedicated to establishing the Group's greenhouse gas (GHG) emissions assessment.
Participation in market research on the development of climate stress tests taking into account transition and physical risks.

5

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1 Statement of non-financial performance

Banque Palatine, a hybrid business model within Groupe BPCE

For over 230 years, Banque Palatine has established a relationship of excellence and partnership with each of its corporate customers, senior executives, and private banking. Value added: close relations, recognised expertise in business lines and customised solutions based on a singular business model.

1

A REASONABLY SIZED BANK

→ A network of **43 branches** in France, working with specialist business lines (private banking, corporate finance, real estate, international, dealing room, etc.) today supports **13,000 companies and 61,000 private customers.**

2

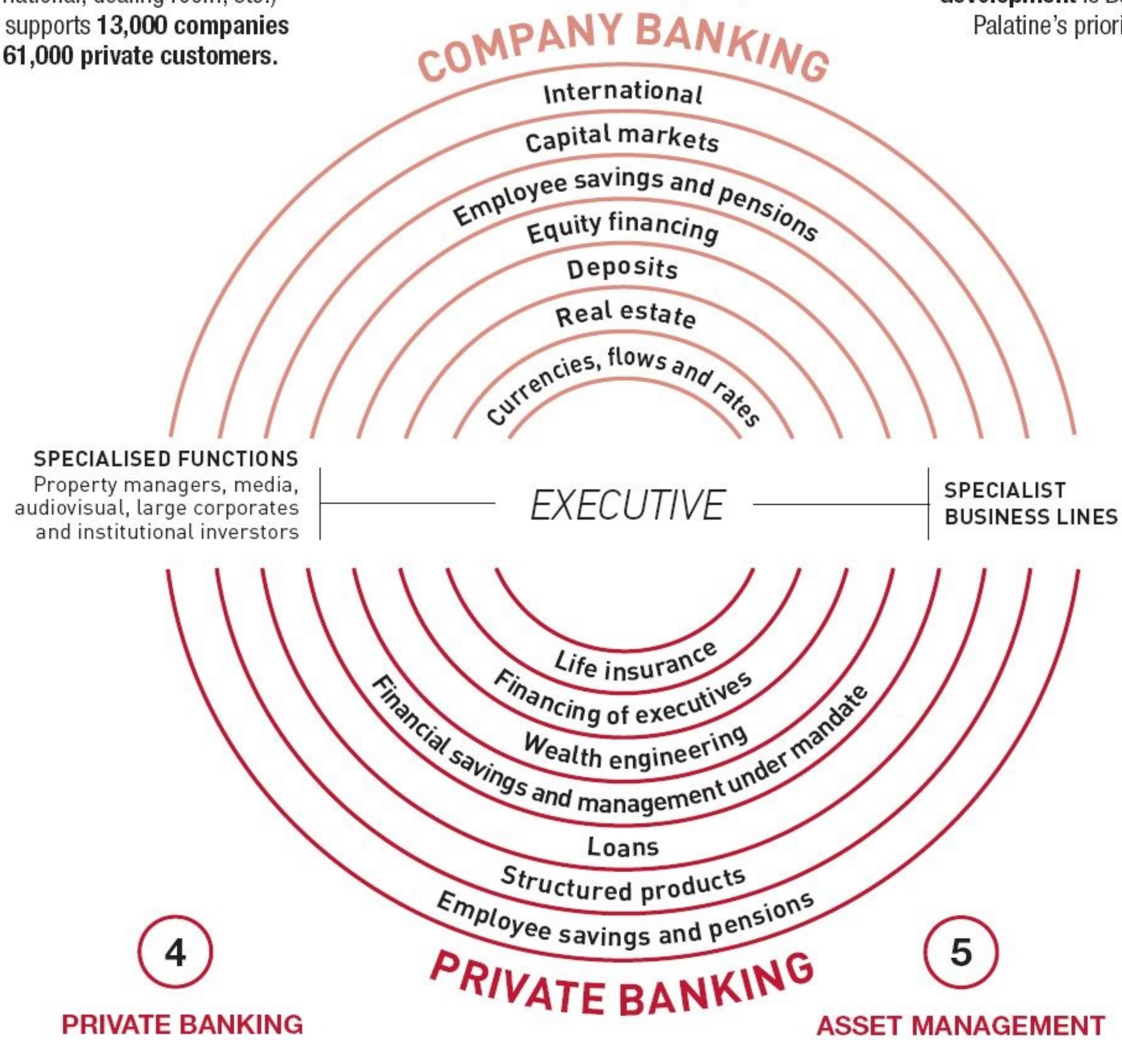
THE STRENGTH OF THE 2ND-LARGEST FRENCH BANKING GROUP

→ As a wholly-owned subsidiary of Groupe BPCE, Banque Palatine generates **synergies** in terms of resources and benefits from the Group's **expertise**.

3

CORPORATE BANKING

→ **Mid-sized companies** offer the main growth potential for the French economy. **Fostering their development** is Banque Palatine's priority.



4

PRIVATE BANKING

→ Providing bespoke solutions and high-added value advice on **the global management of private and professional wealth** is also an area of Banque Palatine specialisation.

5

ASSET MANAGEMENT

→ Palatine Asset Management offers **its private and institutional customers** management that has proven its strength over the last 30 years. For over 10 years, it has also consolidated its choice of values in view of sustainable development issues.

A CSR strategy at the heart of its Envol 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, regards social responsibility as a key issue based on three principles:

- first of all human: maintain a sustainable and bespoke relationship with customers and employees;
- support: to stay close to customers not only as a financier but also as a true partner going beyond the role of banker;
- collective working: favour co-construction and collective intelligence to incite creativity, pro-activity and enrich the solutions offered.

Key principles

The CSR process is built around five principles:

- guaranteeing the ethics and transparency of our practices:
  - by acting in a responsible manner and as a bank that keeps its promises,
  - to create the conditions for the development of a relationship of trust with our stakeholders;
- supporting players in the real economy:
  - by engaging alongside medium-sized businesses and encouraging Socially Responsible Investment,
  - to help finance companies with the best social, environmental and governance practices;
- fostering diversity every day:
  - by taking care of our human capital and our gender mix, and committing ourselves to people with disabilities,
  - to increase creativity and performance;
- caring for the environment:
  - by mobilising to reduce our environmental footprint and by encouraging the transition towards a more sustainable economy,
  - to help reduce greenhouse gas emissions;
- cultivating our commitments in the city:
  - through philanthropy, by supporting the arts, strengthening our partnership for equal opportunities and working through the Fondation Palatine with medium-sized companies,
  - to strengthen the sense of our actions.

CSR at the heart of the Envol strategic plan

The Envol 2018-2020 strategic plan outlines the ambitions of a specialist, efficient, committed and human-scale bank. It is structured around five measures:

"Accelerate our development and adapt our distribution model"

Banque Palatine wishes to strengthen its position with medium-sized businesses and their senior executives, and continue to develop in the private banking market. It therefore intends to enhance the value generated by its goodwill, create new sources of revenue, while controlling its level of risk.

"Strengthen our operational efficiency"

Migration to the Equinoxe platform should allow us to become more efficient, offer more digital services and, in so doing, better meet the needs of customers and employees. Banque Palatine aims to streamline its processes and develop project culture and continuous improvement.

"Put faith in our human capital and pursue excellence"

Banque Palatine's human capital is a differentiating factor. The courage, commitment and expertise of its employees has allowed the Bank to achieve its past ambitions and must now allow it to accelerate its transformation and development.

"Strengthen our commitment to society"

To establish its unique position as partner of medium-sized companies and a "real economy player", Banque Palatine is determined to meet the challenge of fully integrating social concerns into our everyday work.

"Develop synergies within Groupe BPCE"

Being part of Groupe BPCE allows Banque Palatine to combine the flexibility of a medium-sized company with the power of the second-largest banking group in France. It expands our scope for intervention in the market and means we can pool operating expenses.

The "Strengthen our commitment to society" principle embodies the CSR process in four main projects:

- creation of the Fondation Palatine des ETI;
- SRI offer;
- renewable energies offer;
- reducing environmental footprint.

Analysis of CSR issues, risks and opportunities

Gross/net risk matrix

To identify the most strategic CSR issues, the Group drew on work performed in 2017 for the TEC 2020 plan, and on mapping key ESG risks.

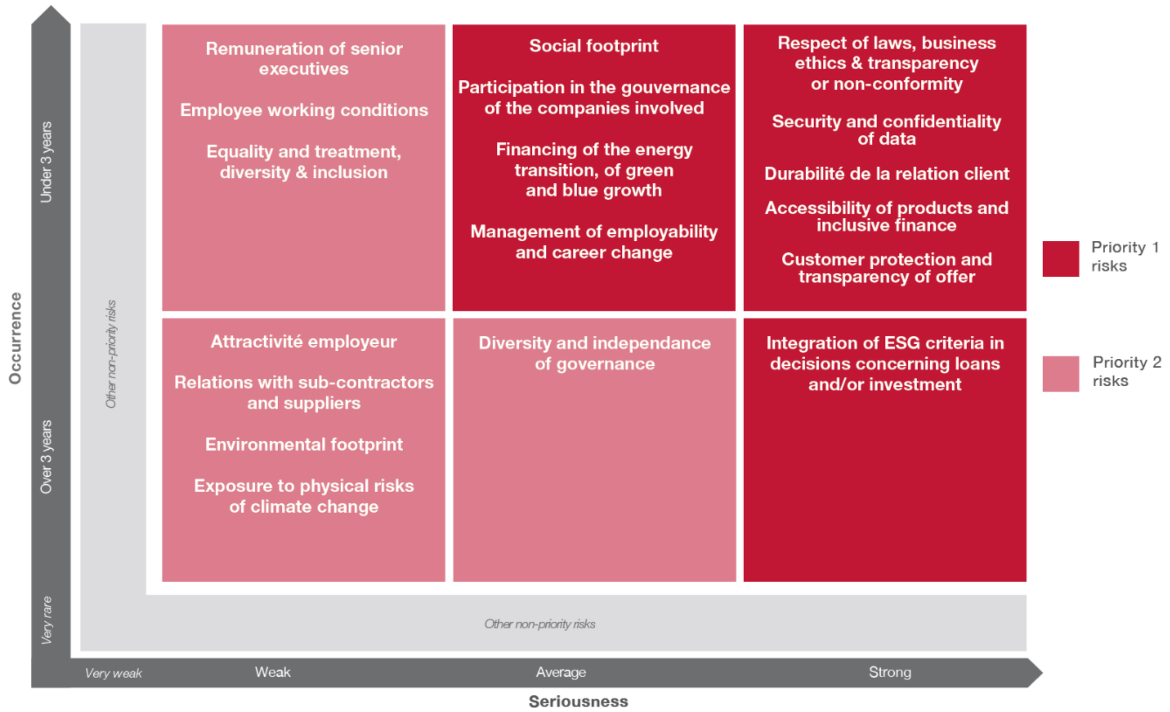
This analysis is founded on the risk analysis methodology of the Group's Risk management, compliance and permanent control division and defines:

- a universe of twenty CSR risks of three types: governance, products and services, internal procedures. They were defined based on regulations, market practice, rating agency valuation criteria and CSR and reporting standards (*e.g.:* Task Force for Climate); each risk is precisely defined;
- a methodology for ranking these risks based on their frequency and severity;
- a methodology for reviewing risk management procedures.

The ranking of risks was based on interviews with business line experts to whittle the universe down, in 2018, to 10 major risks that Banque Palatine is exposed to. This ranking was updated for 2019, and thus the initial analysis was updated to obtain the gross risk matrix below.

As set out below, all environmental, social and governance risks are addressed through specific commitments in the Envol strategic plan or in the business line action plans presented in this declaration. Key performance indicators to track progress of these projects are included in the Appendix.

Gross risk matrix (or risks inherent to Banque Palatine)



Closeness to customers

Data security and IT integrity

Information systems reliability

Banque Palatine created a governance department in 2017 supported by data correspondents in each business line. The comprehensiveness and reliability of data in strict compliance with personal data protection regulations is a major concern for the Bank to meet the needs of its customers and legal and regulatory constraints.

Personal data gathering and use

Following implementation of the General Data Protection Regulation (GDPR) on 25 May 2018, Banque Palatine appointed a Data Protection Officer (DPO). The DPO can call on a Data Protection structure within the Bank's business lines.

The DPO monitors the application of the data protection regulation. It provides support, advice and raises awareness among the Bank's stakeholders.

Under this context, several actions were performed in 2019, in particular:

- a network of Data Protection contacts was deployed;
- the mapping of personal data mapping was updated;
- monitoring of the mandatory training specifically focussing on personal data protection;
- awareness actions for the business lines;
- review of information notices on data protection for the Bank's customers and employees;
- formalisation of procedures including one linked to project management;
- updating of data collection documents and subcontracting contracts;
- implementation of reporting.

As of 2018, the Bank made a commitment to its customers and employees:

- to use their data solely to provide personalised advice and marketing, higher-quality service and the necessary information to support good decision-making;
- to ensure that data security would be at the heart of its procedures;
- not to sell personal data, never to collect or process data without their owners' knowledge and respect their choices on soliciting and canvassing;
- to explain how personal data are used at Banque Palatine;
- to inform them regarding the relevant rights.

The data is only ever communicated, on the basis of clear information, in accordance with regulatory obligations or to enable the provision of defined services with stakeholders who are committed to respecting the regulations in force.

Exposure to risks of climate change/inaccessibility of buildings

Since 2018, the Bank has adopted an analysis of exposure to the physical risks of climate change into its internal processes. This risk is defined as the deterioration of the premises used by the Bank due to extreme climate events:

- inaccessibility of premises (head office, administrative and branch offices) and professional tools would prevent Bank employees from trading on its own account or for its customers;
- the risk analysed is that of a 100-year flood, as the Bank's buildings are all in France, they are not particularly exposed to other risks, such as extreme heat or cold, hurricanes or tsunamis.

The risk of flood rendering buildings inaccessible is considered to be low for all buildings in use as it would only affect two branches in an area that might flood in the event of exceptional flooding near the Seine.

Intrusion in the IT system – cybercrime

Groupe BPCE has developed a Group information systems security policy (G-ISSP) including a collective system for cybercrime vigilance. 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 comprises an ISS Charter with 430 rules and is reviewed annually as part of a continuous improvement process.

Since 2017, the Group's "IT factories" will be responsible for implementing and controlling the ISSP in their institutions, instead of the financial institutions themselves. Since Banque Palatine still has a significant private portion, controls are still performed within the establishment.

In 2019, BPCE deployed a tool (DRIVE – Archer Edition) to oversee the security of the IT systems. Each establishment has had to define the division between the G-ISSP rules that fall under the responsibility of BCPE-IT (community-based) and those which are the responsibility of the establishment (private). This division is called "trimming". In view of the migration of the IT system planned for April 2020, these works have been postponed until after the migration.

2019 was also marked by preparations for the migration of the EQUINOXE system.

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 has been rolled out across all entities since 2015.

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, at the end of 2014, the Group set up a cyber security vigilance system called VIGIE. We have continued to mature and industrialise this system, obtaining the "CERT" label which means it can 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.

Business practice led by ethics and example

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.

The measures taken to fight against the risk of corruption are based on the Bank's rules of procedure of which one chapter is dedicated to the fight against corruption and influence peddling. Employees must ensure that they behave in accordance with professional ethics and help, in the context of their due diligence and/or reporting of suspicion obligations, prevent money laundering, terrorist financing, and the fight against fraud and corruption.

These arrangements are reflected in the Bank's procedures and documentation, including in the following areas:

- mapping of corruption risks;
- 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;

- policies relating to gifts, benefits, invitations, travel, donations, expense claims;
- selection of intermediaries and financial partners;
- confidentiality;
- mandatory employee training on the essentials of professional ethics;
- internal whistle-blowing system;
- control systems.

In 2019, Banque Palatine did not receive any penalty for any anti-competitive, anti-trust or monopolistic behaviour.

Anti-money laundering/terrorist financing

Efforts to combat money laundering and terrorist financing are based on a mapping of non-compliance risks by process and a risk management system whose financial security component includes:

- 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 plan;
- 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.).

Training programme on anti-money-laundering policies/procedures

These programmes are based on a mapping of non-compliance risks by process as well as a risk control system which includes:

- for the financial security portion:
  - 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.);
- for the ethics portion:
  - the rules of procedure, the Compliance and Ethics Charter,
  - e-learning on the essentials of professional ethics,
  - an alert system for employees.

At the end of 2017, an initial mapping of exposure to corruption risks was performed on the instructions of Groupe BPCE based on a simple mapping method to facilitate an appraisal based on:

- exposure to corruption risks according to the different third party categories in relation to the Bank;
- customer segments focusing on certain categories of customers identified as sensitive;
- external third parties such as advisors, suppliers, financial partners, intermediaries;
- efficiency of the risk control system based on the existence of procedures to reduce exposure to corruption risks.

On a scale of 1 to 4, the global appraisal of the risk control system was rated 2 (efficient) and the general evaluation of exposure to corruption risk was rated 2 (average).

Corruption, which is defined as an action by which a person proposes or agrees to an undue advantage to a person in exchange for an action falling under the latter's position, is fraudulent and unethical behaviour and can incur heavy criminal and administrative penalties.

The BCPE Group condemns corruption in all its forms and in all circumstances. In this context, it is a signatory of the Global Compact whose 10th principle concerns action "against corruption in all its forms including extortion and bribery."

Banque Palatine Group indicators	2019	2018	2017
% of employees trained in anti-money-laundering (excluding ALD)	88	97	72

In 2019, there was a decrease in the rate of AML training. This is due to the nature of the campaign in 2019: aimed at new recruits only, where in 2018, this was a Bank campaign.

Fraud

The risk management, compliance and permanent control division is in charge of the measures in place to prevent and deal with cases of fraud within the entity. To do this, requests to detect errors are managed by a dedicated unit. This same unit is responsible for listing all of the cases of fraud or attempted fraud detected. This structure is supplemented by a Fraud Committee, which is made up of representatives of the Bank's main business lines, the network, communication and operational risks, to identify and monitor the action plans created to deal with cases of fraud or attempted fraud detected. The Fraud unit is also in charge of prevention actions, such as training and communication actions.

These systems for the prevention and monitoring of fraud will be further consolidated as a result of the IT migration in force, which will ensure that the entire system deployed by the BCPE Group is integrated into its entities.

Conflicts of interest

In accordance with regulation, Banque Palatine has established and maintained a policy to identify, prevent, and manage conflicts of interest.

The policy seeks to ensure that Banque Palatine complies with best professional practice and carries on its business in an honest, fair and professional manner that puts their customers' interests first.

Accordingly, organisational measures and rules were put in place to prevent conflicts of interest, specifically:

- ethical rules imposing a privacy or confidentiality obligation on all information collected during customer transactions which seek to ensure the requisite equity and fairness for customers;

- the hierarchical and physical separation between activities that could raise conflicts of interest by limiting access to confidential and insider information;
- identification and control of remuneration received and paid by Group entities during transactions with customers;
- transparency in respect of gifts or benefits received during the course of professional activities;
- transparency of corporate offices exercised by senior executives of entities or their employees either professionally or in private life;
- monitoring and control of the quality and compliance of commitments and services provided by external service providers.

Investors: transparency

New regulations on markets in financial instruments, MiFID2 and PRIIPS (Packaged Retail Investment and Insurance-Based Products) have been a particular subject of attention for Banque Palatine. Both sets of regulations seek to reinforce market transparency and investor protections and impact the Bank as a distributor of financial instruments by improving the quality of the customer journey for financial and insurance products. They require:

- validation of new activities and new products by the Product and Services Approval Committee;
- adaptation of customer data collection and know-your-customer documentation (customer profile, customer projects classified in terms of their objectives, risks and investment horizon) and IT developments to provide appropriate support when giving advice;
- formal documentation of customer advice (suitability report) and acceptance of advice (issue of disclaimers to customers if applicable);
- structuring of relations between producers and distributors to meet the new regulatory requirements;
- integration of provisions for transparency of costs and expenses;
- drafting of value-added reporting to customers and storing of exchanges in the framework of customer relations and advice;
- direct reporting of transactions and declarations of transactions to regulators and the market, best-execution and best-selection obligations;
- training for employees in change management related to these new processes;
- clearer information in relation to fees and their impact on performance by means of an annual summary of fees but also in terms of each transaction.

Inclusive finance

Financial inclusion is an important objective of retail banks. Banque Palatine, a subsidiary of the BCPE Group, which itself is an important player in financial inclusion, takes this subject to heart despite the fact that the characteristics of its customer base, for whom many texts are available on this subject, do not *a priori* present the characteristics of a financially vulnerable customer base.

Within this context, Banque Palatine has adapted its pricing with regard to the legal and professional obligations, for September and December 2018, namely:

- the implementation since the beginning of 2019 of a ceiling on incident costs of €25 per month for customers in a vulnerable financial state;
- and a ceiling on incident charges of €16.50 per month for customers with an Offer for vulnerable customers.

However, it has no plans to develop other measures to combat banking exclusion.

This observation and the Group's recommendation to set up a dedicated unit for vulnerable customers led Banque Palatine to approach a group entity (BPCE Solutions Crédit) specialising in inclusion issues. This entity is also responsible for improving the management of financially vulnerable customers and their satisfaction due to their significant sensitivity to risks, regulations and solutions specific to this type of customer.

The management of over-indebtedness was also outsourced to this structure at the end of November 2019.

An initial meeting to outsource the management of financially vulnerable customers is also conducted with the aim of transferring the management of said customers after the IT migration, so that the detection of these customers is based upon community tools.

Customer protection

The customer protection rules exist to correct the information asymmetry between the customer (not always able to correctly assess the advantages, disadvantages and risks associated with a certain product) and the professional, an employee of a financial institution. For professionals, this means adopting fair commercial behaviours and practices, taking into account the interests of the customers, limiting their risks and preventing conflicts of interests to the prejudice of customers.

The measures already outlined in the preceding points (conflicts of interest, transparency, etc.) and the following points (ethics and governance, etc.) explain the measures in place with regards to customer protection and good commercial practices throughout the commercial process. Nevertheless, the efforts also relate to better customer segmentation, and even their management by dedicated subsidiaries, so that employees can lend their better expertise in specific segments.

Since there is no option to create a dedicated subsidiary within the Bank, the use of external service providers, such as those sought within the framework of banking exclusion is still a possible solution.

Ethics and governance

In line with its strategic plan, Groupe BPCE has had a Group Code of Conduct and Ethics since 2018. This was approved by the Executive Management Committee and the BPCE Supervisory Board's Cooperative and CSR Committee.

The Code is:

- based on international values and standards;
- practical, with specific case studies;
- a three-stage process: a message from executive management and principles of good conduct, an approach by business line to develop case studies (customer interest, employer responsibility, social responsibility) and a validation and deployment phase in the entities and subsidiaries.

The Code of Conduct and ethics, developed collaboratively within the Group, sets out the principles that should guide the actions of employees in the interest of their company, economy and society and professional rules of conduct.

This Code was presented to the Banque Palatine Social and Economic Committee in December 2018.

Following the publication of the Code, all employees received training in order to master its principles, integrate ethics into the human resources process and ensure consistency between the Code and internal procedures.

A "fundamentals of ethics" training programme is already deployed in the Group and has been enhanced.

Also, to apply these rules at the top levels of Banque Palatine, the Board of Directors unanimously adopted the Director's Ethics Charter of Banque Palatine in December 2018.

In accordance with Articles L. 511-51 and L. 511-52 of the French Monetary and Financial Code transposing the CRD IV directive, the Director undertakes:

- to maintain at all times their integrity, knowledge, skills and experience required to carry out their functions;
- to devote sufficient time to fulfil their functions;
- to respect rules limiting the number of simultaneous offices that can be held;
- to know the functional rules of the Bank's legal form, regulations governing their function and the internal rules of procedure of the Board;
- to be part of the economic, social and institutional environment at the national and international level, and to keep their knowledge and skills current;
- to intervene and clearly express their point of view and questions;
- not to seek, receive or accept any direct or indirect benefits in relation with the office they exercise within the Bank;
- to strive to avoid any conflict between their interests and those of the Bank.

To ever better serve customers over the long term

Quality of client relationships

Banque Palatine puts service improvement and customer satisfaction at the heart of its strategy and its new ENVOL strategic plan.

Its quality policy enacts a permanent focus on customer satisfaction and translates internally as a constant drive for continuous improvement of its processes. Its ENVOL strategic plan reflects two strong ambitions, the ramp-up of customer service and acceleration of customer process improvements

Banque Palatine's quality process is designed to work across the Group and involves all Bank employees. It is a process which encourages the commitment of employees by investing in their expertise and relational qualities and by remunerating performance related to customer satisfaction.

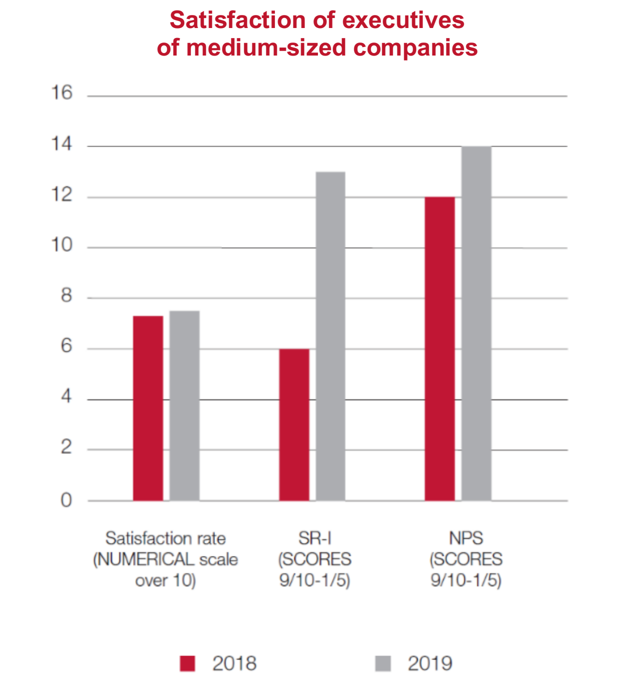
Listening to customers both in qualitative and quantitative terms is one of the founding principles which allows Banque Palatine to better understand its customers and better serve their interests. Listening to customers allows the Bank not only to measure customer satisfaction, but also the effectiveness of the actions undertaken to improve service quality.

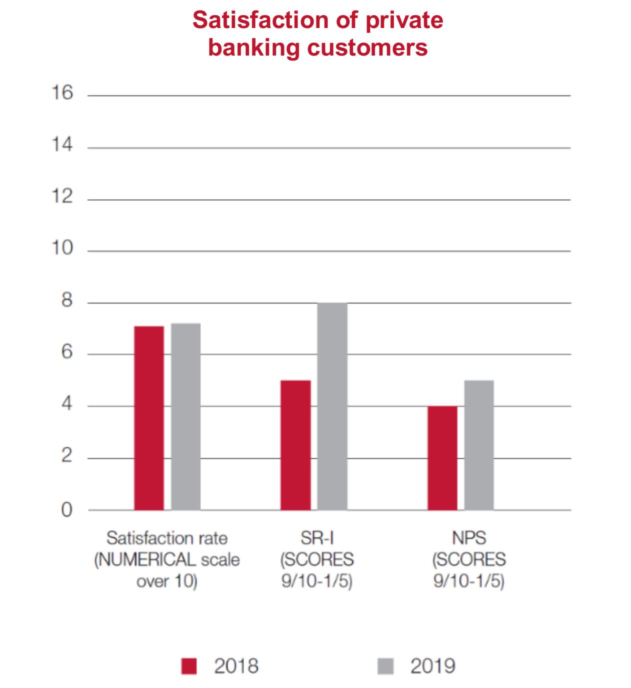
In 2019, the following types of customer surveys were conducted:

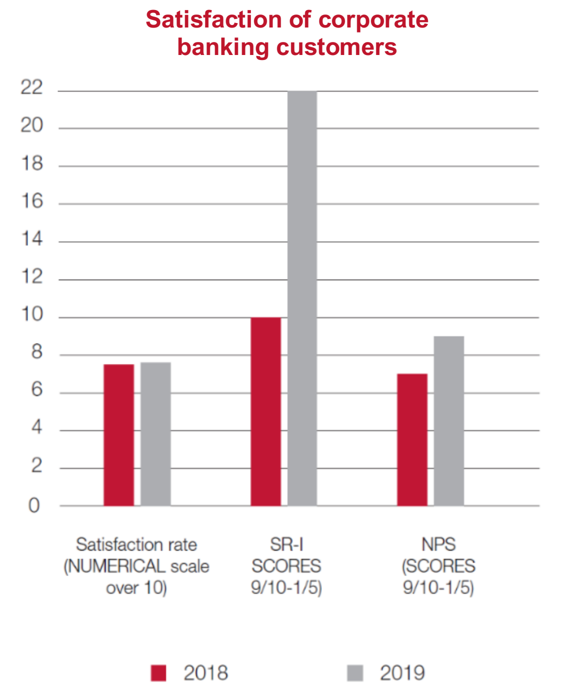
- three satisfaction surveys (so-called cold or delayed surveys): one for private banking customers, one for corporate customers, and one for senior executives;
- four quarterly surveys by market, on key processes (so-called hot or instant surveys): customer relations (new relations), loans, life insurance, and financial flows;
- six annual surveys (cold or delayed) of the company's specialised business lines: real estate, dealing room, regulated real estate professions, international activities (corporate), and Palatine Asset Management (market survey).

Groupe BPCE and Banque Palatine have adopted NPS (Net Promoter score) as a key indicator, as it makes it possible to compare customer recommendations and experience with other banks and other types of service companies. This indicator is internationally recognised and, in addition to measuring customer satisfaction, it gauges the likelihood of their recommending the bank to their friends and family.

NPSs in 2019 were positive for the different target customer groups, confirming the relationship of excellence and partnership that Banque Palatine has with its customers, particularly the dual-relationship model with senior executives.


Satisfaction of executives
of medium-sized companies
16
14
12
10
8
6
4
2
0
Satisfaction rate (NUMERICAL scale over 10)
SR-I (SCORES 9/10-1/5)
NPS (SCORES 9/10-1/5)
2018
2019


Satisfaction of private
banking customers
16
14
12
10
8
6
4
2
0
Satisfaction rate (NUMERICAL scale over 10)
SR-I (SCORES 9/10-1/5)
NPS (SCORES 9/10-1/5)
2018
2019


Satisfaction of corporate
banking customers
22
20
18
16
14
12
10
8
6
4
2
0
Satisfaction rate (NUMERICAL scale over 10)
SR-I SCORES 9/10-1/5)
NPS (SCORES 9/10-1/5)
2018
2019

An enterprise culture based on human capital

Challenges

In a highly varied banking environment and with Banque Palatine's ambitions to move upmarket, the human resources department is working to support the roll-out of the Envol 2018/2020 strategic plan.

One of the ways it does this is through the "Put faith in our human capital and pursue excellence" programme.

The human resource challenges are to:

- give employees the resources to do their job in the best possible conditions;
- allow everyone to direct their professional development;
- clarify the principles of change, promotion and internal mobility to guarantee equal opportunities and fair career paths;
- give everyone the support and resources to better control their career;
- recruit staff internally and externally;
- pursue and develop our diversity and gender equality policy.

By supporting the professionalism and skills of staff, we can promote loyalty and develop all our employees to improve the Bank's performance and support the coming transformation in a digital era that will accelerate productivity processes and change the business lines.

Accordingly, resources will be made available to make staff more employable and adaptable through a genuinely dynamic management of businesses and skills.

Workforce structure

At 31 December, the workforce stood at 1,320 employees, of which 86% were permanent employees, compared to 91% in 2018. This number is in line with the decisions taken as part of the Envol strategic plan (migration of the Banks' IT system). Moreover, recruitment was particularly high in 2019.

The proportion of permanent employees is lower than that of previous years, due to occasional reinforcements related to the preparatory work for the Pégase project. In this respect, 69 people were recruited under fixed-term contracts. The number of permanent employees is still increasing with 31 permanent employees as at 31 December 2019.

Women are still in the majority and represent 52% of the total workforce. This indicator has been stable over the last three years.

The proportion of managers fell slightly from 66% in 2018 to 64% in 2019. This economic development is linked to reinforcements in terms of fixed-term employees, who are mainly recruited to non-managerial positions.

The policy of recruiting for work-study programmes continued with 47 young employees in apprenticeships or professional training contracts. This number remains unchanged from 31 December 2018.

Breakdown of workforce by contract type, status and gender

The workforce of Banque Palatine has no presence outside France, no geographical breakdown is included here.

nr: not relevant

na: not available

	31/12/2019			31/12/2018			31/12/2017		
Indicators	BP	PAM	ARIES	BP	PAM	ARIES	BP	PAM	ARIES
Total permanent and fixed-term staff including those on work-study programmes	1,320	30	1	1,205	27	1	1,215	26	1
Total permanent and fixed-term staff (not including work-study and internship programmes)	1,273	29	1	1,158	27	1	1,172	26	1
Number of permanent employees	1,129	29	1	1,098	26	1	1,134	26	1
Permanent employees as a % of the total workforce	85.53	96.67	100	91.12	96.30	100	93.33	100	100
Fixed-term employees, including those on work-study programmes	191	1	0	107	1	0	81	0	0
Fixed-term employees as a % of the total workforce	14.47	3.33	0	8.88	3.70	0	6.67	0.00	0
Total managers	840	30	0	794	27	0	807	26	0
Managers as a % of the total workforce	63.64	100.00	0	65.89	100	0	66.42	100	0
Total non-managerial employees	480	0	1	411	0	1	408	0	1
Non-managerial employees as a % of the total workforce	36.36	0.00	100	34.11	0	100	33.58	0	100
TOTAL FEMALE EMPLOYEES BREAKDOWN BY AGE CATEGORY	**688**	**10**	**1**	**632**	**9**	**1**	**640**	**8**	**1**
18-<26 years of age	58	2	0	48	1	0	44	0	0
26-<31 years of age	93	0	0	87	0	0	85	0	0
31-<36 years of age	109	0	1	99	1	1	106	1	1
36-<41 years of age	104	0	0	89	0	0	83	1	0
41-<46 years of age	69	1	0	67	1	0	75	1	0
46-<51 years of age	59	0	0	49	1	0	44	1	0
51-<56 years of age	83	3	0	89	3	0	103	3	0
56-<61 years of age	98	4	0	91	2	0	86	1	0
61 years of age and older	15	0	0	13	0	0	14	0	0
Female employees as a % of the total workforce	52.12	33.33	100	52.45	33.33	100	52.67	30.77	100
TOTAL EMPLOYEES BREAKDOWN BY AGE CATEGORY	**632**	**20**	**0**	**573**	**18**	**0**	**575**	**18**	**nr**
18-<26 years of age	60	0	nr	35	1	nr	29	1	nr
26-<31 years of age	84	6	nr	88	2	nr	85	2	nr
31-<36 years of age	98	0	nr	78	0	nr	84	0	nr
36-<41 years of age	83	1	nr	81	1	nr	70	1	nr
41-<46 years of age	69	0	nr	55	1	nr	72	3	nr
46-<51 years of age	69	4	nr	73	3	nr	63	2	nr
51-<56 years of age	61	2	nr	58	4	nr	71	4	nr
56-<61 years of age	85	6	nr	80	4	nr	70	3	nr
61 years of age and older	23	1	nr	25	2	nr	31	2	nr
Male employees as a % of the total workforce	47.88	66.67	nr	47.55	66.67	nr	47.33	69.23	nr

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 2019 financial year, the total number of people recruited on permanent contracts was 154, while the number of people recruited on fixed-term contracts was 165. Total hirings rose 62% compared to 2018. This increase was primarily linked to reinforced recruitment under fixed-term contracts in the context of the migration project for the Bank's IT system, however, recruitment of permanent employees still accounts for 14% of the permanent workforce.

The majority of those recruited on permanent contracts were managers (68% of permanent recruitments in 2019 compared to 64% in 2018). For fixed-term recruitments, the percentage of recruitment at managerial level fell from 21% in 2018 to 18% in 2019; again this was linked to the numerous temporary reinforcements made in relation to the migration project.

The proportion of women recruited under permanent contracts declined compared to 2018. In 2019, women account for 49% of permanent recruits, whereas they represented 52% of permanent recruits in 2018.

By age, the breakdown of permanent recruits changed in 2019, after remaining stable for the last two years. It can be seen that the share of under 30 year olds decreased (-13 points) in favour of employees over 40 year olds (+12 points for the 40+ year olds). This change may be linked to the recruitment of more experienced professionals in line with the upmarket strategy under the Envol strategic plan.

In 2019, 17 new posts were created under the strategic plan to support the development of the company, including three in Groupe BPCE. These figures are a result of the continued implementation of the Envol 2018-2020 strategic plan, with a particular focus on commitments related to the recruitment of business line experts (m/f) in relation to the more high-end positioning of our two markets: corporate and private banking customers. Banque Palatine has reinforced its role as a dynamic economic player in its business sector and in its core business (medium-sized companies and their senior executives).

At the same time, as part of the launch of its employer brand in September 2018, Banque Palatine has developed its strategy focusing on social networks, increased the number of brand ambassadors (from 13 to 16) and expanded its programmes of co-option thus reinforcing the commitment and sense of belonging among employees:

- **co-option:** over the 2016-2018 period, 30 recruitments, of whom 18 were on permanent contracts.

  In 2019 only, 14-co-options were completed, with a 100% transformation rate;
- **appearance of offerings:** announcements are made through the Group's portal with strong acceleration on Linkedin and Indeed. They are sent by our ambassadors and managers directly involved in the recruitment. A pilot partnership linked to the Bank's attractiveness was put in place with Golden Bees in the fourth quarter of 2019.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	BP	PAM	ARIES	BP	PAM	ARIES	BP	PAM	ARIES
Total number of managers hired on permanent contracts	104	6	0	68	3	0	60	1	0
Total number of managers hired on fixed-term contracts	29	0	0	19	1	0	17	0	0
Total number of non-managerial employees hired on permanent contracts	50	0	0	38	0	0	30	0	0
Total number of non-managerial employees hired on fixed-term contracts	136	0	0	72	0	0	57	0	0
Total number of women hired on permanent contracts	75	1	0	55	2	0	49	1	0
Total number of women hired on fixed-term contracts	93	0	0	55	0	0	50	0	0
Total number of men hired on permanent contracts	79	5	0	51	1	0	41	0	0
Total number of men hired on fixed-term contracts	72	0	0	36	1	0	24	0	0

Breakdown of departures by contract, reason and gender

The number of departures decreased in 2019 compared to 2018. A total of 123 departures of permanent employees was recorded compared to 142 in 2018. Banque Palatine recorded fewer retirements in 2019 (12 fewer departures due to retirement), fewer resignations (9 fewer departures due to resignation) and fewer transfers within the Groupe (8 fewer departures). However, a higher number of departures due to the end of a probation period was recorded (8 more departures), which is primarily due to the increased volume of permanent recruits.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Number of employees on permanent contracts leaving the entity	123	3	0	142	3	0	101	1	0
of which number of people retiring	22	0	0	34	2	0	29	0	0
People retiring as a proportion of total permanent staff	1.95	0.00	0	3.10	7.69	0	2.56	0	0
of which redundancies	14	0	0	11	0	0	6	0	0
Redundancies as % of total permanent employees	1.24	0.00	0	1.00	0	0	0.53	0	0
Average length of service of permanent employees leaving the entity	11.40	5.24	0	14.48	19.32	0	13.70	5.60	0
DEPARTURES OF FEMALE PERMANENT STAFF BY REASON	**63**	**1**	**0**	**73**	**1**	**0**	**52**	**1**	**0**
Resignation	*30*	*0*	*0*	*32*	*0*	*0*	*15*	*0*	*0*
Termination	*5*	*0*	*0*	*6*	*0*	*0*	*5*	*0*	*0*
Transfer within the Group	*4*	*0*	*0*	*6*	*0*	*0*	*4*	*0*	*0*
Retirement	*12*	*0*	*0*	*19*	*0*	*0*	*16*	*0*	*0*
Voluntary redundancy	*7*	*1*	*0*	*8*	*1*	*0*	*9*	*1*	*0*
End of probation period	*4*	*0*	*0*	*2*	*0*	*0*	*3*	*0*	*0*
Other reason	*1*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
DEPARTURES OF PERMANENT MALE STAFF BY REASON	**60**	**2**	**0**	**69**	**2**	**0**	**49**	**0**	**0**
Resignation	*26*	*0*	*0*	*33*	*0*	*0*	*16*	*0*	*0*
Termination	*9*	*0*	*0*	*5*	*0*	*0*	*1*	*0*	*0*
Transfer within the Group	*4*	*0*	*0*	*10*	*0*	*0*	*10*	*0*	*0*
Retirement	*10*	*0*	*0*	*15*	*2*	*0*	*13*	*0*	*0*
Voluntary redundancy	*2*	*1*	*0*	*3*	*0*	*0*	*5*	*0*	*0*
End of probation period	*9*	*1*	*0*	*3*	*0*	*0*	*3*	*0*	*0*
Other reason	*0*	*0*	*0*	*0*	*0*	*0*	*1*	*0*	*0*

Quality of life in the workplace

Following a consultation process, in November 2017, the Bank signed an agreement on quality of life in the workplace. This agreement includes 44 measures on five essential themes to the development of well-being at work.

The signing of this agreement was accompanied by four other more specific agreements:

- an agreement on variable hours providing greater flexibility with regard to arrival and departure times, as well as recovery times;
- an agreement on the donation of rest days with a company top-up of 20%;
- an agreement on the four-day week;
- an agreement on the exercise of the right to free expression.

In 2019, work continued on the quality of life at work policy: at 31 December 2019, of the 44 planned measures, only three have not yet been deployed. This shows the momentum achieved and the willingness to make quality of life at work a long-term commitment.

Flagship actions included:

- monitoring of an annual quality of life at work scale:

  The aim of the employee questionnaire was to measure their perceptions of quality of life in the workplace, assess satisfaction with the actions undertaken and the expectations of the employees. With regard to expectations, these covered the development of remote working, refurbishment of premises, IT equipment and the introduction of wellbeing activities.

  The response rate was 45% with 76% of respondents declaring that they were satisfied with their working conditions and a rating of higher than five in the overall assessment of their quality of life in the workplace (scale of 0 to 10);
- sharing of the Bank's strategy and in particular the dissemination of the strategic plan for making work more meaningful;
- workshops run by an ergonomist to raise awareness on working on a screen;

- conferences on career management to make each employee direct participation in their professional development (visibility and tools);
- conferences on sponsorship and skills volunteering;
- Palatine solidarity week: the first edition of the solidarity week was held in June 2019 for several associations (food bank, Red Cross, etc.). During this week, those employees who wish to, can spend one working day on a solidarity action, and the Bank offers a 50% top-up. The aim of this week, beyond its social interest, is to allow employees to share another view of the Bank, and to get involved in a field other than their professional work.

Work/life balance

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.

At the end of 2019, 55 employees on permanent contracts had adjusted working hours as part-time work; 96% were women, making up 5% of all employees on permanent contracts. The number of part-time employees fell in 2019, primarily due to their return to full-time work.

In accordance with agreements on quality of life in the workplace and GPEC, Banque Palatine initiated new ways of organising working time: the 4-day week and end-of-career leave set up in 2018 continued in 2019.

These ways of organising working time were in addition to provisions already in place offering variable hours to non-management employees in the offices in Val de Fontenay and rue d'Anjou.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Breakdown of female permanent employees on the payroll at 31/12 by working hours (% of full time)	53	3	nr	65	3	nr	74	3	nr
20%	*0*	*0*	*nr*	*0*	*0*	*nr*	*0*	*0*	*nr*
30%	*0*	*0*	*nr*	*0*	*0*	*nr*	*0*	*0*	*nr*
40%	*1*	*0*	*nr*	*1*	*0*	*nr*	*1*	*0*	*nr*
50%	*10*	*0*	*nr*	*11*	*0*	*nr*	*11*	*0*	*nr*
60%	*3*	*0*	*nr*	*1*	*0*	*nr*	*4*	*0*	*nr*
70%	*0*	*0*	*nr*	*1*	*0*	*nr*	*2*	*0*	*nr*
80%	*33*	*1*	*nr*	*42*	*1*	*nr*	*47*	*1*	*nr*
85%	*0*	*0*	*nr*	*0*	*0*	*nr*	*0*	*0*	*nr*
90%	*6*	*2*	*nr*	*9*	*2*	*nr*	*9*	*2*	*nr*
Breakdown of male permanent employees on the payroll at 31/12 by working hours (% of full time)	2	1	nr	6	1	nr	46	0	nr
20%	*0*	*0*	*nr*	*0*	*0*	*nr*	*0*	*0*	*nr*
30%	*0*	*0*	*nr*	*0*	*0*	*nr*	*0*	*0*	*nr*
40%	*0*	*0*	*nr*	*0*	*0*	*nr*	*0*	*0*	*nr*
50%	*1*	*0*	*nr*	*3*	*0*	*nr*	*3*	*0*	*nr*
60%	*0*	*0*	*nr*	*0*	*0*	*nr*	*1*	*0*	*nr*
70%	*0*	*0*	*nr*	*0*	*0*	*nr*	*0*	*0*	*nr*
80%	*1*	*0*	*nr*	*3*	*0*	*nr*	*3*	*0*	*nr*
90%	*0*	*1*	*nr*	*0*	*1*	*nr*	*0*	*0*	*nr*
Number of female non-managers on permanent contracts working part-time	30	0	nr	34	0	nr	39	0	nr
Number of female managers on permanent contracts working part-time	25	3	nr	31	3	nr	35	3	nr
Number of male non-managers on permanent contracts working part-time	0	0	nr	0	0	nr	1	0	nr
Number of male managers on permanent contracts working part-time	4	1	nr	6	1	nr	6	1	nr

Since 2018, the Work/Life Balance Charter was signed by members of the Executive Committee. The purpose of this charter, designed by the *Observatoire de l'équilibre des temps et de la parentalité en entreprise,* is to recognise the fundamental importance of work/life balance by promoting a managerial culture that respects this, a way to support a better quality of life in the workplace and better performance by the company.

Four themes are addressed:

- exemplary managers;
- respect for work-life balance;
- optimisation of meetings;
- good use of email.

The signing of this charter is a symbolic move which forms part of the dynamic quality of life in the workplace procedure begun in 2017 at UES Banque Palatine.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Permanent contract male/female ratio, non-managerial (average male salary/average female salary)	1.02	nr	nr	1.01	nr	nr	1.02	nr	nr
Permanent contract male/female ratio, managerial (average male salary/average female salary)	1.12	0.98	nr	1.12	1.03	nr	1.14	0.99	nr
Number of female employees taking parental leave in the last year	8	0	0	7	0	0	7	0	0
Number of male employees taking parental leave in the last year	0	0	nr	0	0	nr	1	0	nr
Number of women employees returning to work after parental leave	4	0	0	5	0	0	4	0	0
Number of men employees returning to work after parental leave	0	0	nr	0	0	nr	1	0	nr

Psycho-social risks

As part of its prevention policy, the Bank has put in place a procedure (tertiary prevention) for handling situations of violence at work and psycho-social risks.

The procedure, created in July 2015, has been widely publicised and has a dedicated page on the quality of life in the workplace intranet site. It was reviewed in 2019 to introduce the prevention of sexual harassment and sexism. Two contacts have been appointed in this area.

It includes an interview and fact-finding phase and a diagnostic with recommendations. In general, it is run in tandem with representatives of staff (CHSCT) specially trained in conducting difficult interviews.

The procedure was used twice in 2019, once for an individual and twice for a collective.

In the case of collective communication problems and interpersonal tensions, the Bank can also invoke mediation, conducted by an external consultant, with the aim of empowering the working group to define better ways of working and communicating. This type of mediation made it possible to resolve difficulties and pacify tensions. It forms part of the executive management's commitment to support the quality of life in the workplace by responding to whistleblowing. It was activated once in 2019.

Any new employee also goes through an awareness session on the "prevention of psycho-social risks", which highlights operational points to watch in terms of roles and commitment to the quality of life in the workplace.

Finally, employees affected by a change (in organisation and/or process and/or tool) can also complete training on "wellbeing at work in a changing environment". The aim of the training is to understand the meaning and the impact of the change on behaviour, and to deal with this in a positive manner.

Compliance with labour law and professional ethics

Like all responsible employers, the Bank complies with the requirements of the labour law. No collective disputes were mounted and a number of differences of interpretation were dealt with by dialogue with the unions.

On this point, the Bank has signed an agreement with all of its unions on the economic and social database. This agreement defines the access to, content and architecture of the economic and social database for consistency and relevance allowing the staff representative bodies to deploy their skills in a useful way. The economic and social database is available on a computer support *via* a secure Internet connection and is structured around three large annual consultations of the Social and Economic Committee.

The Bank therefore signed six collective agreements in 2019, all of which have been unanimously signed by the representative trade organisations:

- agreement on employer's contribution;
- agreement on the economic and social database;
- agreement on incentives (amendment no. 2);
- annual agreement on mandatory annual negotiations in connection with wage bargaining;
- agreement on mutual health insurance;
- Palatine Asset Management's incentive agreement (ratification by PAM personnel).

Compliance with ILO conventions

In relation to its activities in France and internationally, Banque Palatine is committed to complying with the provisions of the ILO conventions:

- respect for freedom of association and right to collective bargaining;
- elimination of discrimination in employment and occupation.

As confirmed by the agreement signed in 2018 on social dialogue specifying the prerogatives on respect of the freedom of association and the right to collective bargaining.

In accordance with the signature and the commitments undertaken under the Global Compact, Banque Palatine will not use forced labour, compulsory labour or child labour within the meaning of the International Labour Organisation, even when this is permitted by local regulations.

Further, under its procurement policy, the BCPE Group refers to its Sustainable Development policy and its membership of the Global Compact as well as the founding texts, *i.e.* The Universal Declaration of Human Rights and the international conventions of the International Labour Organisation (ILO). Suppliers agree to comply with these texts in the countries in which they operate, by signing contracts containing a specific clause in this respect.

Accidents at work, occupational health and safety

The number of accidents at work was stable in 2019.

Of the accidents declared, only seven resulted in the employee taking time off work, including one which accounted for more than 200 days off work, which explains the increase in the number of lost work days.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Number of accidents at work recorded during the year with and without time off	13	0	0	13	0	0	7	0	0
Number of fatal accidents recorded during the year	0	0	0	0	0	0	0	0	0
Number of work days lost*	324	0	0	93	0	0	7	0	0
Severity rate	0.1493	0	0	0.0449	0	0	0.0034	0	0
Frequency rate	5.99	0	0	6.27	0	0	3.45	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.*

Absenteeism

Banque Palatine's global absenteeism rate is stable. It was 4.83% in 2019 compared to 4.82% in 2018.

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.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
% absenteeism: days of absence/(days worked × employees on the payroll at 31/12)	4.83%	2.46%	0	4.82%	2.29%	0	5.04%	3.47%	0

Overtime (hours)

Regular awareness training for managers and research into new ways of organising working time have resulted in a reduction in the number of overtime hours worked for the fifth consecutive year.

Following a decrease of more than 60% between 2015 and 2018, the number of overtime hours worked increased by 16% in 2019, linked to the Pégase migration.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Overtime (hours)	5,972	0	0	5,166	22	0	7,172	42	0
Number of persons concerned	175	0	0	180	1	0	173	1	0

Working environment

The Bank continues, with the refurbishment of its premises, to increase work comfort with better lighting, the availability of a meeting room and redesigned spaces.

The delivery of organic dried and fresh fruit continued at the Anjou and Val de Fontenay head offices and each of the branches.

Finally, with regard to the working environment, a new branch model has been created. The bank of tomorrow must deliver better, innovative services tailored to the needs of each customer. The new concept will have a dual aim: more convivial spaces to refocus on advisory services and making the most of new technologies. The Banque Palatine branch must allow the customer to take their own banking in hand (using digital technology), while also offering

(1) This monitoring focuses on absences relating to collective agreements (sickness, maternity, accidents).

personalised support, retaining the human touch. Comfortable enclosed private spaces will be created where clients can talk easily with their advisor (via video-conferencing if necessary), reception rooms made available to employees and individual offices for advisers are eliminated. The working space for all employees is open plan, encouraging synergies and collaborative working. In 2019, five branches were delivered under this new format.

Our employer brand, an asset to recruit and retain talent

Since its creation in 2018, Banque Palatine's employer brand reinforced its attractiveness through a dynamic visual identity and slogans.

This employer brand highlights its advantages in terms of values, corporate culture and human resources policy: the possibility to change function or location, personalised career paths, support, training, etc.

It was deployed in its initial phase in September 2018 with both internal and external publication (media, displays in branches and large towns).

The rollout of the brand continued at the start of 2019 with the dissemination on social networks of the video "seven good reasons to join Banque Palatine", created in collaboration with the human resources ambassadors.

Targeted communication campaigns are also sent to potential candidates, through the partnership with Indeed and Golden Bees (innovative start-up specialising in programme marketing and intelligent candidate targeting), which increases the visibility of our employment offers (+695% candidate clicks in 2019) on all connected media.

The effectiveness of these actions can be seen in the figures:

- Banque Palatine's resignation rate decreased: 4.32% in September 2018 and 3.87% in September 2019, in a context of competitive recruitment;
- almost all job vacancies are filled.

Integration of new employees

In 2019, the implementation of the policy for the integration of new employees continued in its different forms:

- with the welcome guide, which provides new employees with practical information on the company, and documents to be returned before the arrival of a new employee;
- an induction day to create links and promote awareness of the Bank's issues and contact points;
- immersion in business lines to promote cross group working and meetings with employees;
- access to "Welcom'In". This dedicated application supports the employee before he or she physically arrives in exploring the company, allowing them to be rapidly operational. Through a series of mini-challenges, the app helps new employees learn about their new environment.

In 2020, a project will be launched to work towards a digital interface allowing the exchange of documents between the future employee and the company.

Career management and transfers

Commensurate with its size, the diversity of its activities and business lines, Banque Palatine wants to offer everyone the opportunity of a motivating and dynamic career path: developing expertise in their area, switching between businesses, for instance by becoming a manager, changing business line or changing region, etc. giving everyone their own professional project.

To support the construction of these projects, Banque Palatine applies various processes:

- personalised support from a dedicated human resources officer;
- business line pathways (tool developed internally and implemented in June 2017), which help identify various possible professional career paths among multiple types of business lines. In 2018, this tool was enriched by presentation of an associated training pathway, supporting transfer from one job to another (training in the business line, regulations, required skills);
- short videos of company business lines: a dynamic presentation of missions, required skills and business challenges to meet by 2020;
- internal events to promote mobility and support career planning;
- *"devenez acteurs de votre carrière"* (take control of your career) workshops were organised internally in 2019. Between June and November 2019, five workshops were organised on the theme *"devenez acteurs de votre carrière".* Registration was voluntary (three workshops were held in Lyon Cordeliers, Nice promenade and Marseille and two were held in the Paris region at the Val de Fontenay and Anjou sites). The workshops ran over half a day and were attended by 29 employees who worked on their professional pathway, while discovering the internal and BPCE tools available to them;
- "Plateforme CV": the posting of 30 model CVs (for jobs at Banque Palatine) which employees can use and personalise as they wish;
- Mobiliway: created by BPCE's human resources department, this site pulls together useful information, practical advice to prepare career paths, testimonies, videos and preparatory resources to guide employees in their planning. Two new functionalities were implemented in 2019:
  - *"je déclare ma mobilité groupe"* (I declare my intra-group mobility) allows employees who have been at the company for more than three years to declare their availability for group transfers to the human resources teams in their target regions and for a specific business line/type of work,
  - "Matching CV" was introduced on an experimental basis by Groupe BPCE on Mobiliway. This system allows employees to search for the latest job offers that may be relevant to them based on artificial intelligence and key words included in their CVs;
- geographical mobility support measures: attractive measures within Banque Palatine (finding accommodation, help with housing, temporary transfer costs, etc.). These measures have been in place since 2015 and were updated in 2019, to support allowances for a second home;
- the *"vis ma vie"* (live my life) programme: an exploratory placement (a maximum of 5 days) is offered to all employees considering a career switch to another area of business. This immersion placement must be approved in advance by the HR officer, depending on the profile and skills required for the target job.

  In 2019, there was an increase in the use of this programme: 52 employees, compared to 21 in 2018, took advantage of an immersion placement in a new department. This *"vie ma vie"* experience totalled 148 days (an average of 2.8 days per employee, compared to 51 days in 2018, an average of 2.5 days per employee). This experience helps employees who want to develop their career to discover the content of a professional area from the inside, how a certain team is organised and to endorse their career plan;
- staff review: an annual exchange between managers and their human resources officer allow them to draft individual and/or collective action plans for skills and future career paths. This tool, and the use to which it is put, provides a comprehensive and qualitative overview of the company's skills and performance and is crucial to implementation of the GPEC: forward-looking management of jobs and employees.

With regards to employee mobility:

The Banque Palatine network has 43 branches throughout France and two head offices in the Paris region. By using geographical mobility, the company can provide a host of opportunities to exploit the wealth of human capital and skills of each employee. Mobility has numerous benefits. At key life moments, it can be a source of motivation, professional enrichment and career management.

The *Agence française bancaire* (AFB) method distinguishes between geographical and functional mobility. Geographical mobility is recognised when an employee moves to a different *département* (French administrative region), while functional mobility is defined where there is a change of job.

Taking into account the IT migration, lower turnover and a reduction in our pools, the volume of functional transfers was lower in 2019 (102 *versus* 155).

Nevertheless, transfers still related to 15% of the Bank's permanent employees.

	31/12/2019	31/12/2018	31/12/2017
O/w geographical	44	65	60
O/w functional	102	155	167
O/w transfers within the Group	8	16	14
TOTAL TRANSFERS	**154**	**236**	**241**

A total of €144,719 was committed to support the 44 geographical transfers in 2019 (transfer bonus). This is 17% more than in 2018 for 33% fewer transfers.

Retention and recognition

In order to take stock of the necessary retention of the sales forces, who generate results, in the summer of 2019, the Bank introduced an innovative policy of recognition and retention for the sales teams in private banking and corporate banking markets.

The Circle of Excellence award recognises and promotes, internally, the 10 best sales representatives in each market. These employees are recognised not only for their commercial achievements, but also for their know-how by observing eight soft skills adopted by the Bank (efficiency, sense of responsibility, autonomy, engagement, exemplary manner, solidarity, courage, listening skills).

The 20 employees recognised under this award receive financial recognition in addition to their variable remuneration, but also non-financial measures (valuable opportunity for dialogue with the members of the executive management, opportunity to share their experience).

Training: supporting the development of skills and employability

The training policy fully supports the Group's ambitions for the training and skills development of its employees.

In a fast-changing and demanding banking environment, with an ambition to move up market, and a corresponding training budget, and nearly 39,037 training hours delivered in 2019 (31,173 hours in 2018), Banque Palatine continues to invest in developing the skills of its employees.

In 2019, training programmes focused on:

- reinforcing expertise in business lines to transform itself;
- supporting efforts relating to operational efficiency;
- guaranteeing that we meet our regulatory obligations;
- making the employee jointly responsible for their own professional development.

A meeting was held in the last quarter of 2019 to better inform employees about the personal training account, recognition of experience gained and competence statements, and to promote these systems to employees.

As regards training plans, Banque Palatine has adopted the following transformative initiatives in 2019:

Private banking and corporate customers markets: shared action

In order to respond to one of our strategic upmarket programmes, a new training programme has been implemented for all employees in the network (from receptionist/company account manager to regional managers) to share the challenges associated with the upmarket strategy and how these translate into key moments of interaction with customers.

Skills development training

Since 2016, the Bank has been committed to offering tailored courses to support employees with their professionalism and skills improvement.

The following courses were deployed in 2019:

- private customers assistance[(1)]/branch wealth manager: two sessions deployed (March to November 2019): 20 employees registered;
- head of corporate customers: one session deployed (April to November 2019): six employees registered;
- comprehensive knowledge of the corporate market: one session deployed (April to October 2019): 12 employees registered.

Corporate market

- Desk: in order to develop and generate commercial opportunities with Germany, Belgium, Luxembourg and Italy, specific training has been provided for the employees concerned.
- Property development operations: in order to consolidate the approach adopted by our sales teams (Head of Corporate Affairs/Branch Manager) on this theme to generate new commercial opportunities.
- Attracting and retaining managers: in order to allow employees to assimilate the mix of equity financing solutions and identify the entry points for proposing synergy with the private customer subsidiary (detecting requirements).

Private banking market

- Wealth management *via* a digital platform: to complement the training provided by wealth engineering and in order to maintain the wealth knowledge of the private segment, from private client advisor to branch manager.
- Private customer financial analysis: to meet the needs of sales teams in the private sector, a training programme on the fundamentals of financial analysis was implemented.
- MOOC Completeness of the credit rating: following a first chapter in 2018 relating to the preparation of the project, from instruction to the sending of the offer, a second chapter was implemented in mid-February 2019. It presents best practices in terms of processing requests for funds payments.
- Tax-related activities: modules related to tax developments: withholding tax, IFI (real estate wealth tax), flat tax.

Support for managers

The manager training programme continued at the start of 2019 with à la carte half-day workshops for managers of a head office. Participants could choose two themes from the six themes offered: manager facilitator, manager leader, working with difficult staff, manager coach, managing the four generations, neuroscience and changes.

Common actions for the whole Bank

- MOOC banking culture: a training programmed dedicated to banking culture was deployed for new and old employees on a voluntary basis. The aim is to allow each employee, regardless of their position, to understand how the Bank works, and to master the knowledge base in the banking environment.
- Group Code of Conduct and Ethics: this e-learning programme for all employees, in line with the dissemination of the Group Code of Conduct and Ethics, was deployed in 2019.

Equinoxe migration: launch of the first training programmes for business line work groups

As part of the project for the migration of the IT system and the launch of the first certifications, the first training programmes were deployed to support and prepare employees on the required technical aspects.

The training plan to support this change will be conducted at the start of 2020.

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(1) *Eventually allows access to a Bachelor's Degree.*

Training hours

	31/12/2019			31/12/2018			31/12/2017		
Indicators	BP	PAM	ARIES	BP	PAM	ARIES	BP	PAM	ARIES
Average hours of training per employee, "managers"	31.49	8.54	nr	26.6	8.6	nr	28	30	nr
Average hours of training, "non-managerial" staff	22.22	0	0	17.6	0	0	18	0	0
Average number of hours of training per employee	28.19	8.54	0	23.6	8.6	0	24	24	0
Average number of hours of training by gender									
Men	29	9.82	nr	25.5	9.7	nr	27	33	nr
Women	27.44	5.87	0	21.8	6.5	0	22	12	0

Business continuity and key expertise

Banque Palatine has created an organisation to ensure the continuity of its business lines in the event of a crisis, the Emergency and Business Continuity Plan (EBCP), which applies to all of the company's business lines. There is a specific action plan for human resources: the Human Impacts Management Plan (HIMP). The aim of this plan is to define the human impacts management system, which will be implemented in the event that an EBCP is activated, *i.e.* The Emergency Business Continuity Plan

Responses are based on how a specific crisis affects the availability of human resources according to a set of crisis scenarios, predefined in the Banque Palatine business continuity plan.

The plan is updated by a business continuity manager, who leads a team of correspondents charged with putting it into practice and passing on the information if it needs to be activated. In 2019, the skills map for the whole company identified 49 critical activities and the associated critical procedures. 150 employees were identified as having key skills for business continuity planning.

Gender balance, diversity

Gender balance and governance

Implementation of the principle of balanced gender representation within the Board of Directors has been fully met. At 31 December 2019, the percentage of female Directors on the Board of Directors was 62.5%.

Disability

In 2019, the provisions relating to the obligation to employ workers with disabilities resulted in a revamped offering of services, intended to ensure employment for workers with disabilities.

Since 2014, Banque Palatine has taken steps to hire people with disabilities. It provides local confidential support to meet the demands of employees.

In 2019, two new statements recognising workers with disabilities were recorded.

Moreover, in 2019, Banque Palatine allows several employees to benefit from individual working time and/or workstation arrangements to keep them in employment.

Following the agreement on quality of life in the workplace signed in November 2017, including 44 measures, some either directly or indirectly supportive of people with disabilities (granting of days off, guide for carers, caregiver label, etc.), Banque Palatine was able to provide concrete support to employees dealing with difficult circumstances.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	BP	PAM	ARIES	BP	PAM	ARIES	BP	PAM	ARIES
Number of employees with disabilities excluding ESAT	31	2	nr	31	1	0	45	1	nr
% of employees reported as disabled excluding ESAT/total workforce (permanent)	2.49%	7.02%	0	2.82	3.85	0	3.97	3.85	0
Employment rate of employees with disabilities with reduction + ESAT/total workforce (DOETH (mandatory declaration of the employment of disabled workers) figures)	0.036	0.070	0	0.036	0.059	0	0.039	0.059	0

Anti-discrimination policy

Policy for carers

The Bank, conscious that one French person out of six, provides daily support to a dependent relative, due to their age, an illness or disability, wanted to consolidate its policy with regards to carers. In light of this social data (52% of females and an average age of 43.6 years) the company is at higher risk of a greater impact from the issue of carers than the national average. This observation is in line with increasing applications for social assistance and/or human resources management. This is the reason why the Bank has:

- signed an agreement to grant days off;
- proposed social assistance mornings dedicated to carer employees to facilitate access to information for the employees concerned and support them in accordance with their requirements;
- participated in the work of Klésia on the construction of policies aimed at employees who are carers: three caregiving employees of Banque Palatine took part in this work and attended meetings to make their requirements known.

On 4 October 2019, Banque Palatine obtained the Caregiving Employees Label co-created with Klésia and Handéo following an audit of its practices conducted in May 2019. This label recognises the policy to support carers who have been employed for several years. It also represents a commitment for the future and an incentive to continue to make progress in this area.

Gender equality

At end-2017, the executive management signed a new agreement on professional gender equality with the unions.

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);
- the increase in the employer's contribution to the CESU cheques (change from 80 to 90%).

All these provisions came into force on 1 January 2018.

The universal employment services cheque (CESU) set up through a collective agreement on 25 November 2016, was initially paid by the employer up to 80% of the exemption ceiling authorised by the URSSAFs (social security contribution collection offices).

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.

The system benefited 268 employees in 2019, stable compared to 2018 (+1.5%). Payments increased by just over 3%.

	31/12/2019	31/12/2018
	BP	BP
Number of beneficiaries	268	264
Average amount of the provision paid	€1,371	€1,345
TOTAL AMOUNT PAID	**€367,422**	**€355,070**

Gender equality indicator

The indicator became mandatory on 1 March 2019 and the publication of Banque Palatine's score provides further proof of its commitment to guaranteeing gender equality.

The Bank obtained a score of 96 points out of 100, broken down as follows:

	Points obtained	Maximum number of points for the indicator
Pay gap	36	40
Gaps in individual salary increases	20	20
Promotions gap	15	15
% of female employees receiving an increase on return from maternity leave	15	15
Male/female breakdown among the 10 highest earners	10	10
TOTALS	**96**	**100**

Organisation of the gender balance policy

The gender equality label was obtained in 2016, recognising actions in relation to gender balance: management practices favouring gender equality, reduction in the payment gap, balance between private and professional life, etc.

The interim audit in 2018 confirmed that the label had been maintained.

In 2020, the work for renewal of the label started with an audit which will be conducted on-site.

The new actions implemented in 2019 relate to:

- the implementation of tailored personal development workshops: launch of personal development workshops, in partnership with Palatine Au Féminin and Essenti'elles: 38 female employees of Banque Palatine registered in 2019;
- dissemination of the gender balance guide: Women's Day on 8 March provided an opportunity to reaffirm the HR policy with regards to gender equality;
- deployment of the "The art of being a leader" course from April to September 2019. This course is based on a new leadership approach which conciliates *feminine* (emotional intelligence, fresh look, relational quality) and *masculine* values (efficiency, performance, results). The programme consists of collective and individual coaching sessions, which took place in 2019, and will continue *via* the mentoring programme.

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 2019, this partnership continued in cooperation with *Nos Quartiers ont des Talents,* a charity founded in 2006 to promote job opportunities for graduate jobseekers under the age of 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 covering letter, building a career plan, etc.).

11 Banque Palatine employees signed up to be sponsors, supporting 27 young graduates.

A remuneration system aligned with the Bank's interests

Basic remuneration

In an environment of heavy employee turnover (see 1- General HR Policy: more than 14% of the permanent workforce was renewed in 2019), the average basic salary increased significantly. For men, this increase was more than 2.2% for managers and more than 3.4% for non-managers. Women saw their basic salary increase by more than 2.5% for managers and 2.7% for non-managers.

The observation regarding the median salary confirms the efficacy of the remuneration policy, and has a significant dynamic in terms of workforce. The median basic salary increased significantly: +4.6% for non-manager men, +3.1% for non-manager women and +4.3% for men managers, +3.7% for women managers.

The salaries of current employees increased due to measures put in place by the Bank in terms of extension and professional support.

Additional remuneration

Ever since the new variable remuneration systems for all employees of Banque Palatine was launched in 2015, amounts paid out under the scheme have been growing. In 2019, payments were maintained with growth of close to 1.5% of the amount paid.

The amounts distributed as incentives, shareholding and employer's contributions increased substantially in 2019 given the good results in the 2018 criteria for the incentive agreement.

	31/12/2019	31/12/2018	31/12/2017
	BP	BP	BP
Incentive plans, profit sharing and employer's contribution (paid in respect of the year indicated)	10,096	6,777	5,316
Variable portion (excluding Executive Management Committee)	6,279	6,191	5,629

In 2019, 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:

- training passport;
- direct and additional remuneration;
- deferred remuneration;
- Employer's contribution to financing social security.

Moreover, the individual employee statement also included information on the "apetiz" digital lunch voucher system, benefits for employees from the staff agency with the CESU (cheques for universal employment services), and a list of useful contacts (mutual insurance, personal protection, works council, housing promotion scheme, etc.). The change in remuneration between 2014 and 2017 is also given, in this way creating a four-year trend.

For the first time in 2019, this document was sent electronically *via* the electronic safe set up in March 2019.

	31/12/2019			31/12/2018			31/12/2017		
Indicators	BP	PAM	ARIES	BP	PAM	ARIES	BP	PAM	ARIES
Average basic salary of permanent employees *(in thousands of euros)*	59	68	nr	58	68	nr	58	68	nr
Average basic salary of non-manager permanent employees *(in thousands of euros)*	34	0	nr	33	0	nr	33	0	nr
Average basic salary for women on permanent contacts, managers *(in thousands of euros)*	53	69	nr	52	66	nr	51	68	nr
Average basic salary for women on permanent contacts, non-managers *(in thousands of euros)*	34	0	43	33	0	43	32	0	43
Median basic salary for female managers on permanent contacts, *(in thousands of euros)*	56	59	nr	53	63	nr	53	60	nr
Median basic salary of men on permanent employees, non-managers *(in thousands of euros)*	35	0	nr	33	0	nr	32	0	nr
Median basic salary for women on permanent contacts, managers *(in thousands of euros)*	50	61	nr	48	59	nr	47	60	nr
Median basic salary for women on permanent contacts, non-managers *(in thousands of euros)*	34	0	43	33	0	43	32	0	43
Year on year change in median basic salary for male managers on permanent contracts	0	0	nr	1	1.05	nr	1	0.92	nr
Year on year change in median basic salary for male non-managers on permanent contracts	0	nr	nr	1.02	nr	nr	0.99	nr	nr
Year on year change in median basic salary for female managers on permanent contracts	0	0	nr	1.02	0.98	nr	1	1.01	na
Year on year change in median basic salary for female non-managers on permanent contracts	0	nr	1	1.02	nr	1	1.01	nr	1.03

Banque Palatine's national footprint

Socio-economic footprint as buyer

Ethics and suppliers, subcontractors, service providers

The procurement unit undertook to respect an Ethical Charter by fulfilling nine commitments since 2018:

- to select the best suppliers through a transparent and equitable process based on clear selection criteria;
- to treat suppliers fairly and never consider personal interests to prevent any risk of conflict of interest or corruption arising;
- to contribute to the company's commitment by paying special attention to suppliers with strong CSR programmes;
- to maintain an atmosphere of mutual respect with suppliers and inform suppliers who have not been selected;
- to promote loyalty among strategic and local suppliers and foster partnerships;
- to respect the confidentiality of commercial and technical information provided by suppliers;
- to listen to the market to identify innovative companies (in social or technological areas);
- to actively promote ways to improve performance;
- to limit business lunches/dinners when these are wholly paid for by the supplier.

This ensures a sustainable and equitable relationship with suppliers and prevents conflicts of interests.

The procurement unit must be consulted for any expense greater than €100,000 (tax included). Use of the procurement unit has increased significantly over the year, from 62% to 78% of expenses in the procurement scope.

At each call for tenders, the procurement unit sends candidates a questionnaire to identify all their shareholders and their shareholdings so as to limit conflicts of interest and if applicable identify the source of their funds. It requires that suppliers sign a confidentiality agreement or include a confidentiality commitment into the tender file. The procurement unit also validates their legal compliance by automating the collection, verification and monitoring of supplier's documents.

The procurement unit also commissions a survey on the positioning of bidding candidates on their environment in the form of a Banque de France or Groupe BPCE rating. Groupe BPCE ratings take account of the candidate's reputations as well as their financial positioning.

At the time when contracts are concluded, the procurement unit integrates specific contractual clauses which limit the risk of conflicts of interest or corruption.

Also, during each call for tenders, Banque Palatine includes the social policy that the Bank wants the candidate to follow.

During the call for tenders, Banque Palatine calls upon the candidates and future suppliers to comply with the different standards and regulations in force relating to social responsibility. The tender file specifies the actions that Banque Palatine wishes each candidate to take and commit to continuing throughout the lifetime of the partnership. A questionnaire evaluating the CSR performance of each supplier and their offerings is sent to bidders to identify CSR risks and opportunities in a pro-active way and incorporate this performance into the overall ranking of suppliers. All these points are considered during bid presentations and candidate selection. The CSR criterion is therefore used to choose between bidders in calls for tenders.

To improve the CSR performance of the procurement unit, BCPE Achats, with the support of the Banque Palatine procurement unit, has deployed a collaborative platform called OneMap CSR which responds to the needs expressed by the procurement and CSR functions and Groupe BPCE's CSR objectives by sharing:

- suppliers and services for more inclusive purchases;
- sourcing to feed the CSR & Purchasing action plan;
- experiments and prospects;
- best practices and news linked to CSR.

Procurement unit and the PHARE process

Banque Palatine records a significant improvement in the use of the protected sector thanks to the services associated with the new procurement categories, awarded to the protected sector, using the database from the Gesat network for sourcing, by developing co-contracting projects and raising awareness among employees *via* the PHARE talks with BCPE Achats regionally.

Use of protected and adapted work sector

	2019	2018	2017
Volume of purchases *(in euros, excluding tax)*	160,000	113,000	81,306
Number of UBs	12.33	5.73	4.13

Banque Palatine set six beneficiary units as the target in 2020 in relation to use of the protected and adapted work sector. By including suppliers from the protected sector in call for tenders from classic companies, Banque Palatine has far exceeded its target one year to go.

To do this, during most fairly standard tenders for service providers, companies from the protected sectors are invited to bid alongside other companies, either directly or indirectly as co-providers, under three-way contracts, etc.

Moreover, at Group level, e-learning programmes have been made available to buyers in a learning pathway format to raise awareness of the subtleties of regulations in the French Labour Code, the calculation of UBs (profit units) and other issues related to the protected and adapted work sector. Disabled contacts have also been appointed to answer questions from Group employees.

Banque Palatine has subscribed to the Gesat network so that buyers can access discussions, training and information and meet new players in the field.

Socio-economic footprint as investor

Bids that favour energy, ecological and solidarity transition: renewable energy and SRI

The Groupe BPCE is a French leader in renewable energy finance. The regional roots of the Group make it an essential financier of local projects. Its two networks are based on the expertise of several specialist subsidiaries which develop solutions to meet the requirements of this fast-changing market.

Renewable energies are sources of energy whose natural rate of renewal is fast enough to be considered inexhaustible over time. Basically, this means wind, photovoltaic solar and hydroelectric power and biomass- or biogas-fuelled generation. These energies are also known as green energies in contrast to fossil fuels (oil, coal, gas, etc.) and nuclear (due to problems with its waste).

Banque Palatine, as part of Groupe BPCE's commitments, has included in its Envol strategic plan an aspiration to significantly reduce CO_2 emissions from its activities. The decision to finance renewable energy projects is intended not only to support its customers but also to encourage the design of energies that generate little CO_2 in use. Green offering – Renewable energies are therefore an essential component and consistent with Banque Palatine's CSR policy.

The differentiating offer department of the corporate market department investigates the renewable energy sector as well as the economic, legal and technical features of each proposed funding project, to make safe and profitable loans. Most financing goes to wind or solar projects as these are the best established technologies.

The 2018-2020 targets mainly pursue the acceleration of structured finance, relying on a competitive benchmark, to study new renewable generation sources and expand the portfolio, while still taking into account regulatory changes and market trends.

Socially responsible investing	31/12/2019	31/12/2018	31/12/2017
SRI investment outstanding (in millions of euros)	91	66.7	30.1
Share of installed capacity			
Wind (in MWp)	3.04	9.28	17.22
Photovoltaic (MWp)	32.15	33.80	8.06
Investment (in millions of euros)	53.9	70.7	59

Responsible investment at Palatine Asset Management

Incorporating environmental, social and governance (ESG) criteria into the analysis makes it possible not only to better analyse the risks and opportunities linked to a stock but also, on a wider perspective, to combat global warming (manage climate risks and contribute to funding the green economy).

Banque Palatine thus offers the possibility to invest in three themed funds (Palatine Planète, Palatine Actions Défensives Euro, Palatine Entreprises Familiales ISR) and one generalist fund (Palatine Actions Europe, absorbed by Export Europe in January 2020) managed by its portfolio management subsidiary Palatine Asset Management.

Palatine Asset Management has for years been committed to factoring climate risks into its investment. Ever since 2005 when it launched its renewable energies fund, anticipating the interest of investing in sustainable development and low-carbon models to combat global warming. It subsequently developed its range of environmental impact savings products with the creation in 2006 of Palatine Or Bleu. Palatine Or Bleu was converted into Palatine Planète in October 2019. The scope of investment was extended to companies whose activity is linked to the environment, and particularly those who help fight against global warming, pollution and scarcity of resources.

The management team prioritises companies who fight these issues and those who innovate and provide solutions to contribute to a positive ecological and energy transition. The main sectors and topics covered are:

- energies that do not emit greenhouse gas emissions: solar, wind, geothermal, hydraulic;
- energy efficiency: construction, civil engineering, isolation, clean modes of transport;
- adaptation to climate change: new production technologies;
- treatment, sanitisation, supply of drinking water and waste management;
- safeguarding humankind and the community: sanitary and health control.

The theme favouring sustainable development solutions was enhanced with the incorporation of the socially responsible investment element. In 2007, the Palatine Or Bleu investment process was refined by adding an environmental, social and governance (ESG) filter. This filter is a tool for risk management, competitive strategy and stakeholder management. Banque Palatine remains an SRI fund. Before they are included in the portfolio, the securities must be validated by the ESG (environmental, social ad governance) analysis filter implemented by Palatine Asset Management.

The SRI principles were then applied to two other funds: Palatine actions défensives euro and Palatine entreprises familiales ISR. Finally, since December 2018, the generalist fund Palatine actions europe was also transformed into an SRI fund.

As part of the Envol strategic plan and "Green Business – SRI Offering" project, Palatine Asset Management is committed to gradually disseminating SRI principles throughout its traditional asset management portfolio. Similarly, major communication and educational programmes will be deployed with the sales force in 2020 to publicise this type of investment to savers.

An SRI investment policy for the four funds, and the Transparency Codes, were drafted and are available on the Palatine Asset Management website.

Three of the four SRI funds (Palatine planète, Palatine entreprises familiales ISR and Palatine actions défensives euro) were SRI certified by Novethic from 2009 to 2016 and in 2017 were SRI certified 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.

All investment managers have direct access to ESG research (data provided by Vigeo, ETHIFINANCE 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.

At the end of 2019, Palatine Asset Management signed the principles for responsible investment (PRI), and initiative launched by the United Nations and large institutional investors to reinforce its approach as a responsible investor.

Palatine Asset Management's commitment takes the form of dialogue with companies in all fields of ESG through seminars, informative meetings and one-to-one meetings, but also through the voting policy outlined hereafter.

Since the end of 2016, Article 173, particularly clause 6 of the Energy Transition law imposes, for the first-time, obligations to report on how climate risks are managed and the environmental impacts of investments. These indicators have been published in the report of 31 December 2019 for:

- the four SRI funds with outstandings of €0.091 billion, *i.e.* 2.3% of total outstandings;
- Ocirp Actions, a euro zone equity fund within the framework of our customer relations; and
- Palatine moma, a short-term money market fund and Palatine Institutions, a standard monetary fund with net assets of more than €500 million.

There are plans for a substantial increase in SRI equities under management to near 10% of total equities by end-2020.

Carbon footprint measurements of investments incorporate companies' carbon emissions (Scope 1 [(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 (the proportion of "green" *versus* fossil investments) is also calculated to help concentrate on the least polluting sectors – renewable energies, energy efficiency, etc.

Palatine Asset Management does not aim to concentrate on sectors with low carbon issues, but rather to select those companies most committed to reducing carbon emissions.

Voting policy (PAM)

Finally, Palatine Asset Management votes on all the shares in its portfolio.

For this, the investment management company has since 2015 been able to call on the expertise of the ISS (Institutional Shareholder Services Europe SA) voting consultancy to expand its voting scope. In 2019, Palatine Asset Management has exercised its voting rights at 249 AGMs across the whole of Europe, not including countries where it has granted powers of attorney. The aim is to promote good ESG practices in companies in which the fund managed by Palatine Asset Management are shareholders to encourage them to implement forward-looking socially responsible processes. The global participation rate was 95.4%.

The principles underpinning this voting policy are available at: www.palatine-am.com.

Our social footprint as sponsor

Fondation Palatine des ETI

The foundation project was born of Banque Palatine's ambition to strengthen its commitment to sponsorship while directing it more concretely towards a social project close to its core business: entrepreneurship. Its primary aim is to build, alongside senior executives of medium-sized companies, a shared and collaborative sponsorship policy to cultivate different relationships between the Bank and its customers by showcasing their shared ideas. This initiative will also support mid-sized companies in growing their social contributions. In this framework, the Movement of mid-sized companies (*Mouvement des entreprises de taille intermédiaire*, METI), which Banque Palatine has belonged to for many years, has an active role in the foundation and sits on its decision-making bodies.

The mission of this foundation is to spread the entrepreneurial commitment to service through better social integration in whatever field of expression. The collaborative aspect is the main driver of the project with, notably, the pooling of the companies' resources for action, specific involvement of senior executives, but above all, support programmes over the long term. These support programmes, which may be financial or skills sponsorship, are a source of support for associations dedicated to promoting entrepreneurship and essential missions. The associations are selected based on the strategic choices made by the Steering Committee.

In order to focus mainly on concrete support, Banque Palatine chose to use the sheltered (or under the aegis of) foundation model. Taking into account its objective, the umbrella foundation chosen was Fondation Entreprendre whose aim is to develop entrepreneurship in France. The Fondation Entreprendre has been recognised as a public benefit foundation since 2011 and has provided valuable support in setting up the foundation. The Fondation Palatine des ETI is the eighth foundation under the aegis of the Fondation Entreprendre.

The Fondation Palatine des ETI is a structure created and managed by Banque Palatine. It fits naturally into the Envol strategic plan and its CSR programme. Therefore, it is essential that the foundation become the flagship for Banque Palatine's social commitment, externally but also to its own employees. This support tool shows a real desire to make Banque Palatine an indispensable player in sponsorship of mid-sized companies, allowing employees to feel involved in its actions.

The foundation's strategy is set by a Steering Committee bringing together senior executives of medium-sized companies and community leaders. The committee met for the second time on 26 November 2019 and decided to uphold the two lines of action laid down in the first year, which will guide the foundation. A total of 40 donors, including Banque Palatine, have financed five associations who will in turn offer long-term support to entrepreneurial projects in disadvantaged regions or to support the return to work of ex-prisoners. A total of €130,000 were distributed over the foundation's first year in 2019.

Disadvantaged regions

Parts of France have suffered a severe erosion of their economy due to their isolation. People living in troubled suburbs and some rural regions are faced with a dearth of job opportunities.

To eliminate this phenomenon and join in the economic revitalisation of these areas, the Fondation Palatine des ETI supports associations that support entrepreneurial projects in these difficult zones.

The Fondation Palatine des ETI supports the following structures:

- **Apprentis d'Auteuil,** which helps each person to create a plan to allow them to find their place in society. For young people with few qualifications, entrepreneurship may be a great support for their social and professional integration. In Nantes, **LAB** supports young people under 30 years of age facing insertion difficulties with their plan to create a company, by offering general and tailored support;
- **Cravate Solidaire,** which aims to remove all barriers to employment across the world, by innovating and acting specifically for employment. Through its **Ateliers Coup de Pouce** workshops, the association aims to support each project creator from disadvantaged areas by providing business wear. During these workshops, it also offers these business creators the opportunity to work on their presentation skills to help them convince a jury, bank or their first customers;

(1) Direct emissions caused by fossil fuels (oil, gas, coal, etc.) and emissions from leaks of liquid refrigerants from resources owned or controlled by the company;

- **Les Déterminés,** which promotes entrepreneurship in isolated areas (disadvantaged areas and rural environments) by providing free training over seven weeks and six-months support to allow those project holders selected to develop their entrepreneurial posture and to learn the fundamentals of managing a company. The association also makes available to them a rich network of partners.

Reintegration of ex-prisoners

To fulfil its objective, in 2018, the Fondation Palatine des ETI decided to limit its support to associations who support projects that offer a second chance through entrepreneurship. In 2019, the Board of Directors decided to extend the scope of this action to associations who facilitate the insertion of ex-prisoners.

Former prisoners find it hard to find work and struggle to reintegrate into society. Entrepreneurship could be a way to escape their circumstances and mitigate the risks of re-offending.

Fondation Palatine des ETI supports:

- **Entreprendre Pour Apprendre,** which is a federation of 16 regional associations promoting the social and professional reintegration of young people aged 8 to 25 years of age. The **Mini-Entreprise** project in prisons facilitates the professional reintegration of young prisoners. These prisoners can experience how to create a company and the different positions within a company;
- **Grandir Dignement** has launched a project with a dual aim: support young people in trouble with the law and allow them to become engaged citizens. The ***service civique adapté,*** offered to 12 young people over 12 months, allows them to discover the work of business and raises their awareness of entrepreneurship.

A new call for proposals will be launched in 2020 to allow new associations interested in working in the pre-defined action themes to submit their bids for one of the grants created by the foundation. It should be recalled that, to bolster collaboration, the Fondation Palatine des ETI offers its donors the chance to help select projects by voting at each call for proposals.

Other partnerships and sponsorships

Social integration

Eager to encourage social and geographic diversity within higher educational institutions, since 2010 Banque Palatine has forged a partnership with the Institut d'études politiques (Sciences Po) 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;
- internships;
- setting up presentations of business lines for pupils.

Sport

A premium partner of the Paris 2024 Olympic and Paralympic Games, Banque Palatine would like to work more with sports persons. Thus, since September 2019, it has supported four French athletes likely to participate in the 2024 Olympic or Paralympic Games.

In this respect, the financial support provided to the Fondation Pacte de performance offers sports persons with insufficient resources the chance of receiving and annual grant. This would thus allow them to fully concentrate on their sport.

Banque Palatine therefore has the pleasure of supporting Elodie Clouvel, Gaëlle Edon, Camille Jaguelin and Nicolas Muller, and thus help support the performance of the French teams.

Support for the arts

Every 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 for its freedom of spirit, its non-competitive nature and its focus on being open to the public.

For Banque Palatine, this is a new way of contributing to encouraging talent and diversity in film.

Environmental footprint

Environmental footprint and the Group

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 view, awareness raising sessions were run, open to all business lines:

- raising awareness of CSR, energy and climate challenges;
- training on CSR reporting;
- training on the tool used to calculate the Group's greenhouse gas emissions.

The Bank's environmental approach

Under its Envol strategic plan, Banque Palatine has decided to strengthen its commitment to the environment. One project is dedicated to reducing its environmental footprint to build on and extend actions already under way. This action cannot be conducted without employees' awareness of this approach and without regular communication to employees on the results obtained[1].

(1) *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 of year n - 1 to 31 October of year n.*

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 sustainable use of resources (water, raw materials, etc.), and the prevention and management of waste and the re-use of equipment replaced by associations (blue circuit).

Energy consumption

As regards business travel, Banque Palatine encourages its employees to use the cleanest forms of transport rather than cars (car-sharing site: http://palatine.trajetalacarte.com), particularly trains and other public transport. A fleet of bicycles has also been made available to employees at the administrative Val-de-Fontenay site.

Moreover, video and web conferencing solutions reduce business travel thus limiting and optimising travel between the two head offices. All branches were also equipped with screens to allow remote conferencing.

Furthermore, a driving booklet, produced in-house, was given to users of company and/or fleet vehicles and a fleet of clean vehicles is available. The booklet includes information on electric and hybrid vehicles.

The optimisation of travel planning, in partnership with the service provider in question, has reduced greenhouse gas emissions and the number of deliveries. 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 conducted in October 2017 on home-work journeys facilitated investigation into alternative solutions to make these journeys more economical and more ecological with the reimbursement of cycling mileage allowances and increased cover for travel tickets for employees of the two head offices.

	31/10/2019			31/10/2018			31/10/2017		
Indicators	BP	PAM	ARIES	BP	PAM	ARIES	BP	PAM	ARIES
Petrol consumed by company cars	10,845	251	nr	7,815	2,453	nr	4,162	3,679	nr
Petrol consumed by fleet cars	1,541	nr	nr	2,726	nr	nr	1,709	nr	nr
Diesel consumed by company cars	44,379	1,554	nr	49,945	nr	nr	35,714	nr	nr
Diesel consumed by fleet cars	72,462	nr	nr	70,325	nr	nr	61,154	nr	nr
Business travel in private cars *(km)*	129,277	nr	22,168	167,308	nr	20,462	182,010	nr	21,104
Average grams of CO_2 per km for company and fleet cars	95	nr	nr	95	nr	nr	93	nr	nr
Business travel by train *(km)*	3,136,751	19,971	nr	2,711,684	15,688	nr	3,059,820	25,377	1,348
Business travel by air, short-haul *(km)*	670,598	6,033	nr	675,842	6,104	1,176	761,776	6,028	nr
Business travel by air, medium- and long-haul *(km)*	21,496	nr	nr	31,983	nr	nr	19,680	nr	nr

The "company car fuel" item increased due to the increase in orders for company cars. It is difficult for the company to control the petrol consumption of these vehicles.

The "travel by train" item also increased. The IT migration planned for 2020 had an impact on business travel in 2019. It is worth noting however, that the data for the previous year had decreased following the strikes from March to June 2018.

The "travel by plane" item fell significantly.

The improvement of the energy efficiency of its building is ongoing. 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.

Water management

Banque Banque Palatine Group indicators	31/10/2019	31/10/2018	31/10/2017
Total water consumption (in m^3)	300,096	286,936	275,234
Total water consumption per sq.m.*	10.00	9.58	8.92
Total spending on water (in thousands of euros)	5.10	4.44	8.28

** This figure corresponds to the amounts of bills paid directly by Banque Palatine. Water consumption included in building charges is not recognised.*

The increased water consumption is due to:

- The leasing and construction work needed for the additional premises at Val-de-Fontenay in order to install the teams for the migration;
- and the high temperatures last summer which generated overuse of the air conditioning.

Raw materials consumption

The extension of the use of secure printing and better management of printing and use of EDM explains the fall in the number of reams of paper used. The paper used is now entirely recycled or certified.

Banque Banque Palatine Group indicators	31/12/2019	31/10/2018	31/10/2017
Total paper consumption (tonnes)	41.89	46	50.94
Total paper consumption for the total workforce (kg)	31.66	37.50	40.94
Of which total consumption of recycled paper or FSC or PEFC-certified paper (tonnes)	41.89	46.16	50.94

Consumption of electrical energy and natural gas

Total electricity consumption continues to fall, which is a positive and virtuous trend. This has been achieved by:

- maintaining the supply of green energy (including Direct Energie *via* a Call for Tenders);
- continuing to reduce the consumption of energy by encouraging employees to limit their energy consumption at it main sites;
- changing from fluorescent lights to led lights, which consume less energy, for the lighting of hallways, offices and meeting 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.

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 Lyon Confluence) in order to maintain contracts with local businesses and hence preserve the economic fabric of these cities.

The increase in electricity consumption is due to the leasing and construction work needed for the additional premises at Val-de-Fontenay in order to install the teams for the migration project.

Banque Banque Palatine Group indicators	31/10/2019	31/10/2018	31/10/2017
Total final energy consumption (kWh)	3,384,673.40	3,029,535.41	3,561,155
Total energy consumption per heated/occupied sq.m. (kWh)	113.83	99.67	155.0
Total natural gas consumption (kWh)	31,726	43,921.22	151,402
Total electricity consumption (kWh)	3,352,947.43	2,985,614.18	3,409,752
Share of renewable energy in total final energy consumption (blue meters) (kWh)	3,164,438	2,700,036.00	3,141,681

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 Banque Palatine Group indicators	31/10/2019	31/10/2018	31/10/2017
Total spending on cleaning services	736	783	807

Pollution and waste management

As part of the actions to promote the circular economy, the management and recycling of waste are a priority for the Bank's environmental approach.

This action also involves communicating to employees and encouraging them to reduce their use of plastic cups and bottles.

Voluntary contribution centres were set up as part of the renovation of the platforms of 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.

This voluntary system will be extended to the head office and gradually through the network which will enable us to improve our selective sorting.

The total amount of waste produced by the Bank is continually decreasing.

Banque Banque Palatine Group indicators	31/10/2019	31/10/2018	31/10/2017
Total spending on waste management services by provider (in thousands of euros ex-VAT)	91	132	113
Total Ordinary Industrial Waste (OIW) (tonnes)(1)	38	526	523
Total waste produced by the Bank (tonnes)(2)	68	61	1,151
Total recycled waste (tonnes)	77	587	1,674

(1) The previous calculation method was based on an estimation of the capacity of the tank in place (in tonnes). To obtain more accurate data, a new more realistic calculation method was put in place.

(2) The purchase of IT equipment generated an 11% increase in waste produced by the Bank.

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. This includes:

- waste arising from work on Group buildings;
- Waste Electrical and Electronic Equipment (WEEE);
- office furniture;
- light bulbs;
- management of liquid refrigerators;
- 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.

	2019	2018	2017
Total recycled WEEE waste (tonnes)	3.1	3.1	4.3

Recycling

The volume of recycled cartridges and toner has fallen continuously since 2017. 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 Banque Palatine Group indicators	31/10/2019	31/10/2018	31/10/2017
Number of recycled ink and toner cartridges (number)	(1)	121	300
Number of recycled ink and toner cartridges (in tonnes)	0.38		
Number of neon fluorescent tubes collected (in number)	93	521	1,791
Batteries collected (kg)	0(2)	21	14

(1) The data collected are now indicated in tonnes rather than number.

(2) No collection during the period concerned.

Preventing and managing climate risks: carbon footprint

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 several 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;
- mapping of these emissions;
  - per item: energy, purchases of goods and services, movement of people, fixed assets 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.

	31/12/2019	31/12/2018	31/12/2017
Scope 1: Direct combustion of fossil fuels plus leaks of refrigerant gases	330.09	339.5	292.16
Scope 2: Electricity consumption and the heating network	136.09	182.56	187.88
Scope 3: All emissions other than use	9,071.85	7,225.54	4,679.19

(1) The GHG Protocol divides the operational scope of the GHG emissions of an entity (or organisation) as follows: Scope 1: direct emissions induced by the combustion of fossil fuels (oil, gas, coal, etc.) and refrigerant leakage emissions from resources owned or controlled by the company; Scope 2: indirect emissions resulting from the purchase or production of electricity, steam, heat or cooling; Scope 3: all other indirect emissions (from the supply chain, including the transportation of goods and people). It should be noted that regulatory requirements under Article 75 of the Grenelle de l'Environnement law cover Scope 1 and Scope 2.

Appendix

Key performance indicators

A review of the degree of control of Banque Palatine's main CSR risks was carried out with the experts of the business lines concerned which were able to detail the commitments made in respect of each risk.

Priority risks	Social footprint
Description of the risk	Banque Palatine's social footprint
Description of the associated risks/commitment systems	See section: Our social footprint as sponsor
Key indicators	Number of projects completed by Fondation Palatine des ETI
2018 data	-
2019 data	€130 K distributed to five associations

Priority risks	Participation in the governance of the companies involved
Description of the risk	Absence of participation in the governance of the companies involved/supported
Description of the associated risks/commitment systems	See section: Palatine Asset Management's voting policy
Key indicators	Number of general meetings in which Palatine Asset Management has voted
2018 data	320 general meetings or a global participation rate of 94.1%
2019 data	249 general meetings or a global participation rate of 95.4%

Priority risks	Financing of the energy transition
Description of the risk	Define a strategy to support customers in an ecological and energy transition and roll this out at all operational levels
Description of the associated risks/commitment systems	See section: Bids that favour energy, ecological and solidarity transition: renewable energy and SRI
Key indicators	Total financing of the ecological and energy transition
2018 data	€173 million
2019 data	€185 million

Priority risks	Management of employability and career change	
Description of the risk	Adapting the company's need with those of employees to respond to changes in the business lines	
Description of the associated risks/commitment systems	See section: Training: supporting the development of skills and employability	
Key indicators	Number of hours training by FTE employee	
2018 data	Banque Palatine: 23.6	Palatine Asset Management: 8.6
2019 data	Banque Palatine: 28.19	Palatine Asset Management: 8.54

Priority risks	Respect of laws, business ethics and transparency
Description of the risk	Respect for regulations, the fight against corruption and fraud, prevention of unethical practices and access to information
Description of the associated risks/commitment systems	See section: Business practice led by ethics and example
Key indicators	Existence of an Ethical Code and dissemination among employees, steering and governance
2018 data	Modification of Banque Palatine's internal regulations to include the corruption risk and the prevention measures, whistleblowing. Adoption by the Board of Directors of a Directors' Ethics Charter
2019 data	Dissemination and availability of the Code of Conduct and Ethics and e-learning training for all personnel

Priority risks	Security and confidentiality of data
Description of the risk	Protection against cyber threats, ensuring the protection of employees' and customers' personal data and business continuity
Description of the associated risks/commitment systems	See section: Ensure data security and IT integrity
Key indicators	GDPR systems
2018 data	Distribution of a presentation outlining the GDPR requirements, deployment of GDPR training, intrusion testing, skills reviews
2019 data	Monthly phising test campaigns since November 2019, awareness campaigns for all employees (mails, intranet and face-to-face), distribution of an ISS best practices kit, distribution of a best practices kit relating to the sending of personal data externally, distribution of best practices kits on external and internal fraud, intrusion tests performed, skills reviews

Priority risks	Sustainability of customer relationships
Description of the risk	Ensuring long-term and satisfactory service quality for customers
Description of the associated risks/commitment systems	See section: Quality of the customer relationship: managers of medium-sized companies, private customers, corporate customers
Key indicators	Annual customer Net Promoter Score and trend
2018 data	Managers + 12 Medium-sized companies Private customers+ 4 Corporate customers + 7
2019 data	Managers+ 14 Medium-sized companies Private customers+ 5 Corporate customers + 9

Priority risks	Accessibility of products and inclusive finance
Description of the risk	Ensuring access to products for the entire public both in terms of geography and technology
Description of the associated risks/commitment systems	See section: Inclusive finance
Key indicators	Number of customers with “vulnerable customer offering”
2018 data	Existence of products for vulnerable customers Commitment to cap bank charges
2019 data	Implementation of a cap on bank charges for financially vulnerable customers and for customers with a specific product (eight customers)

Priority risks	Customer protection and transparency of offer
Description of the risk	Facilitate the understanding of products and services for all customers Communicate clearly and sell products and services adapted to each customer requirement
Description of the associated risks/commitment systems	See section: Customer protection
Key indicators	Systems for Customer protection and transparency of offer
2018 data	Implementation of a customer pathway to deliver advice that is tailored to the customer’s profile and objectives
2019 data	Control of fair commercial practices based on information that is clear and not misleading to prioritise the customer’s interest

Priority risks	Integration of ESG criteria in decisions concerning loans and/or investment
Description of the risk	Integration of criteria (ESG) and risks of physical transition linked to climatic change in sectoral policies and analysis of financing and investment files
Impact of the risk	Lack of sectoral policies to limit the bank’s exposure to the most controversial activities and inadequate nature of the systems for the identification, evaluation and control of ESG risks (in particular with regards to respect of human rights or the non-integration of transition and physical risks linked to climate change) with the decision-making process for granting financial products and services to customers Lack of skills and training of analysts
Description of the associated risks/commitment systems	See section: Responsible investment at Palatine Asset Management
Key indicators	Proportion of sector lending policies that include CSR criteria
2018 data	2.1%
2019 data	2.3%

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, quality and process, communications). Those efforts have resulted in CSR indicators that are relevant to the activities, specific features and aims of the Banque Banque Palatine Group.

The information published reflects Banque 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 data published cover the period from 1 January 2019 to 31 December 2019 except for the environmental data which are provided for the period from 1 November 2018 to 31 October 2019.

Reporting scope

In 2019, the reporting scope includes UES Banque Palatine.

Details on workforce-related data

- Total staff figures are a snapshot at 31 December 2019 of people linked to each entity by an employment contract or corporate office (permanent, fixed-term, professional development, and apprenticeship contracts), including those leaving on that date and employees whose employment contracts have been suspended. Fixed-term contracts do not 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 31 December 2018 and 30 December 2019 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 2019. Corporate officers are not included in the indicator.
- To calculate the indicator relating to absences: 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).
- The type of training used to calculate the indicator are: face-to-face training, virtual classes and e-learning for employees on permanent and fixed-term contracts and work study programmes in UES Banque Palatine.

Details on environmental data

- All paper consumed is in A4 format and the calculation procedure is unchanged.
- Water consumption is estimated based on financial amounts.
- Energy consumption 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.
- Waste: the data are now accessible *via* the service providers.

Exclusions

By the nature of Banque Palatine's business some issues covered by the decree of 24 April 2012 were considered immaterial:

- measures to prevent, reduce or remedy air, water and soil emissions severely affecting the environment: issues of little relevance to Banque Palatine's own activities but considered in its financing business, notably in application of the Equator Principles;
- noise pollution, other forms of pollution and ground use: as Banque Palatine is a service-based business, it is not concerned by issues relative to noise pollution and ground use. Its offices and commercial premises often cover several floors so its ground occupancy is much smaller than that of an industrial activity spread over a single level;
- food waste, given our service-based business.

2 Table of the results of the last five financial years

Article R. 225-102 of the French Commercial Code

in thousands of euros	2015	2016	2017	2018	2019
• **SHARE CAPITAL AT YEAR-END**					
Share capital	538,803	538,803	538,803	538,803	688,803
Number of shares(1)	26,940	26,940	26,940	26,940	34,440
• **OPERATIONS AND RESULTS FOR THE YEAR**					
• Revenue	495,554	543,001	542,453	527,355	510,989
Income before tax, employee profit-sharing, depreciation, amortisation, impairment and provisions(3)	128,578	114,673	69,948	67,802	7,700
Income taxes	(25,675)	(19,441)	(21,497)	(17)	(3,420)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	50,734	50,555	52,514	(23,072)	22,492
• Dividend payments(2)	27,748	-	-	-	18,253
• **EARNINGS PER SHARE (IN EUROS)**					
Revenue	18.39	20.16	20.14	19.58	14.84
Income after tax, employee profit-sharing, but before depreciation, amortisation, and impairment and provisions(3)	4.77	4.26	1.55	2.13	(0.09)
Income taxes	(0.95)	(0.72)	(0.80)	0.00	(0.10)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	1.88	1.88	1.95	(0.86)	0.65
Dividend per share(2)	1.03	-	-		0.53
• **EMPLOYEE DATA**					
Average headcount	1,202	1,213	1,170	1,184	1,255
o/w managerial	*767*	*781*	*793*	*790*	*818*
o/w non-managerial	*435*	*432*	*377*	*394*	*437*
Total payroll	66,008	68,138	66,166	69,268	74,049
Amount of employee benefits during the period	33,214	34,213	34,918	36,205	36,649

(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 general meeting.

(3) The result is impacted by a high level (€57.9 million) of reversals of provisions with respect to losses on trade receivables and the externalisation of the end-of-career provision for €10.9 million.

3 Information on supplier and customer payment periods

Article D. 441 I.1

Invoices received and unpaid on the closing date of the financial year that are due (table required by Article D. 441-6-1, paragraph I)	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	8	125	46	20	66	257
Total amount, inclusive of VAT, of the invoices concerned (in euros)	116,362	431,417	114,941	3,356	126,344	676,057
Percentage of the total amount of purchases, inclusive of VAT, for the financial year	0.12%	0.43%	0.11%	0.00%	0.13%	0.67%

Invoices received which were paid late during the financial year (table required by Article D. 441-6-1, paragraph II)	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	3,646	4,451	1,274	477	1,377	7,579
Total amount, inclusive of VAT, of the invoices concerned (in euros)	48,301,958	26,665,668	10,498,019	9,081,316	5,025,274	51,270,278
Percentage of the total amount of purchases, inclusive of VAT, for the financial year	48.13%	26.57%	10.46%	9.05%	5.01%	51.08%

This information does not include banking transactions and related transactions.

For Banque Palatine customer receivables and liabilities, see Appendix 4.14 to Section 2 on the maturity of loans and borrowings, which provides information on their residual maturity.

4 Appropriation of income with respect to 2019

Sources	
Net profit	€22,492,403.86
Carried forward	€207,727,183.41
TOTAL	**€230,219,587.27**

Appropriations	
To the statutory reserve	€1,124,620.19
Distribution	€18,253,271.02
Carried forward	€210,841,696.06
TOTAL	**€230,219,587.27**

5 Information on inactive accounts

(Articles L. 312-19, L. 312-20, and R. 312-21 of the French Monetary and Financial Code)

From 1 September 2018 to 31 August 2019

- Number of dormant accounts at the Bank: 8,760.
- Total amount of deposits and assets in these accounts: €108,920,534.22.
- Number of accounts whose deposits and assets are deposited with the *Caisse des dépôts et consignations:* 547.

Total amount of deposits and assets deposited with the *Caisse des dépôts et consignations:* €1,695,501.32.

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
La Muette branch	77, avenue Paul Doumer	75016	Paris
Matignon branch	12, avenue Matignon	75008	Paris
Raspail branch	39, boulevard Raspail	75007	Paris
Saint-Lazare branch	74, rue Saint-Lazare	75009	Paris
PARIS REGION			
Boulogne branch	32 *bis,* boulevard Jean Jaurès	92100	Boulogne
Courbevoie branch	29, boulevard Georges-Clémenceau	92400	Courbevoie
DMAP Branch	10, avenue du Val de Fontenay	94120	Fontenay-sous-Bois
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
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	2, place Paul-Bec	34000	Montpellier
MIDI-PYRENEES			
Toulouse branch	8 rue du Poids de l'Huile	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 COTE D'AZUR

Aix-en-Provence branch	1, avenue Victor-Hugo	13100	Aix-en-Provence
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 Confluence branch	12*ter,* quai Perrache	69002	Lyon
Lyon Cordeliers branch	1, place des Cordeliers	69002	Lyon
Lyon Vaise branch	51, rue des Docks	69009	Lyon
Saint-Etienne branch	1, boulevard Dalgabio	42000	Saint-Etienne

6

DRAFT RESOLUTIONS SUBMITTED TOTHE COMBINED GENERAL MEETING OF 26 MAY 2020

First resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and after having heard the management report and the corporate governance report by the Board of Directors, and the report by the Statutory Auditors on the annual financial statements for the financial year ended 31 December 2019, the General Meeting approves the annual financial statements showing earnings of €22,492,403.86.

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, totalling €85,327.03 and gave rise to a tax charge of €29,378.10.

Second resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and after having heard the management report and the report on corporate governance by the Board of Directors, and the report by the Statutory Auditors on the consolidated financial statements for the financial year ended 31 December 2019, the General Meeting approves Banque Palatine's consolidated financial statements prepared under IFRS showing net income attributable to equity holders of the parent of €18.377 million.

Third resolution

Voting under the quorum and majority conditions required for ordinary general meetings, the General Meeting approves the appropriation of earnings for the 2019 financial year, as proposed by the Board of Directors:

Net profit	**€22,492,403.86**
Carried forward	€207,727,183.41
TOTAL	**€230,219,587.27**
To the statutory reserve	€1,124,620.19
Distribution	€18,253,271.02
Carried forward	€210,841,696.06
TOTAL	**€230,219,587.27**

Following this appropriation, the balance of the legal reserve will total €50,926,418.71 and the balance carried forward will be €210,841,696.06.

The nominal dividend per share of €20 will total for FY 2019 €0.53 for each of the 34,440,134 shares, without granting entitlement to a dividend tax credit.

In application of Article 243 *bis* of the French Tax Code, shareholders are reminded that the dividends paid in respect of the last three financial years were as follows:

Year ended	Par value	Number of shares	Dividend/revenue paid per share
31 December 2016	€20	26,940,134	-
31 December 2017	€20	26,940,134	-
31 December 2018	€20	26,940,134	-

** Not eligible for the 40% rebate.*

Fourth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and after having heard the special report by the Statutory Auditors on the agreements provided for 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 under the quorum and majority conditions required for ordinary general meetings, and after having heard the report on corporate governance, the General Meeting approves the fixed, variable and exceptional elements comprising the total remuneration and benefits of all kinds, for the financial year ended 31 December 2019, to be awarded to Mr Pierre-Yves Dréan, in his capacity as Chief Executive Officer.

Sixth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and having heard the report on corporate governance, the General Meeting approves the fixed, variable and exceptional elements comprising the total remuneration and benefits of all kinds, for the financial year ended 31 December 2019, to be awarded to Mr Bertrand Dubus, in his capacity as Executive Vice-President.

Seventh resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and having heard the report on corporate governance, the General Meeting approves the fixed, variable and exceptional elements comprising the total remuneration and benefits of all kinds, for the financial year ended 31 December 2019, to be awarded to Mr Patrick Ibry, in his capacity as Executive Vice-President.

Eighth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and having heard the report on corporate governance, the General Meeting approves the fixed, variable and exceptional elements comprising the total remuneration and benefits of all kinds, for the financial year ended 31 December 2019, to be awarded to Ms Christine Jacglin, in her capacity as Chief Executive Officer.

Ninth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and having heard the report on corporate governance, the General Meeting approves the principles and criteria for determining, allocating and distributing the fixed, variable and exceptional elements comprising the total remuneration and benefits of all kinds, for the financial year ended 31 December 2020, to be awarded to Ms Christine Jacglin, in her capacity as Chief Executive Officer.

Tenth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and having heard the report on corporate governance, the General Meeting approves the principles and criteria for determining, allocating and distributing the fixed, variable and exceptional elements comprising the total remuneration and benefits of all kinds, for the financial year ended 31 December 2020, to be awarded to Mr Patrick Ibry, in his capacity as Executive Vice-President.

Eleventh resolution

Voting under the quorum and majority conditions required for ordinary general meetings, and having heard the report on corporate governance by the Board of Directors, the General Meeting issues a favourable opinion on the overall allocation of remuneration of all kinds paid in respect of the financial year ended 31 December 2019 to all members of staff who are regulated persons, which amounted to €8,087,921.

Twelfth resolution

Voting under the quorum and majority conditions required for extraordinary general meetings, and having heard the management report, the General Meeting decides to amend the Articles of Association.

The General Meeting, having heard a full reading of the new Articles of Association article by article, approves the Articles of Association, a copy of which will be appended hereto, and decides that these Articles of Association shall immediately enter into effect.

Thirteenth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, the General Meeting notes that the term of office of Mr Maurice Bourrigaud as Director expires on this date, and decides to renew his term of office for two years, i.e. until the general meeting called to approve the financial statements for the year ending 31 December 2021.

Fourteenth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, the General Meeting notes that the term of office of Ms Christine Fabresse as Director expires on this date, and decides to renew her term of office for four years, *i.e.* until the general meeting called to approve the financial statements for the year ending 31 December 2023.

Fifteenth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, the General Meeting notes that the term of office of Mr Bruno Goré as Director expires on this date, and decides to renew his term of office for two years, *i.e.* until the general meeting called to approve the financial statements for the year ending 31 December 2021.

Sixteenth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, the General Meeting notes that the term of office of Ms Marie Pic-Pâris Allavena as Director expires on this date, and decides to renew her term of office for two years, *i.e.* until the general meeting called to approve the financial statements for the year ending 31 December 2021.

Seventeenth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, the General Meeting notes that the term of office BPCE SA as Director expires on this date, and decides to renew its term of office for four years, *i.e.* until the general meeting called to approve the financial statements for the year ending 31 December 2023.

Eighteenth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, the General Meeting appoints Caisse d'Epargne Provence Alpes Corse as Director for a term of four years, *i.e.* until the general meeting called to approve the financial statements for the year ending 31 December 2023.

Nineteenth resolution

Voting under the quorum and majority conditions required for ordinary general meetings, the General Meeting gives all powers to the bearer of a copy or excerpt of the minutes of this general meeting to complete the publicity formalities provided for by law.

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