BANQUE PALATINE
L'Art d'être Banquier

FINANCIAL REPORT

2020

GROUPE BPCE

CONTENTS

5

NOTES TO THE MANAGEMENT REPORT 230

6

DRAFT RESOLUTIONS SUBMITTED TO THE ORDINARY GENERAL MEETING OF 20 MAY 2021 278

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 2020

Christine Fabresse

Christine Jacglin

Born from the will of entrepreneurs more than 240 years ago, Banque Palatine, a private bank for SMEs and medium-sized companies supports them in all their professional and personal projects.

Its human scale – 1,200 employees – and its national distribution network – 45 points of sale – make it a medium-sized bank, which lives and understands all the needs of these companies.

It offers value-added expertise dedicated to accelerating the growth and performance of its clients: wealth, legal and tax engineering, investment advice, global approach to the manager's assets, corporate finance, specialised approach to real estate, trade finance, customer desk, etc.

The bank also endeavoured to develop a relationship model based on in-depth listening to 14,000 companies and 60,000 private customers and on "tailor-made" solutions.

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

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

www.palatine.fr

STATEMENT FROM THE PERSON RESPONSIBLE

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, 29 April 2021

Chief Executive Officer

1
BOARD OF DIRECTORS' REPORT

1 Management report

Economic environment

The year 2020 was marked by the Covid-19 epidemic, which was quickly classified as a pandemic by the World Health Organization (WHO) because of its rapid spread across the globe.

It generated, first health, then financial and finally economic tensions, given the containment measures implemented in many countries to stem the spread of the virus.

The leading political topics of economic news, such as the American elections, the Brexit file or the Sino-American tensions, were sidelined.

To cope with the epidemic and the growing number of infections, governments have been forced to take drastic measures to curb the phenomena of interactions between individuals. Partial or general confinement, closure of shops or borders, these measures abruptly stopped global economic activity.

According to the latest projections from the International Monetary Fund (IMF), the global economy is expected to contract by 4.4% in 2020. Because of the importance of international trade for advanced economies, they should be much more affected (-5.8%) than emerging or developing countries (-3.3%).

The shock was so sudden that significant budgetary and monetary support measures had to be implemented throughout the world in order to best absorb the economic impact.

In the United States, the shock immediately materialised in the employment figures. After an unemployment rate at its lowest in February of 3.5%, it rose rapidly to reach 14.7% in April, under the effect of the restrictive measures taken to curb contamination. It has since declined to a level below 7% in November 2020.

As a result of a sharp drop in activity in the first half of the year, Gross Domestic Product (GDP) fell by 31.4% in the second quarter. It recovered in the second half of the year. Despite this recovery, its evolution in 2020 should be in negative territory, in the order of -4.3% according to IMF estimates.

In the United States, the government has passed a first massive relief plan in Congress, the Coronavirus Aid, Relief, and Economic Security Act (CARES) of $2,200 billion, or nearly 10% of the US GDP, including aid to companies, increases in unemployment benefits or direct measures to support households from March. A second plan, after months of negotiations between Republicans and Democrats, was adopted at the end of December.

Worth $900 billion, it will continue to provide assistance to the most disadvantaged or to support the business sectors most affected by the health crisis.

Concerning the American elections, after several days of suspense, due in particular to the massive use of postal votes, the electors elected Joe Biden as 46th President of the United States. Despite several appeals by the Republican camps regarding election fraud, the Congress finally validated the result of the election.

Within the European Union, the macroeconomic data also bear the scars of the health crisis, starting with the unemployment rate. In decline throughout 2019 and although offset by the short-time working measures, it rose again in 2020 to stand at 8.4% in October, compared to 7.4% one year earlier. According to some studies, it should continue to increase on the back of business failures in the sectors most affected by the crisis.

The Economic Sentiment Index and the Consumer Confidence Index are also down and down sharply compared to December 2019.

The main governments of the Eurozone have taken emergency budgetary measures to support businesses and households, like France, which has put in place mechanisms for deferral of tax and social security charges, loans guaranteed by the State, moratoria on the maturities of bank loans and financial support for the sectors most affected by the crisis (tourism, automotive, aeronautics). The assistance provided to households was also significant.

For the first time in the European Union, governments agreed to pool debt by agreeing to issue European Union bonds. In addition, they also agreed on a recovery plan entitled “NextGeneration EU” in the amount of €750 billion.

Four years after the referendum organised by David Cameron and after several postponements, Brexit took place on 31 January 2020. Following this divorce, the United Kingdom and the European Union allowed themselves 11 months to find a definitive framework for their future relationship. Negotiations were lengthy, particularly concerning certain sticking points such as fishing in British waters, but this agreement was finally reached in-extremis on 24 December, thus avoiding a disorderly exit by the United Kingdom.

China, the country where the Covid-19 virus was first discovered at the end of 2019, is one of the few economies to post positive growth in its activity in 2020. According to the projections of the International Monetary Fund, it should stand at +1.9%. A significant slowdown compared to the 6.1% growth in 2019. However, this positive performance conceals the financial fragility of certain companies whose significant debt levels may be difficult to overcome in 2021.

In this context, the stock markets had a difficult year. Initially, the markets fell dramatically at the end of February-beginning of March, losing more than 30% compared to their level of 31 December 2019, like the flagship index of the Paris market, the CAC 40, which fell by 37.2% to reach its lowest of the year at 3,755 points on 18 March. They then recovered, gradually and step by step, as the different epidemiological waves progressed, until significant progress was made when the teams of Pfizer-BioNtech announced the discovery of a vaccine in the last quarter.

However, despite this rather encouraging announcement, many uncertainties remain.

Most European markets ended the year in negative territory. The Eurostoxx50 closed at 3,553 points, down by 5.1%, while the CAC 40 ended the year down by 7.1%.

Only the German index, among the main European indices, posted a slightly positive performance of 3.5%.

The US equity markets had a historic year. Although strongly affected in the first quarter, they then recovered, helped by announcements of support from the Federal Reserve (FED) and fiscal stimulus plans but also, and above all, under the impetus of technological and digital stocks which benefited significantly from the lockdown phases. This allowed the stock market indices to beat all-time highs and to achieve a positive performance in 2020, like the Nasdaq which ended at 12,888 points, thus rising by 43.6% over the year!

The Asian markets also performed well.

In the raw materials market, the year was also rather uneven. It was excellent for precious metals. A safe haven par excellence, the ounce of gold rose by almost 25% to just under $1,900 per ounce. In addition, for the first time in its history, it exceeded $2,000 during the year.

Conversely, faced with the collapse in demand due to the lockdown measures, oil prices decreased significantly over the year. A barrel of Brent lost a little more than 20% to settle at $51.8/barrel. An extremely rare occurrence, but indicative of the tension experienced by this market during the year, West Texas Intermediate oil saw its price go into negative territory at the end of April; the excess supply was such that storage capacities were no longer sufficient.

Interest rate trends

In order to counteract the negative effects on growth and inflation, central banks had to react quickly and massively, which was done in March 2020 on both sides of the Atlantic.

In the United States, the FED announced in early March a first cut in its key rates by 50 basis points. However, in view of the magnitude of the situation, it repeated the operation, barely two weeks later, during a monetary policy meeting on 15 March, this time announcing a much larger cut than the previous one, of 100 basis points, bringing its main key rate to the 0% to 0.25% range.

In addition, in order to cope with a growing demand for US dollars, the FED has implemented certain measures that had been used during the 2008 crisis, such as the reopening of the swap line with other central banks, whose aim was to quickly reassure investors of its ability to intervene.

More generally, the President of the FED announced the relaxation of the asset buyback programme, which is no longer limited in terms of duration or amount.

In the Eurozone, the activism of the European Central Bank is also noteworthy. Although the monetary policy meeting of 12 March was timid in terms of announcements in response to the health crisis, with the exception of the improvement in the financial conditions of the Targeted Longer-Term Refinancing Operations (TLTRO III) of 25 basis points and the opening of an asset purchase envelope of €120 billion until the end of the year, one week later, on 18 March, the Board of Governors reassured all investors by announcing an arsenal of measures.

The most emblematic measure of this announcement, made outside the usual schedule of monetary policy meetings, which generated an even greater impact to this statement, is the opening of a new programme of asset purchases, the Pandemic Emergency Purchase Programme (PEPP), amounting to €750 billion until the end of 2020. Until then reserved for financial institutions, the scope of securities eligible for buybacks by the European Central Bank has been extended to include Commercial Paper of corporate issuers.

The Board of Governors also decided to relax the constraints on collateral eligible for the Additional Credit Claims (ACC) to ensure that commercial banks have full access to central bank liquidity.

At the following meeting, at the end of April, Ms Christine Lagarde once again announced a relaxation of the financial conditions attached to the TLTRO III operations.

Under certain conditions, such as an increase in outstanding loans, banks may be charged a deposit rate of up to -50 basis points, which is currently -1%.

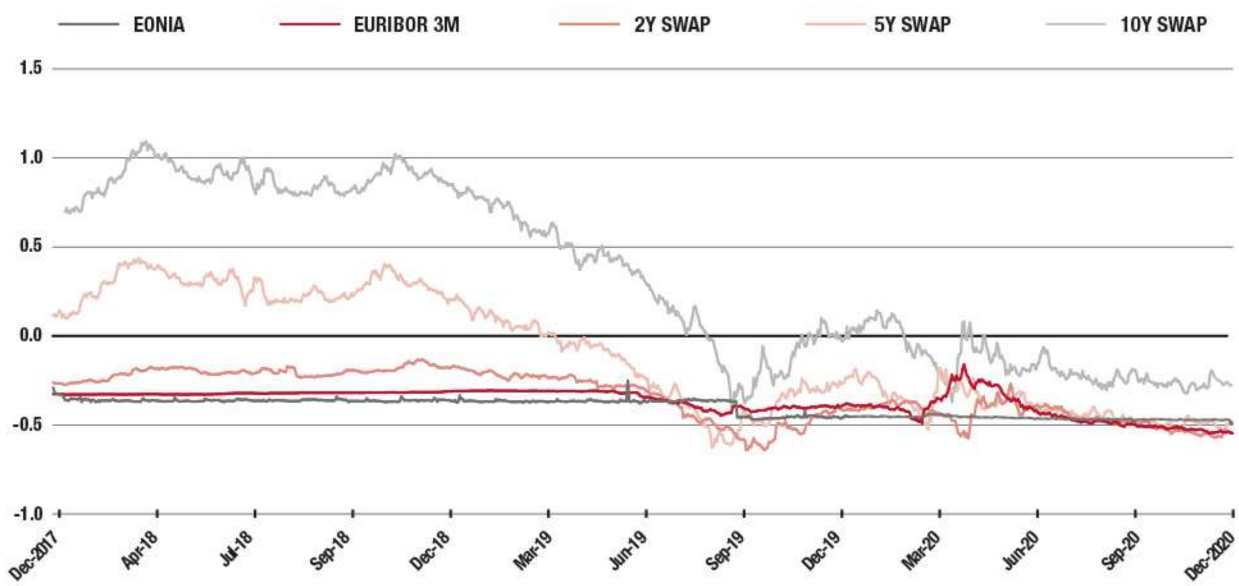
In June, the Board of Governors readjusted the PEPP by extending its duration by six months until June 2021 and by increasing the programme by €600 billion, bringing it to €1,350 billion.

Finally, expected by investors in view of the resurgence of cases of contamination during the last quarter, the European Central Bank carried out a more complete recalibration of the monetary policy instruments at its meeting of 10 December.

The PEPP budget was once again increased. As a result, it has risen from €1,350 billion to €1,850 billion and will be valid until March 2022. The bonus on TLTRO III operations is extended for one year until June 2022. In addition, three new TLTRO operations will be launched between June and December 2021. The ECB will carry out four new Pandemic Emergency Longer-Term Refinancing Operations (PELTRO) in 2021.

The APP buyback programme will be extended “for as long as necessary”.

Euro interest rate trends since the beginning of 2018



In this context of ultra-accommodative monetary policies, interest rates have only fallen.

On the money market, the EONIA lost five basis points over the year to stand at -0.49% on 31 December 2020. The €ster, the new benchmark overnight rate in the Eurozone, which will definitively replace the EONIA on 1 January 2022 following the reform of the indices, equals -0.58%.

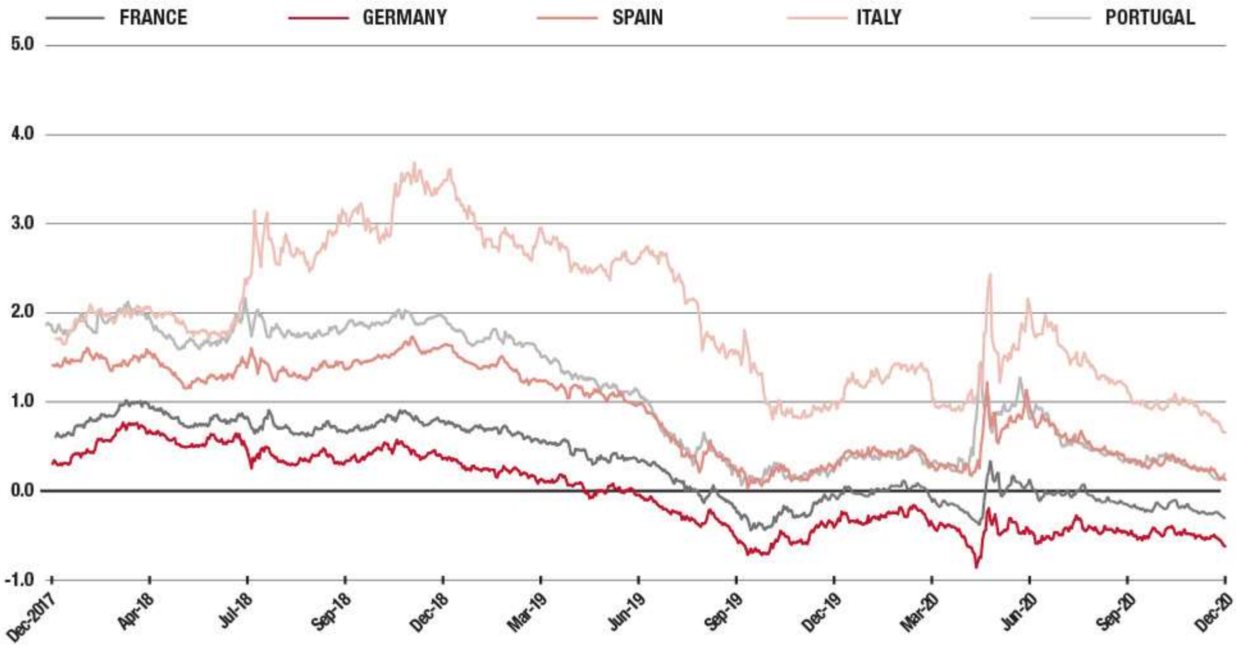
The 3-month EURIBOR was down by 16 basis points to -0.54%.

The yield curve of swaps also declined while flattening. The short-term rates lost less ground than the long-term rates. The 2-year rate is -0.55% while the 10-year rate is set at -0.29%. The 2-year/10-year spread shifted from 49 basis points at 31 December 2019 to 26 basis points at 31 December 2020.

With regard to sovereign rates, the situation is the same, with a general reduction in government refinancing conditions. The US 10-year yield fell below 1%, to nearly 0.92%.

In the Eurozone, the 10-year OAT is worth -0.34% and the German Bund -0.57%.

Yields on the main 10-year Eurozone government bonds



Key figures of Banque Palatine (in consolidated figures)

Ratings at 31 December 2020

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

Financial condition

in millions of euros	31/12/2020	31/12/2019
Equity attributable to equity holders of the parent	1,008.3	1,037.3
Tier 1 capital	998.0	1,000.8

Prudential ratios

	31/12/2020	31/12/2019
Core Tier 1 ratio	8.56%	9.20%
Tier 1 ratio	9.51%	10.22%
Total capital adequacy ratio	11.40%	12.26%

Consolidated income statement

in millions of euros	31/12/2020	31/12/2019
Net banking income	323.0	333.3
Gross operating income	78.9	70.7
Net income	(14.7)	18.4
Cost/income ratio	75.58%	78.78%

Activities

in millions of euros	31/12/2020	31/12/2019
Total assets	17,524.0	14,730.3
Customer loans	11,168.5	9,714.7

Cost of risk

in millions of euros	31/12/2020	31/12/2019
	100.3	49.0

Significant events

Groupe BPCE highlights

The year 2020 was marked by the management of the coronavirus health crisis. Having entered this crisis with very solid fundamentals in terms of solvency, liquidity and risk management, Groupe BPCE has taken many initiatives to deal with the consequences of the epidemic.

The Business Continuity Plan has been activated in order to protect the health and safety of employees, ensure customer operations and secure internal processes. The massive use of digital technologies has become essential, and the speed of dissemination of tools has accelerated.

To support the economy and support customers, Groupe BPCE announced, as of 20 March 2020, an automatic 6-month deferral of investment loans for the companies and professionals most affected by the health crisis: over 425,000 moratoria were signed in 2020. The initial moratoria for the tourism, hotel and restaurant sectors have been extended by six months. As a result, 193,000 loans totalling €30 billion were disbursed in 2020.

On the digital front, Groupe BPCE continued its Digital Inside strategy with digital technology that is more anchored than ever in everyday banking and integrated into the marketing processes for banking products. These uses are reflected in the figures: more than 6 million active customers on the Banque Populaire and Caisse d'Epargne mobile applications, more than 152 million transfers made (+38% in one year) and 6.5 million beneficiaries added (+49% in one year).

On 31 December 2020, Fidor Bank AG completed the sale of its subsidiary Fidor Solutions AG to Sopra Banking Software. BPCE entered into exclusive negotiations with Ripplewood Advisors LLC for the sale of the entire share capital of Fidor Bank AG.

In Asset and Wealth Management, the merger of the interest rate and insurance activities of Ostrum Asset Management and La Banque Postale Asset Management was finalised, giving rise to a European leader in controlled asset management on behalf of large institutional clients, with more than €415 billion in assets under management.

On the back of this transaction, Natixis Investment Managers is now the second-largest European asset manager with more than €1.1 trillion in assets under management.

Groupe BPCE continued to anchor its social and environmental commitment to its business lines and decision-making processes. For example, it has launched Ambition Durable, a green bond, for individual customers of the Banque Populaire and Caisse d'Epargne banks. The funds collected are used to finance the construction and renovation of buildings with a low environmental footprint.

By signing the Responsible Digital Charter, Groupe BPCE has also confirmed its commitment to an ethical and eco-responsible digital transition. In particular, it is committed to reducing its digital environmental footprint and developing services that are accessible to all, inclusive and sustainable.

Translation of these CSR advances, MSCI raised the Groupe BPCE's rating to AA, recognising the integration of environmental, social and governance (ESG) issues into the Group's policies (development, human resources, risks, business ethics, cybersecurity, etc.) and *VE* raised the Group's extra-financial rating from "Robust" to "Advanced" with, in particular, an increase in the rating awarded in terms of environmental strategy (+13 points), reduction in the impact of its business lines on the climate (+9 points) and reduction in its direct footprint thanks to its mobility policy (+20 points).

Highlights of the year for Banque Palatine

Governance

The General Meeting of 26 May 2020 partially renewed the Directors and appointed Caisse d'Epargne Provence Alpes Corse. The Articles of Association have also been updated.

The Board of Directors, which met on the same day, elected the Chairman of the Board of Directors, Christine Fabresse, and made appointments to the Board Committees.

In addition, the Board of Directors adopted a new governance framework for corporate officers:

- a suitability assessment policy;
- an appointment and succession policy;
- a conflict of interest prevention policy including an update of the Director's Code of Ethics; and

the adoption of new rules of procedure for the Board of Directors.

The Board of Directors meeting of 11 December 2020 took note of the results of the elections of employee representatives, relating to the appointment of Directors representing the executive and technical staff groups.

As of 31 December 2020, the Board of Directors and the Board Committees were composed of:

Board of Directors

Christine Fabresse	Chairwoman
Maurice Bourrigaud	Director
Bruno Goré	Director
Nadia Mauzelaf	Employee-elected Director
Marie Pic-Pâris Allavena	Director
Guillemette Valantin	Employee-elected Director
BPCE	Director, represented by Stéphanie Clavié
Caisse d'Epargne Provence Alpes Corse	Director, represented by Didier Moaté

Audit Committee

Maurice Bourrigaud	Chairman
Guillemette Valantin	Member
BPCE	Member
Christine Fabresse	Guest

Risk Committee

Marie Pic-Pâris Allavena	Chairwoman
Bruno Goré	Member
Caisse d'Epargne Provence Alpes Corse	Member
Christine Fabresse	Guest

Appointments Committee

Christine Fabresse	Chairwoman
Bruno Goré	Member
BPCE	Member

Remuneration Committee

Christine Fabresse	Chairwoman
Maurice Bourrigaud	Member
Marie Pic-Pâris Allavena	Member
Caisse d'Epargne Provence Alpes Corse	Member

As of 31 December 2020, the percentage of female Directors reached 50%, excluding Directors representing employees. The composition of the Board of Directors respects the Copé Zimmermann law.

Pégase

One of the highlights of 2020 for Banque Palatine was the completion, on 18 October, of its PEGASE project, which consisted in migrating its information system to the Banque Populaire IT platform.

The changeover was initially planned for mid-April. The health context, and in particular the implementation of lockdown measures, led the bank, in agreement with its main shareholder, to postpone it for six months.

Following this decision, the project organisation and tooling were completely revised to enable all work to be carried out remotely, including during the changeover weekend.

These six months were also used to increase the quality of the migration, with the planning of additional test campaigns.

The results of this migration are very satisfactory: the defined timetable was respected, and the number of incidents generated remained limited and under control. The support system for customers and employees set up in the aftermath of the changeover has been progressively reduced.

Since 18 October, Banque Palatine has benefited from the advantages of a community information system, enabling it to increase its investment capacity, particularly in digital.

Review of the Envol strategic plan

The ENVOL 2018-2020 strategic plan came to its end.

In addition to the success of the Pégase IT migration, it was marked by other major successes:

- the move upmarket of Banque Palatine continued through:
  - strengthening of portfolio offers,
  - implementation of differentiated treatment of private customers,
  - growth in core business of target customers in line with initial forecasts across all markets (corporates and private banking) with target achievement rates of 100% to 103% for 2020;
- overall customer satisfaction increased:
  - in 2020, the completion rates stood at 103% thanks to the strong commitment of the bank's teams to customers,
  - concrete initiatives (virtual assistants, visual management) have improved the quality of service and commercial responsiveness and have led to more than 70 quick wins over the duration of the Envol Plan;
- the bank continued to develop its human capital:
  - gender balance has been strengthened, allowing the bank to post an equality index of at least 96 out of a total of 100 since the creation of this indicator,
  - more than 40 actions have been implemented on the quality of life at work,
  - the employer brand has been strengthened,
  - a circle of excellence has been deployed to retain talent,
  - business forums have been created to facilitate internal professional mobility,
  - an innovation challenge rewarded eight projects in 2020,
  - chatbot systems were deployed and adapted throughout the life of the Envol Plan;
- CSR deployment has accelerated:
  - with the reduction of the bank's carbon footprint,
  - and support for the green economy, with the sharp increase in renewable energy financing and the increase in SRI equity outstandings at Palatine Asset Management;
- the development of synergies with Groupe BPCE entities and the attention paid to controlling expenses have helped to strengthen the bank's profitability, excluding migration and transformation costs.

Activities in 2020

Cumulative average outstandings (in millions of euros)	**At 31/12/2020**	**At 31/12/2019**	**Change (in %)**
TOTAL USES OF FUNDS	**15,691**	**14,660**	**7.0**
Customer uses	10,837	9,708	11.6
Excluding State-guaranteed loans(1)	10,072	9,708	3.7
State-guaranteed loans only(1)	765	0	
Financial uses	4,855	4,951	(2.0)
Of which BPCE loan	329	450	(26.8)
TOTAL RESOURCES	**15,691**	**14,660**	**7.0**
Customer resources	10,104	9,341	8.2
Financial resources	5,587	5,318	5.1
Including Targeted Longer-Term Refinancing Operations(2)	1,053	661	59.2
Of which refinancing of State-guaranteed loans(1)	736	0	

(1) Loan guaranteed by the State
(2) Targeted Longer-Term Refinancing Operations

Credit production (in millions of euros)	Total as of 31/12/2020	Total as of 31/12/2019	Change (in %)
Medium-/long-term loans	**1,881**	**2,507**	**(25.0)**
• Corporates	1,425	2,065	(31.0)
• Individual customers	456	442	3.0
Short-term loans(1)	(241)	30	NS
Lease	77	79	(2.7)
TOTAL LOAN PRODUCTION	**1,717**	**2,616**	**(34.4)**
Loans guaranteed by the French State	**1,394**	-	

(1) Data on changes in assets under management, including CICE.

Commercial banking

Corporate market

In a context marked by the Covid-19 crisis and by the successful completion of the IT migration project, Banque Palatine's activities in the corporate market were generally resilient:

- the conquest of the "core target" (companies generating more than €15 million in revenue) was impacted by the crisis and particularly by the lockdown periods. New contacts numbered 256 compared with 319 in 2019;
- the global offer of financing solutions continued to support medium-sized companies. Outstanding loans to companies excluding State-guaranteed loans remained stable at €7.8 billion. Medium-to-long-term financing, excluding State-guaranteed loans, amounted to €1.4 billion, down by 31% compared to 2019;

In addition, Banque Palatine has put in place support mechanisms for the French economy, whether in the form of deferrals or State-guaranteed loans. At the end of December, the production of State-guaranteed loans reached an amount of €1.4 billion. Thus, in total, the production of medium-to-long-term loans to companies reached a record level of €2.8 billion;

- in terms of the arrangement of financing solutions (corporate structured loans, LBOs, EuroPP, real estate, executive financing), Banque Palatine completed the arrangement of 40 transactions that generated commissions in excess of €50,000, for a total of nearly €6 million;
- outstanding balance sheet resources with companies remained stable at €10.1 billion.

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 Groupe BPCE to offer a tailored and complete range of products and services.

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

Private banking market

The conquest of target customers has enabled the entry into relations with more than 2,000 new customers or the upgrading of existing customers. The net stock of target customers increased by 3.6% year-on-year (versus 1.3% in 2019).

The net increase in financial and balance sheet resources has been confirmed, with total savings deposits of €5.1 billion at the end of 2020, up 3% compared with 2019.

Net inflow was €196 million in 2020 compared with €242 million in 2019.

Home loans outstandings increased by 13% to reach €2.1 billion at the end of 2020.

New loans to high-net-worth customers amounted to €454 million, up by 2.5% compared to the previous financial year.

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 100 advisers in wealth management or private clients and 17 private bankers;
- an offer that is gradually going digital: a website and a mobile application with enhanced features (*e.g.* Apple Pay and Samsung Pay) and dematerialised customer journeys with electronic signatures (life insurance, investment advice);
- 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 (discretionary management, Palatine Asset Management UCIs, EMTN issues [including dedicated EMTNs], SOFICA, real estate, individual and student financing, asset advances and financing of senior executives),
  - Groupe BPCE (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 of the bank

The 2020 financial year was marked by the continuing low interest rate environment.

In this environment, Banque Palatine invested €138 million over the year, mainly in Eurozone sovereign bonds during the first half. At the end of 2020, the bank's total bond portfolio amounted to €1.4 billion.

This portfolio's objective is to constitute the liquidity reserve of the Liquidity Coverage Ratio (LCR). These securities can be used with the central bank and constitute a secure source of refinancing 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 2020.

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.

The solvency ratio was maintained throughout the year at high levels (11.40% at the end of 2020) despite the strong increase in outstanding loans.

In 2020, 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.

Assets under management by Palatine Asset Management amounted to €4.8 billion at the end of the year, up by 19% thanks to the very strong inflows of money market UCIs (+€631 million). Outstanding bond UCIs increased by €73 million (+15%) and equity UCI outstandings by €18 million (+1%).

Financial markets experienced unprecedented volatility but for the most part ended up close to or above their levels at the end of 2019 due to the support of governments and central banks, hopes of an end to the pandemic and, it must be emphasised, the demonstrated ability of some companies to adapt, innovate and find areas and growth drivers, particularly in healthcare, digital technology and the energy transition.

Activities of the other subsidiaries

The Ariès Assurances subsidiary is involved in collective social protection as well as in the development of tailor-made pension coverage (Articles 39 and 83 of the French General Tax Code); in the evaluation and management of end-of-career indemnities and in the implementation of civil liability insurance for executives and corporate officers.

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 2020.

Consolidated and parent-company balance sheet

Consolidated balance sheet

The consolidated balance sheet reached €17.5 billion at 31 December 2020, up by €2.8 billion compared to the previous financial year.

On the assets side, loans and receivables due from customers amounted to €11.2 billion, up by €1.5 billion, due to the sustained level of the production of loans to companies, in particular with the introduction of loans guaranteed by the French State. Loans and receivables due from credit institutions and the "Cash and central banks" item increased by €938 million and €605 million, respectively, to reach a total of €4.4 billion. The exceptional level of these balance sheet items reflects the bank's cash surpluses resulting from the European Central Bank's bank liquidity support actions and the non-consumption of a significant portion of the State-guaranteed loans granted to customers.

On the liabilities side, debts to customers amounted to €11.4 billion, an increase of €1.9 billion, driven by the increase in customer demand accounts and the reinvestment of unused State-guaranteed loans. Debts to credit institutions amount to €2.9 billion, up by €1.5 billion. The exceptional measures taken by the European Central Bank in response to the health crisis resulted in the raising of an additional €1.9 billion in TLTRO and State-guaranteed loan refinancing in 2020.

These changes in the structure of the bank's balance sheet reflect the consequences of the 2020 financial year, hit by the health crisis, and the resulting customer support and support measures.

Shareholders' equity amounted to €1 billion, down by €29 million due to the change in the bank's profits for the financial year.

Parent-company balance sheet

At 31 December 2020, the individual balance sheet totalled €17.3 billion, an increase of €2.6 billion compared to the previous financial year.

On the assets side, receivables from customers amounted to €11.2 billion, an increase of €1.5 billion. Receivables due from credit institutions and the "Cash and central banks" item rose by €699 million and €605 million, respectively.

On the liabilities side, debts to customers amounted to €11.1 billion, up by €1.6 billion. Debts to credit institutions were up by €1.6 billion to reach €2.9 billion.

The intangible assets and property, plant and equipment, amounted to €119 million as at 31 December 2020, stable compared to the previous financial 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 amounted to €303 million, unchanged compared to the 2019 financial year.

Consolidated and parent-company earnings

Consolidated earnings

in thousands of euros	FY 2020	FY 2019
Interest and similar income	272,531	270,097
Interest and similar expenses	(52,894)	(49,651)
Fee and commission income	98,874	107,599
Fee and commission expenses	(9,242)	(11,753)
Gains or losses on financial instruments at fair value through profit or loss	15,377	17,127
Net gains or losses on financial instruments at fair value through equity	3,198	(13)
Net gains or losses arising from derecognition of financial assets at amortised cost	771	75
Income from other activities	609	1,900
Expenses from other activities	(6,187)	(2,105)
Net banking income	**323,037**	**333,276**
General operating expenses	(231,416)	(250,289)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	(12,730)	(12,266)
Gross operating income	**78,891**	**70,721**
Cost of credit risk	(100,317)	(49,038)
Operating income	**(21,426)**	**21,683**
Share in net income of associates and joint ventures consolidated under the equity method	275	569
Net gains or losses on other assets	(967)	7,189
Changes in the value of goodwill	0	0
Income before tax	**(22,118)**	**29,441**
Income tax expense	7,434	(11,064)
Current tax	127	(5,999)
Deferred tax	7,307	(5,065)
Net income after tax from discontinued operations	0	0
Net income	**(14,684)**	**18,377**
Non-controlling interests	0	0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**(14,684)**	**18,377**

Net banking income amounted to €323 million, down by €10.2 million (-3.1%) compared to 31 December 2019.

The net interest margin amounted to €219.6 million, a slight decrease of €0.8 million compared to the 2019 financial year. It was driven by the good performance of loans to customers, whose outstandings increased by 15% compared to the previous financial year, offsetting the maturity of former high-interest financial investments. The decrease in the cost of customer and financial resources also contributed to the resilience of the net interest margin.

Net commissions amounted to €89.6 million, compared to €95.8 million in 2019, *i.e.* a decrease of 6.5% due to the drop in structured finance revenues in a context of economic uncertainty which strongly penalised this activity. The other sources of revenue from customer pricing were able to withstand the unfavourable environment and the change in IT tools.

Net gains and losses on financial instruments at fair value through profit or loss decreased by €1.8 million, in line with the adjustment to the counterparty risk provisioning inherent to these transactions. Net gains and losses on instruments at fair value through shareholders' equity recorded an exceptional capital gain of €2.8 million on investment securities.

Lastly, the net expense from other activities amounted to €5.6 million, mainly due to the reclassification from this financial year of the BPCE central body contribution to the bank's net banking income.

Total operating expenses amounted to €244.1 million, down by €18.4 million (-7.0%). This decrease is the result of the strict discipline applied in terms of expenses with significant arbitrages made to offset the additional costs related to the postponement of the migration to the new IT platform in October 2020 (a six-month delay compared to the provisional schedule due to the health crisis).

At 31 December 2020, gross operating income came to €78.9 million, up by €8.2 million (+11.5%) giving a consolidated cost/income ratio of 75.6%, compared to 78.8% in 2019.

The annual cost of risk came to €100.3 million in 2020, up by €51.3 million from its 2019 level. The health crisis has led to an increase in the number of out-of-court proceedings by companies, significantly weighing on the cost of risk affected (+59.2% compared to 2019). The bank also recorded unallocated provisions of €16.5 million (IFRS 9) intended to anticipate future defaults.

The share in net income of associates came to €0.3 million, generated entirely by Conservateur Finance, down by 51.7% compared to the 2019 financial year.

In 2020 the net gains or losses on other assets item includes the impairment of leasehold rights following the closure of several branches. As a reminder, an exceptional income of €7.4 million, related to the capital gain on the disposal of an operating property, was recognised in this item in 2019.

The IFRS consolidated net income at 31 December 2020 amounted to a loss of €14.7 million, compared to a profit of €18.4 million in 2019.

Parent company earnings (French GAAP)

Net banking income in 2020 reached €286.4 million, a decrease of 9.8% compared to 31 December 2019.

The net interest margin was resilient, reaching €212.7 million, driven by good loan production and the European Central Bank's actions to support bank refinancing, offsetting the decrease in the average return on customer uses.

Income from variable-income securities was down by €2.2 million, due to the decrease in dividends received during the financial year compared to the previous year.

Net fees were down by €6.8 million (-8.8%), reflecting the sharp shock suffered by the structured finance business in a context of economic uncertainty.

Total operating expenses amounted to €236.1 million, down by €18.4 million, including the end of the costs of the migration to the bank's new IT platform (€40.9 million compared to €58.9 million in 2019).

The cost of risk rose sharply by €38.3 million, in line with the outbreak of the health crisis and the deterioration of the economic environment, reaching €83.8 million at the end of 2020.

At 31 December 2020, net expense was €28.5 million, compared with net income of €22.5 million in 2019.

Results of the subsidiaries

Palatine Asset Management recorded net income of €5.7 million in 2020, up by €0.3 million compared with 2019.

The net income of Ariès Assurances amounted to €49.3 thousand in 2020, down by €187 thousand compared to 2019.

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.

Statement on non-financial performance

Given the statement made by BPCE, the parent company, Banque Palatine is under no regulatory requirement to file a statement on non-financial performance.

However, as a socially responsible company, Banque Palatine wishes to integrate the social, environmental and economic concerns of its activities and their interaction with its stakeholders. As a result, the bank draws up a voluntary statement on non-financial performance.

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 2020.

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 2020

At 31 December 2020, the employees did not hold any interest in Banque Palatine's share capital.

Ownership structure

BPCE holds 99.9% of the share capital.

Non-tax deductible expenses

In accordance with the provisions of Article 223 *quater* of the French General Tax Code, the financial statements for the financial year ended 31 December 2020 include €77,566 in non-tax-deductible expenses.

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

Authorisation to effect capital increases

The Board of Directors has not received any delegation for capital increases.

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 the 2020 financial year as well as the appropriation of net income, which appears in the appendix to this report.

Pursuant to Article 243 *bis* of the French General Tax Code, the amounts distributed for the last three financial years are recalled:

Year	Number of shares	Total dividend payment	Net dividend per share
2017	26,940,134	-	-
2018	26,940,134	-	-
2019	34,440,134	€18,253,271.02	€0.53*

* *Not eligible for the 40% rebate.*

The principles and criteria for determining the allocation and distribution of fixed, variable or exceptional elements constituting the total remunerations and benefits of any kind attributable for the 2020 financial year to the Chief Executive Officer and the Deputy CEO, by virtue of their positions, are submitted to the General Meeting for approval.

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

Lastly, the General Meeting will have to decide on the total budget relating to the remuneration of the Directors.

Outlook

In 2021, the path to economic recovery in developed countries remains very uncertain and vulnerable to a recurring upsurge in Covid-19 with a risk of the virus changing and, as a result, the introduction of new lockdowns, especially in Europe, even though the vaccination programmes are believed to achieve collective immunity to the disease.

The implementation, more or less rapid depending on the country, would however accentuate the strong geographic heterogeneity of the economic impact of the pandemic, as France, for example, would not be able to achieve this immunity before the beginning of 2022. It is therefore unlikely that the pre-crisis level of activity in Western economies will be restored before 2022, especially as the lockdowns imposed in Europe and France, despite being more flexible or shorter than before, affect increasingly weakened economies.

After a year 2020, marked by the global health crisis of Covid-19 and its consequences on almost all sectors of the real economy, the year 2021 could be a year of exit from the crisis driven by the hope of a new sanitary solution. However, alongside a revival through demand and supply, the year 2021 should also be a year of transition, adaptation, and even survival, for many economic players, with responses to be provided to the new needs that emerged during the crisis.

In a context of uncertainties, but also of opportunities, Groupe BPCE has begun preparing its future strategic plan, which will be communicated in June 2021. The Group's strategic plan will focus on the growth and development of its business lines by asserting their "essential" character and their ethical positioning, by supporting the regions, individual customers and companies, particularly with regard to the challenges of environmental transition and health financing, and by supporting the economy alongside public authorities.

Banque Palatine's strategic roadmap for the 2021-2024 period is being prepared for the first half of 2021. The new strategic directions for the bank will be presented by the end of the second quarter of 2021. They will be part of Groupe BPCE's new strategic plan for 2021-2024.

2 Board of Directors' report on corporate governance

FY 2020

To the Shareholders,

In addition to the Board of Directors' management report and pursuant to the provisions of Articles L. 225-37 and L. 225-37-4 of the French Commercial Code, the Board of Directors reports on the following:

- 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 called to approve the financial statements for the financial year ended 31 December 2020.

The items of the report required under Article 266 of the Order of 3 November 2014, and the list of the terms of office held by the corporate officers during the 2020 financial year, are appended.

It was submitted in advance to the Remuneration Committee and the Appointments Committee on 19 February 2021, and then approved by the Board of Directors on 4 March 2021.

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.

The Board of Directors.

1. Corporate governance

The AFEP-MEDEF Corporate Governance Code for listed companies, updated in January 2020 and incorporating the recommendations on executive remuneration, is the Code used by Banque Palatine for preparing this report.

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. In this context and in view of Banque Palatine's position within Groupe BPCE, a direct shareholder representation (the Chairman and a representative) as well as of Groupe BPCE via the senior executives of the Banque Populaire and Caisse d'Epargne banks was privileged in order to maintain a balance of powers and a balanced representation of the Banque Populaire and Caisse d'Epargne networks. This diversity of profiles on the Board of Directors promotes the quality of work and discussions within the Board, an objective pursued by the recommendation of the AFEP-MEDEF Code;
- 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 2020, the percentage of female Directors on the Board of Directors was 50%. 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: collegiate body	Recommendations implemented
Board of Directors: collegiate body	Recommendations implemented
Board of Directors and the market	Recommendations implemented
Separation of the duties of the Chairman and the 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. Board of Directors

2.1. Composition and appointment method

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 of four years. As an exception to this rule, and in order to establish a staggering of terms of office, at the end of the current terms of office, half of them will be appointed for two years and the other half for four 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.

Each Director has a wealth of experience in leadership and strategy development. Their diversity in terms of skills, experience, geographical representation and gender is an essential asset for the Board.

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 of four 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.

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 2020, the Board of Directors was composed of:

- six Directors appointed by the shareholders, whose terms of office will expire at the General Meetings held to approve the financial statements for the financial years ending on 31 December 2021 and 2023;
- two Directors elected by the employees whose term of office began on 2 December 2020 and will end when the Board of Directors takes note of the results of the employee elections to be held in 2024, all of whom are French nationals.

Attendance rate in %

						Attendance rate in %				
	Directors	**Age**	**Date of appointment renewal**	**Seniority**	**Expiry date of appointment**	**Board of Directors**	**Risk 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.	56 years	26 May 2020	2 years	2024	100	75	75	100	100
	**Maurice BOURRIGAUD,** Chief Executive Officer, Banque Populaire Grand Ouest	62 years	26 May 2020	11 years	2022	80	100	75	-	-
	**Bruno GORÉ,** Chairman of the Management Board of Caisse d'Epargne et de Prévoyance de Normandie	59 years	26 May 2020	2 years	2022	100	100	-	100	-
	**Nadia MAUZELAF,** elected by the employees (technical staff)	43 years	2 December 2020	-	2024	100	-	-	-	-
	**Marie PIC-PÂRIS ALLAVENA,** Chief Executive Officer of Eyrolles	60 years	26 May 2020	4 years	2022	100	100	-	100	100
	**Guillemette VALANTIN,** elected by the employees (managerial grade staff)	54 years	2 December 2020	3.5 years	2024	100	-	100	-	-
	**BPCE,** represented by Stéphanie Clavié, responsible for financial reporting	50 years	26 May 2020	4 years	2024	100	100	100	100	-
	**CAISSE D'EPARGNE PROVENCE ALPES CORSE,** represented by Didier Moaté, member of the Management Board in charge of the Metropolitan department	57 years	26 May 2020	1 year	2024	100	100	-	-	-

Changes to the Board during the 2020 financial year

Since the terms of office of all Directors were scheduled to end at the Annual General Meeting of 26 May 2020, a proposal was made to the shareholders to reappoint Maurice Bourrigaud, Christine Fabresse, Bruno Goré, Marie Pic-Pâris Allavena and BPCE SA and to appoint Caisse d'Epargne Provence Alpes Corse.

The terms of office of Bernard Niglio, Sylvie Garcelon and Caisse d'Epargne Grand Est Europe were not renewed.

In addition, since the election of Directors representing employees could not be held because of the lockdown restrictions related to the Covid-19 health crisis in March 2020, it was agreed with the social partners that the Directors in place would remain in office until the election of the new Directors representing the employees, *i.e.* until 2 December 2020. During this election, Nadia Mauzelaf was elected by the technical staff and Guillemette Valantin was re-elected by the executive staff.

Terms in office

The list of all the offices held by Directors during the 2020 financial year appears in Appendix 1 to this report.

New governance framework

On 21 March 2018, the European Banking Authority (EBA) published the French versions of two guidelines relating to the governance of credit institutions and lenders:

- guidelines on internal governance;
- guidelines of the EBA and the European Securities and Markets Authority (ESMA) on the assessment of the suitability of the members of the management body and key function holders (Fit & Proper guidelines).

These guidelines came into effect on 30 June 2018. They supplement the provisions of the "CRD IV" Directive (Capital Requirements Directive) of 26 June 2013, which were transposed into the French Monetary and Financial Code as well as the Order of 3 November 2014 on internal control.

The EBA's main guidance on internal governance specifies the internal governance arrangements, processes and mechanisms that credit institutions must implement to ensure "effective and prudent management".

The main points of the guidelines to be implemented at Banque Palatine were:

- the development of a corporate governance framework;
- certain rules concerning the composition, functioning and duties of the committees;
- the development of an appointment and succession policy, which takes into account the need for diversity;
- the development of a policy for assessing the suitability of Board members and effective managers;
- the reinforcement of the procedures for the prevention of conflicts of interest for members of the Board and effective managers.

As a result, the Board of Directors, at its meeting of 26 May 2020, adopted a new governance framework, comprising the following documents:

- a corporate governance framework: an umbrella document that formalises the organisation, operating procedures and responsibilities of the management bodies by reference to the various policies and texts applicable in the establishment;
- framework rules of procedure of the Board of Directors resulting from the merger of the rules of the Board of Directors' committees and the rules of procedure of the Board of Directors in order to obtain more precise rules regarding the composition and functioning of the Board of Directors and the missions of the Board Committees;
- an appointment and succession policy: the role of the Appointments Committee in terms of selection (effective managers/Directors) is strengthened, the selection of the members of the management body must be carried out from among several candidates (with the presence of at least one person of each gender among the candidates – Pacte Act). The policy established takes into account the system put in place by the Group human resources department;
- a policy for assessing the suitability of the effective managers and Directors: the assessment methods are aligned as closely as possible with the ACPR/BCE "fit and proper" file. The role of the Appointments Committee in assessing suitability is strengthened;
- a policy for the prevention and management of conflicts of interest for effective managers and Directors and a charter for the prevention and management of conflicts of interest for effective managers have been drawn up;
- a Director's Code of Ethics, updated on conflicts of interest.

Duties of the Directors

The actions of the Directors must be inspired by the sole interest of Banque Palatine.

The Director must consider himself or herself as the representative of the shareholders as a whole and behave as such in all circumstances in the performance of his or her duties. He or she must not expose himself or herself to conflicts of interest in relation to his or her business dealings with the company.

He or she must be concerned with his or her contribution to the exercise of the powers of the Board of Directors.

The Directors must ensure compliance with the legal rules relating to the plurality of corporate offices and incompatibilities as well as those specific to credit institutions.

The Directors, including the Directors representing the employees, and all persons present, are bound by an obligation of confidentiality with regard to the proceedings of the Board and the specialised committees, without prejudice to the professional secrecy to which they are subject in relation to certain information relevant to the criminal law of this secrecy.

The Chairman of the meeting may declare the proceedings of a meeting to be confidential whenever regulations or Banque Palatine's interests so require. He or she may require all individuals taking part in a meeting to sign a confidentiality undertaking. He does the same within the Board's specialised committees. This statement is placed on record in the minutes of the meeting.

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. In the case of a committee member, the Board of Directors may, on the proposal of its Chairman, terminate his or her membership of the committee.

The member concerned must be informed in advance of the proposed sanctions and must be given the opportunity to comment on the matter.

All Directors are required to inform the Board of any conflict of interest, even potential, and must refrain from voting on the corresponding deliberation.

A conflict of interest situation is defined as a situation in which a member of the Board of Directors has a personal interest that diverges, or is likely to diverge, from the interests of the bank's shareholders.

Unless authorised by BPCE, taken in agreement with the Chairman of the Board, the office of Director of the bank is incompatible with a position of Chief Executive Officer, member of the Management Board, Director or member of the Board within a company another credit institution or another investment services company that is not part of Groupe BPCE.

Directors are expected to participate regularly in the meetings of the Board of Directors and its committees and to attend General Meetings.

Those who are unable to comply with this attendance requirement undertake, in accordance with the responsibilities attached to the office of Director, to make their mandate available to the Board at the request of the Chairman.

More generally, a Director who feels that he or she is no longer able to fulfil his or her role on the Board and the committees of which he or she is a member must resign.

All newly appointed Directors must undertake to attend at least one training course offered to them within one year of their appointment and thereafter.

Insider trading

Regulation No. 596/2014 of the Parliament and Council of the European Union (the "MAR Regulation") and its delegated regulations (the "MAR regulations"), as well as Directive No. 2014/57/EU ("MAD"), define, at European Union level, a common regulatory framework on insider trading, unlawful disclosure of inside information and market manipulation ("Market abuse") as well as the related sanctions.

The MAR Regulation covers three types of infringement:

- insider trading (misuse of inside information);
- unlawful disclosure of inside information; and
- market manipulation (false or misleading indications, actions distorting the price-setting mechanism or calculation of a benchmark).

Insider trading occurs in four situations:

- when a person holds inside information and uses it by acquiring or selling, on its own behalf or on behalf of a third party, directly or indirectly, the financial instruments to which this information relates;
- when inside information is used to cancel or modify an order concerning a financial instrument to which this information relates, when the order was placed before the person concerned had the inside information;
- for auctions of emission allowances or other products auctioned based on them, where the use of inside information also includes the submission, modification or withdrawal of a bid by a person for his own account or on behalf of a third party;
- also applies to any person who possesses and uses inside information when that person knows or should know that it is inside information.

Inside information is:

- specific information that has not been made public;
- which concerns, directly or indirectly, one or more issuers, or one or more financial instruments; and
- which, if made public, would be likely to significantly influence the price of the financial instruments concerned or the price of derivative financial instruments related to them.

The qualification of insider trading is presumed in particular for any person who possesses inside information due to the fact that this person:

- is a member of the administrative, management or supervisory bodies of the issuer or of the emission allowance market participant;
- holds a stake in the capital of the issuer or the emission allowance market participant;
- has access to information by virtue of the performance of duties resulting from a job, profession or duties; or
- participates in criminal activities.

The violation of the prohibitions of insider trading, unlawful disclosure of inside information or market manipulation is punishable by a maximum penalty of five years' imprisonment and a fine of up to €100 million.

Prevention of insider trading

Inside information on any company issuing securities on a regulated market, whether or not a client of the bank, and in particular Natixis, a listed subsidiary of Groupe BPCE, may be exchanged during Board meetings.

In particular, Directors are individually informed of their inclusion on the list of permanent insiders of Natixis or any other entity or company of Groupe BPCE that issues listed securities, including Banque Palatine.

They receive an information notice setting out the main legal and regulatory provisions applicable to the holding, communication and use of inside information, as well as the penalties incurred in the event of violation of these rules.

Access to inside information is presumed 15 days before the publication of the quarterly results and 30 days before the publication of the Natixis half-year and annual financial statements. Directors may not trade in Natixis shares during these so-called "blackout windows".

The abstention requirement applies as soon as the Directors hold inside information and, in particular, when they are aware of accounting elements enabling them to sufficiently identify the results, upstream of the negative windows defined above.

Each year, the Directors must keep themselves informed of the calendar for the publication of the results of Natixis and of the other issuers for which they have received notification of inclusion on an insider list.

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, a collegiate body mandated by shareholders and employees, determines the company's business guidelines and oversees their implementation, taking into account social and environmental issues.

The Board of Directors must ensure that:

- its composition and functioning enable it to act in the best interests of Banque Palatine while taking into consideration the social and environmental challenges of its business;
- appointments or renewals of Directors:
  - operate with the aim of seeking a harmonious distribution of knowledge, skills and experience,
  - ensure a balanced representation of women and men on the Board, in accordance with current legislation.

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.

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.

Its main duties are to:

- define Banque Palatine's strategic guidelines, in line with Groupe BPCE's strategy, on the recommendation of the Chairman and Chief Executive Officer;
- oversee the implementation of the strategy;
- control the management of the company;
- control the risk management policy;
- ensure the accuracy of its financial statements;
- review the financial position on a quarterly basis;
- approve the accounts;
- ensure the quality of the financial information provided to shareholders and third parties;
- appoint the effective managers;
- set the rules for the remuneration of the effective managers and all corporate officers;
- control the remuneration of risk takers.

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. This option was renewed upon the appointment of the Chief Executive Officer on 21 October 2019, with effect from 6 November 2019, and upon the renewal of the term of office of the Chairman of the Board of Directors on 26 May 2020.

The Board of Directors appoints the Chief Executive Officer and, in consultation with the latter, may appoint Deputy CEOs. In addition, it sets the method and amount of the remuneration paid to each senior executive.

It adopts the framework rules of procedure of the Board of Directors which include the rules of composition and functioning as well as the missions of the Board Committees.

It convenes the General Meeting of Shareholders based on an agenda that it has approved and which may include, in particular: the appointment or ratification of Directors, the appointment of the Statutory Auditors, the renewal of directorships or auditors mandates, the consultation of shareholders on the individual remuneration of corporate officers and on the overall package paid to the members of the regulated population.

2.5. Framework rules of procedure of the Board of Directors

As indicated in the section "New governance framework", the rules of procedure of the Board of Directors' committees have been merged with the rules of procedure of the Board of Directors in order to obtain more precise framework rules of procedure relating to the composition, operation and duties of the Board of Directors and Board Committees.

2.6. Activity

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 the meetings of the Board of Directors dedicated to the approval of the annual and half-yearly financial statements as well as to those examining the 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.

With regard to communication and access to information, the Directors benefit from a secure electronic transmission system to quickly disseminate information so that they have timely access to the documents and other information they need to fulfil their responsibilities.

Banque Palatine's Board of Directors met five times in 2020 and the average attendance rate was 91%.

The main topics covered at the meetings were:

- the remuneration of senior executives;
- the annual and half-yearly management report of the Board of Directors;
- the report on Corporate governance;
- the statement on 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 update on professional and pay equity;
- the report of the Groupe BPCE General Inspection for 2019;
- the convening of the General Meeting;
- 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;
- an update on the Covid-19 health crisis;
- an update on the IT migration project;
- the choice of Executive Management method;
- the adoption of the new governance framework;
- the appointment of the members and Chairmen of the committees of the Board of Directors;
- the election of employee representatives to the Board of Directors;
- the annual update on regulated agreements.
- the authorisation and delegation of authority to carry out issues of debt securities and their use.

2.7. Assessment of the Board of Directors

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

The responses of Directors to the Board of Directors' assessment questionnaire in respect of the 2020 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 the Chairman of the Board).

Directors are assigned clear duties. It was stressed that the Directors had expectations regarding Banque Palatine's three-to-five-year period, given its environment and Groupe BPCE's 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 to competition and digital technology.

2.8. Training of the Board of Directors

In accordance with Article L. 511-53 of the French Monetary and Financial Code, Banque Palatine endeavours to train the 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.

In this respect, the Directors benefit from the training programmes offered to the members of the BPCE Supervisory Board and those organised by the Federations of the two networks. Lastly, the OCBF training programme is now accessible.

During the 2020 financial year, the Directors were offered training on the following topics:

- digital;
- asset management;
- the fight against money laundering;
- climate risks;
- banking secrecy;
- compliance;
- the GDPR Regulation;
- the Alur Act;
- the fight against the financing of terrorism;
- market abuse;
- professional ethics and the fight against corruption;
- central site security;
- disability;
- IFRS standards;
- material risk takers.

3. Functioning of the committees set up by the Board of Directors

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 framework rules of procedure of the Board of Directors.

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 its own framework rules of procedure on 26 May 2020 which include, in addition to the rules of operation and composition, the missions of each committee.

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 heads of risks, compliance, permanent controls, financial security and internal audit in charge of periodic control are invited to the meetings of the Audit Committee and the Risk Committee without voting rights.

The Chairman of the Board of Directors is invited to the Audit Committee and the Risk Committee and chairs the Appointments Committee and the Remuneration Committee.

The Chairman of the Audit Committee cannot be Chairman of the Risk Committee and vice versa.

The members of the committees are neither corporate officers nor bound to Banque Palatine by an employment contract (other than the Directors representing employees) or any other relationship of subordination. 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. Audit Committee

Composition

At 31 December 2020, Banque Palatine's Audit Committee had the following members:

- Maurice Bourrigaud – Chairman
- Guillemette Valantin – Member of the committee
- BPCE represented by Stéphanie Clavié – Member of the committee
- Christine Fabresse – Guest

Role

The Audit Committee exercises the responsibilities provided for by the laws and regulations of the European Union.

The Audit Committee is responsible for issuing opinions to the Board of Directors on the clarity of the information provided and the relevance of the accounting methods adopted for the preparation of the individual and, where applicable, consolidated financial statements.

Banque Palatine's Executive Management is responsible for the preparation, presentation and integrity of Banque Palatine's financial statements, for compliance with the appropriate accounting and financial reporting standards and conventions, and for the internal controls and procedures ensuring compliance with the accounting standards, applicable laws and regulations.

The Statutory Auditors are responsible for planning and executing, in accordance with professional standards, the audit of Banque Palatine's annual financial statements and, where applicable, the revision of the interim financial information.

With regard to the process of preparing financial information, the Audit Committee is tasked with:

- monitoring the implementation of accounting policies by Banque Palatine;
- monitoring the process of preparing financial information and communicating recommendations to ensure its integrity.

With regard to the statutory audit of the financial statements, the Audit Committee is in particular tasked with:

- monitoring the implementation of the internal audit plan, in conjunction with the Risk Committee;
- reviewing the scope of the audit and the frequency of the statutory audit of the annual or consolidated financial statements;
- communicating to the Board of Directors information on the results of the statutory audit of the financial statements and explanations on how the statutory audit has contributed to the integrity of the financial information and on the role played by the Audit Committee in this process;
- verifying the statutory audit of the annual and consolidated financial statements, in particular its performance, taking into account any findings and conclusions of the French Prudential and Resolution Supervisory Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR) and the European Central Bank. For this purpose, it examines the inspection reports of BPCE as well as those of the ACPR and the ECB for the part having a direct impact on Banque Palatine's financial statements.

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. After review, it issues a detailed opinion to the Board of Directors.

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 the half-year report, which includes the half-year consolidated financial statements of Banque Palatine for 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.

Statutory Auditors

The Audit Committee, at the time of renewal or selection of the Statutory Auditors, conducts a call for tenders and issues an opinion on the choice or renewal of Banque Palatine's Statutory Auditors, in accordance with BPCE's instructions.

The Audit Committee reviews the Statutory Auditors' work programme, the results of their verifications and their recommendations, as well as the follow-up given to them.

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 2020 with an average attendance rate of 80%.

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 setting and review of the budget, the updated budget and the multi-year plan;
- the additional report of the Statutory Auditors on the annual financial statements;
- the fees paid to and independence of the Statutory Auditors;
- the presentation of the Statutory Auditors' annual audit plan;
- the presentation of the conclusions of the Statutory Auditors regarding the annual and interim financial statements;
- the presentation and monitoring of two specific litigation files;
- 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;
- the ratification of a service request other than the certification of accounts (SACC3).

3.2. Risk Committee

Composition

At 31 December 2020, Banque Palatine's Risk Committee had the following members:

- Marie Pic-Pâris Allavena – Chairwoman
- Bruno Goré – Member of the committee
- CAISSE D'EPARGNE PROVENCE ALPES CORSE represented by Didier Moaté – Member of the committee
- Christine Fabresse – Guest

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 the internal control and in particular the consistency of the risk measurement, monitoring 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 the 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 regulation of banking activities and the Volcker Rule;
- examine various possible scenarios, including stress scenarios, in order to assess how the institution's risk profile would react to external and internal events;
- advise the Board of Directors on Banque Palatine's overall strategy and risk appetite, both current and future, and to assist the Board when it monitors the implementation of this strategy by the Chief Executive Officer and the Deputy CEO and by the head of the risk management function;
- assist the Board of Directors when it monitors the implementation of the institution's capital and liquidity management strategies as well as other relevant risks, such as market risk, credit risk and operational risk (including legal and IT risks) and reputational risk, in order to assess their adequacy against the risk appetite and risk strategy that have been approved;

- support the Board of Directors in its regular review of the policies enacted to comply with the Order, and assess the effectiveness of measures and procedures put in place for the same end and of the 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.

In addition, the Chief Executive Officer informs the Risk Committee of:

- the appointment of the heads of risk management, compliance and internal audit who report to him or her on the performance of their duties;
- the results of their analyses of the adequacy of the liquidity risk measurement and management procedures, systems, tools and limits with changes in the liquidity situation;
- the essential elements and the main lessons that can be drawn from the analysis and monitoring of the risks associated with the business and the results to which Banque Palatine and, where applicable, the Group are exposed;
- the measures taken to ensure business continuity and the assessment of the effectiveness of the systems in place;
- the measures taken to ensure the control of outsourced activities and any resulting risks for Banque Palatine.

More generally, the Risk Committee is kept informed by the Chief Executive Officer, the Statutory Auditors, the managers responsible for permanent risk control and compliance, as well as by the Director in charge of periodic control of:

- the results of market risk and overall interest rate risk measurements in order to assess Banque Palatine's risks;
- the measurement of settlement-delivery risk and the decisions taken by the effective managers to hedge liquidity risks;
- the conclusions of the reviews and analyses of the liquidity risk referred to in Articles 148 *et seq*. of the Order;
- the results of the alternative crisis scenarios conducted pursuant to Article 168 of the Order and the actions taken, where applicable;
- significant incidents with regard to the criteria and thresholds provided for by the risk analysis and measurement systems;
- significant anomalies detected by the anti-money laundering and terrorist financing monitoring and analysis system, as well as the shortcomings of this system.

Activities

The Risk Committee met four times in 2019 with an average attendance rate of 88.75%.

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 department's audit plan and annual budget;
- the update of the risk appetite system;
- the report on the Group General Inspection mission for 2019;
- an update on the first operational risks related to the changeover;
- the presentation and monitoring of two specific litigation files;
- the review of the findings relating to the internal control of the Audit Committee of Banque Palatine's fully controlled subsidiary Palatine Asset Management;
- an update on the management of the Covid-19 crisis;
- an update on SRAB VOLCKER;
- the priority given to the recommendations of the IGG BPCE 2019 mission;
- the mapping of LBO risks and the updating of the action plan;
- a post-Covid update: lifting of the lockdown restrictions and status of State-guaranteed loans;
- the assessment of the IT migration project;
- the cost of risk at 30 September 2020 and review of significant files;
- the risk policy for 2021;
- a review of the multi-year audit plan for 2021-2024;
- an update on the current credit portfolio review.

3.3. Appointments Committee

Composition

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

At 31 December 2020, the committee’s members were as follows:

- Christine Fabresse – Chairwoman
- Bruno Goré – Member of the committee
- BPCE represented by Stéphanie Clavié – Member of the committee

Role

The Appointments Committee formulates proposals and recommendations concerning the candidates for the position of effective manager and the candidates qualified to exercise the functions of Director with a view to proposing their candidacy to the General Meeting.

This rule does not apply to candidates for the office of Director representing employees.

The Appointments Committee is also responsible for the ongoing assessment of the individual and collective qualities of the effective managers and members of the Board of Directors.

With regard to the appointment and selection mission:

The Appointments Committee assists and makes recommendations to the Board of Directors for the development of a policy for the assessment of the suitability of Directors and effective managers, as well as an appointment and succession policy which it reviews periodically.

The Appointments Committee must verify the suitability of the candidates for the position of effective manager and of the candidates for the office of Director in accordance with the appointment policy and the suitability policy drawn up by the Board of Directors.

To this end, the Appointments Committee specifies in particular:

- the duties and qualifications required for the duties of an effective manager and the duties performed on the Board of Directors;
- the evaluation of the time to be devoted to these functions;
- the objective to be achieved with regard to the balanced representation of women and men on the Board of Directors.

Concerning the assessment mission:

In accordance with the suitability assessment policy developed by the Board of Directors, the Appointments Committee:

- assesses the balance and diversity of knowledge, skills and experience held individually and collectively by the candidates for the position of effective manager and candidates for the office of Director;
- assesses periodically, and at least once a year:
  - the structure, size, composition and effectiveness of the effective management and the Board of Directors with regard to the missions assigned to them and submits to the Board all useful recommendations of internal controls and procedures to ensure compliance with accounting standards, applicable laws and regulations,
  - the knowledge, skills and experience of the effective managers and Directors, both individually and collectively, and reports to it,
  - recommends, when necessary, training aimed at guaranteeing the individual and collective aptitude of the effective managers and Directors.

Lastly, the Appointments Committee ensures that the Board of Directors is not dominated by one person or a small group of people in conditions that are detrimental to the interests of the bank.

The Appointments Committee has the necessary resources to perform its duties and may call on external advisors (Article L. 511-101 of the French Monetary and Financial Code).

Activities

The Appointments Committee met three times in 2020 with an attendance rate of 83.33%.

The main topics covered at the meetings were:

- the review of the remuneration section of the corporate governance report;
- the reappointment of Directors;
- the opinion on the good repute and any incompatibilities of the candidate for the office of permanent representative of a Director on the basis of his or her fit and proper file;
- the review of the new governance framework;
- the review of the draft questionnaire for self-assessment by the members of the Board of Directors;
- the results of the election of Directors representing employees and appointment to specialised committees;
- the individual assessment of Board members;
- the results of Director training in 2020.

3.4. Remuneration Committee

Composition

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

At 31 December 2020, the committee's members were as follows:

- Christine Fabresse – Chairwoman
- Maurice Bourrigaud – Member of the committee
- Marie Pic-Pâris Allavena – Member of the committee
- CAISSE D'EPARGNE PROVENCE ALPES CORSE represented by Didier Moaté – Member of the committee

Role

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

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

- the level and methods of remuneration of the effective managers of Banque Palatine, namely: the level of the fixed portion; the level of the variable portion; the benefits in kind; as well as all provisions relating to their retirement and welfare plan. 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 deliberates without the presence of the effective managers on matters concerning them;
- the systems for allocating Directors' fees 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 on the remuneration received by the effective managers, namely: the fixed remuneration, the variable remuneration; the benefits in kind; Directors' fees or indemnities received in respect of terms of office held in connection with their duties as effective manager.

Activities

The committee met three times in 2020 with an attendance rate of 91.67% to deliberate concerning:

- the review of the variable remuneration of the Chief Executive Officer and the Deputy CEO;
- the definition of the criteria calculating the variable remuneration of the Chief Executive Officer and the Deputy CEO;
- the principles applicable to variable remuneration;
- the final allocation of deferred variable remuneration;
- 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 Deputy CEOs;
- 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 threshold for triggering the variable remuneration of the Chief Executive Officer and the Deputy CEO;
- 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.

The Board of Directors meeting of 26 May 2020 again opted for this separation when the Chairwoman of the Board of Directors was renewed.

Pursuant to Article L. 512-107 of the French Monetary and Financial Code, the appointment and reappointment of the Chief Executive Officer is subject to the approval of BPCE SA, the central body and shareholder.

The Chief Executive Officer is not a Director of the company. He or she is appointed for a period of five years. The Chief Executive Officer may be removed from office by the Board of Directors at any time.

In accordance with Article 17 of the Articles of Association, the Chief Executive Officer holds the broadest powers to act on behalf of the company in all circumstances. He 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 relations with third parties. The Board of Directors did not set any restrictions on his or her powers in the Board of Directors' framework 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 powers to any proxy, with or without the option of substitution.

Internally, the Deputy Chief Executive Officer hold the aforementioned powers to perform the duties with which he or she is entrusted. He or she may subdelegate these powers to third parties, each in their area of expertise and for one or more specific transactions or categories of transactions.

The Deputy Chief Executive Officer 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 Deputy CEOs if they are removed from office without a valid reason.

The remuneration of the Deputy Chief Executive Officer is set by the Board of Directors.

When the Chief Executive Officer reaches the end of his or her term of office or is prevented from performing his or her duties, the Deputy CEO, unless the Board of Directors decides otherwise, retains his or her duties and responsibilities until a new CEO is appointed.

At 31 December 2020, the Executive Management was made up of:

Members of executive management	Age	Date of appointment	Expiry date of appointment
Christine Jacglin			
Chief Executive Officer*	56 years	21/10/2019	06/11/2024
Patrick Ibry			
Deputy Chief Executive Officer	57 years	14/02/2019	14/02/2024

Patrick Ibry and Christine Jacglin – Photograph: © Arnaud Février

4.1. Wokforce managers

At 31 December 2020, Christine Jacglin and Patrick Ibry were 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

***Clément Le Leap, Emmanuelle Lucas, Christine Jacglin, Marie Rouen and Patrick Ibry* –** Photograph: © Arnaud Février

As of 31 December 2020, the Executive Management Committee was composed of members of the Executive Management, plus the Head of Resources and Services, the Head of Transformation and Strategy, and the Head of the Private Clients Market. As of this date, it includes three women out of a total of five members, *i.e.* a proportion of 60%.

As of 31 December 2020, the percentage of gender equality in the top 10% of positions of responsibility was 31.6%, *i.e.* 36 women out of the 1,141 employees of Banque Palatine's Economic and Social Union on permanent contracts.

5. Agreements

Banque Palatine participates as a member of various economic interest groups of Groupe BPCE, shareholder of the bank.

Regulated 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 agreements attached to the remuneration of the Chief Executive Officer and the Deputy CEO are recalled. These agreements were not reviewed in 2020.

  Chief Executive Officer:

  - covered by the unemployment scheme for business leaders (*Garantie sociale des chefs d'entreprise* – GSC),
  - remuneration maintained for 24 months in the event of temporary inability to work,
  - benefit paid in the event of enforced departure from office or retirement,
  - enrolment in the defined-benefit supplementary pension scheme, the Groupe BPCE Executive Officers' retirement plan,
  - covered by supplementary social security scheme (BPCE Mutuelle mutual health insurance and Klésia supplementary pension scheme),
  - measures to support mobility.

  Deputy Chief Executive Officer:

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

The Chief Executive Officers and Deputy CEO 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 2020, 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 Deputy CEO),
- tranche B remuneration: 9.45% (7.09% payable by Banque Palatine and 2.36% payable by the Chief Executive Officer and the Deputy CEO).

For the 2020 financial year, the amount of Klésia contributions (employee and employer) paid by Banque Palatine for the benefit of the Chief Executive Officer and the Deputy CEO was as follows:

- Patrick Ibry from 1 January to 31 December 2020: €15,840.24;
- Christine Jacglin from 1 January to 31 December 2020: €15,840.24.

- Agreements with shareholders and their subsidiaries.
  - The existing billing agreement between BPCE SA and Banque Palatine, signed on 5 March 2012:

The purpose of this agreement is to set the amount of the fees to be paid for the services provided by BPCE SA within the context of the affiliation of Banque Palatine with Groupe BPCE. The financial effect of this agreement in 2020 was €3.2 million,

- 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 2020 was €345,000.

6. Structure of share capital and participation of shareholders at General Meetings

6.1. Structure of share capital

BPCE SA, the central body of the Caisse d'Epargne and Banque Populaire banking group, 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 the 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 that, the meeting elects its own Chairman.

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

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

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

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

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

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

There is no valid delegation granted by the General Meeting of Shareholders in the area of capital increases.

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

7.1. Remuneration of the Directors and Committee Members

With the exception of the Chairmen of the Board and of the specialised committees who receive a fixed annual remuneration *pro rata temporis,* the Directors receive a sum in remuneration for their activity based on their actual presence.

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 Remuneration 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[(1)].

For the Risk Committee:

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

For the Remuneration Committee:

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

For the Appointments Committee:

- Chairman of the Appointments Committee: €1,000 p.a.;
- Member of the Appointments Committee: €500 per meeting subject to a cap of €1,500 p.a[(2)].

For the Chairman of the Board of Directors and the permanent representative of BPCE, the related remuneration is paid in full to BPCE SA, in accordance with Groupe BPCE's guidelines.

For the Directors representing the employees, the related remuneration is paid in full to the union to which these Directors belong.

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 SA and its subsidiaries.

Amounts due in 2019: all remuneration due, on a pro rata temporis *basis, in respect of duties performed during the 2019 financial year, regardless of the date of payment.*

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

Amounts due in 2020: all remuneration due, on a pro rata temporis *basis, in respect of duties performed during the 2020 financial year, regardless of the date of payment.*

Amounts paid in 2020: all amounts actually paid and received in 2020 (those due in 2019 and paid in 2020 and those due in 2020 and paid in 2020) in respect of duties performed during the period.

NA: not applicable.

	Amounts in respect of the 2020 financial year		Amounts in respect of the 2019 financial year	
Christine Fabresse	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration (corporate office)	€500,004	€500,004	€500,000	€500,000
Variable remuneration	€276,885[(3)]	€222,270[(4)]	€419,000[(1)]	€36,330[(2)]
Exceptional remuneration	€0	€0		
Remuneration of Board members*	€0	€0	€0	€0
Benefits in kind	€8,961[(6)]	€8,961[(6)]	€49,146[(5)]	€49,146[(5)]
Other remuneration	€39,456[(9)]	€61,492[(10)]	NA[(7)]	€3,270[(8)]

* *Paid to BPCE.*

(1) *Variable portion in respect of the 2019 financial year of which €209,800 (50%) paid in 2020 and the balance (50%) deferred over three years in equal parts of €69,933 before indexation and performance condition.*

(2) *Amount paid in 2019 for the variable portion in respect of the 2018 financial year.*

(3) *Variable portion for the 2020 financial year of which €138,442.50 (50%) paid in 2021 and the balance (50%) deferred over three years in equal parts of €46,147.50 before indexation and performance condition.*

(4) *Amount paid in 2020 for the variable portion in respect of the 2019 financial year,* i.e. *€209,800, and for the deferred portion of the variable portion in respect of the 2018 financial year,* i.e. *€12,470.*

(5) *€9,104 for a "car" benefit in kind and €40,042 as an installation bonus.*

(6) *€8,961 for a "car" benefit in kind.*

(7) *Under her employment contract, Christine Fabresse benefits from the BPCE incentive agreement. The individual amount allocated to Christine Fabresse for the financial year in question is not known at the date of publication of this report.*

(8) *Under her employment contract, Christine Fabresse benefits from the BPCE incentive agreement paid in 2019 for the 2018 financial year.*

(9) *Compensatory CGP/R2E indemnity,* i.e. *€39,456 to which should be added the individual amount of incentive granted to Christine Fabresse for the financial year (not known at the date of publication of this report).*

(10) *Compensatory CGP/R2E indemnity,* i.e. *€39,456. Christine Fabresse also benefits from the BPCE incentive agreement paid in 2020 in respect of 2019 in the amount of €22,036.*

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(1) *Excluding Chairman's allowance.*
(2) *Excluding Chairman's allowance.*

Maurice Bourrigaud	Amounts in respect of the 2020 financial year		Amounts in respect of the 2019 financial year	
	Due	Paid	Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members	€9,000	€9,000	€11,500	€11,500
Benefits in kind	NA	NA	NA	NA

Stéphanie Clavié	Amounts in respect of the 2020 financial year		Amounts in respect of the 2019 financial year	
	Due	Paid	Due	Paid
Fixed remuneration	€151,667	€151,667	€138,301	€138,301
Variable remuneration	€67,115	€41,325	€41,325	€41,325
Exceptional remuneration				
Remuneration of Board members*	€0	€0	€0	€0
Benefits in kind	€5	€5	€39	€39
Other remuneration	€3,961**	€23,890****	€2,070**	€18,173***

* *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.*
*** *On-call bonuses and public holidays, incentive payments for 2018.*
**** *On-call bonuses and public holidays, incentive payments for 2019 and days off for working time reduction.*

Sylvie Garcelon	Amounts in respect of the 2020 *Pro rata temporis*		Amounts in respect of the 2019 financial year	
	Due	Paid	Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members*	€44,400	€44,400	€52,400	€52,400
Benefits in kind	NA	NA	NA	NA

* *Including Natixis and BPCE of which €3,000 for Banque Palatine.*

Bruno Goré	Amounts in respect of the 2020 financial year		Amounts in respect of the 2019 financial year	
	Due	Paid	Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members*	€7,500	€7,500	€7,500	€7,500
Benefits in kind	NA	NA	NA	NA

Sylvia Grandel	Amounts in respect of the 2020 financial year *Pro rata temporis*		Amounts in respect of the 2019 financial year	
	Due	Paid	Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members*	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

* *Paid to her trade union.*

Nadia Mauzelaf	Amounts in respect of the 2020 financial year *Pro rata temporis*		Amounts in respect of the 2019 financial year	
	Due	Paid	Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members*	€0	€0	NA	NA
Benefits in kind	NA	NA	NA	NA

* *Paid to her trade union.*

Christine Meyer-Forrler	Amounts in respect of the 2020 financial year *Pro rata temporis*		Amounts in respect of the 2019 financial year	
	Due	Paid	Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members*	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

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

Didier Moaté	Amounts in respect of the 2020 financial year *Pro rata temporis*		Amounts in respect of the 2019 financial year	
	Due	Paid	Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members	€5,500	€5,500	NA	NA
Benefits in kind	NA	NA	NA	NA

Bernard Niglio	Amounts in respect of the 2020 financial year *Pro rata temporis* Due	Paid	Amounts in respect of the 2019 financial year Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members	€7,000	€7,000	€14,000	€14,000
Benefits in kind	NA	NA	NA	NA

Marie Pic-Pâris Allavena	Amounts in respect of the 2020 financial year Due	Paid	Amounts in respect of the 2019 financial year Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members	€13,000	€13,000	€14,000	€14,000
Benefits in kind	NA	NA	NA	NA

Guillemette Valantin	Amounts in respect of the 2020 financial year Due	Paid	Amounts in respect of the 2019 financial year Due	Paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Remuneration of Board members*	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

* *Paid to her trade union.*

7.2. Remuneration of the members of Executive Management

The remuneration of the members of Executive Management is determined by the Board of Directors on the recommendation of the Remuneration Committee.

Fixed remuneration

The Chief Executive Officer is paid exclusively for her corporate office.

The Deputy Chief Executive Officer holds a corporate office 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 criteria and amount of the variable remuneration of the Chief Executive Officer and the Deputy CEO are set by the Board of Directors on the recommendation of the Remuneration Committee.

In 2020, the variable remuneration of the Chief Executive Officer and the Deputy CEO is based on:

- quantitative criteria: cost/income ratio, capacity to generate profits, economic NBI/FTE and CERC (customer use/resources ratio); in the event of loss of the financial year, all the quantitative criteria are deemed not to be met for the Chief Executive Officer;
- qualitative criteria: delivery of the strategic plan in accordance with the schedule set by Groupe BPCE and in line with the BPCE strategic plan; for IT migration, compliance with the changeover date and the draft budget for 2020 approved by the Board of Directors;
- a regulatory criterion: the risk appetite system and its monitoring;
- the profit or loss of BPCE.

Chief Executive Officer

		Theoretical maximum
A	**Quantitative bank criteria**	**30.00%**
	Cost/income ratio	7.50%
	Capacity to generate profits	7.50%
	economic NBI/FTE	7.50%
	Customer deposits	7.50%
B	**Qualitative bank criteria**	**27.00%**
	Strategic thinking	13.50%
	Migration	13.50%
C	**Regulatory criterion**	**3%**
D	**Criteria linked to the results of Groupe BPCE**	**20%**
	GRAND TOTAL	**80.00%**

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.

Since the 2012 financial year, variable remuneration greater than or equal to €100,000 has been subject to an additional regulation rule: 50% of the amount is paid and vests upon grant, 50% is deferred and paid in thirds no earlier than 1 October of years N+2, N+3 and N+4.

The deferred portions of the variable remuneration take the form of cash indexed to an indicator representing changes in the value of Groupe BPCE. The indicator used is the net income attributable to equity holders of the parent calculated as a rolling average over the last three calendar years preceding the year of allocation of the variable portion and the year of payment of each deferred portion from the variable portion.

Deputy Chief Executive Officer

		Theoretical maximum
A	**Quantitative bank criteria**	**20.00%**
	Cost/income ratio	5%
	Capacity to generate profits	5%
	economic NBI/FTE	5%
	Customer deposits	5%
B	**Qualitative bank criteria**	**18.00%**
	Strategic thinking	9%
	Migration	9%
C	**Regulatory criterion**	**2%**
D	**Criteria linked to the results of Groupe BPCE**	**10%**
	GRAND TOTAL	**50.00%**

The variable remuneration for the Deputy Chief Executive Officer is 20% based on Banque Palatine indicators, 20% on areas for improvement, and 10% on BPCE's profit or loss.

The amount of the variable remuneration is equal to 50% of the fixed remuneration when a 100% performance rate is attained. In any event, the variable portion allocated for the financial year may not exceed 62.50% of the 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 Deputy CEO

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 2019: all remuneration due, on a pro rata temporis *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.

Amounts due in respect of 2020: all remuneration due, on a pro rata temporis *basis, in respect of duties performed during the 2020 financial year, regardless of the date of payment.*

Amounts paid in 2020: all amounts actually paid and received in 2020 (those due in 2019 and paid in 2020 and those due in 2020 and paid in 2020) in respect of duties performed during the period.

NC: not concerned.

	Amounts in respect of the 2020 financial year		Amounts in respect of the 2019 financial year*	
Christine Jacglin	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	€325,000	€325,000	€50,298	€50,298
Variable remuneration	€260,000	€129,935	€40,238	€38,880
Remuneration of Board members	NC	NC	NC	NC
Housing allowance	NC	NC	NC	NC
Benefits in kind	-	€24,283	NC	NC

* *From 6 November 2019.*

	Amounts in respect of the 2020 financial year		Amounts in respect of the 2019 financial year*	
Patrick Ibry	**Due**	**Paid**	**Due**	**Paid**
Fixed remuneration	€205,000	€205,000	€205,000	€205,000
Variable remuneration	€102,500	€78,075	€102,500	€82,554
Profit-sharing and incentive plans	-	€3,905	-	€22,304
Remuneration of Board members	€20,500	€20,500	€6,825	€6,825
Benefits in kind	-	€11,160	-	€13,598

Table 4 – Share subscription options or share purchase options awarded to Executive Directors during the 2020 financial year

Names of Executive Directors	Date of grant	Type of options	Value of options	Number of options awarded	Exercise price	Exercise period
No share subscription or share purchase options were awarded during the 2020 financial year.						

Table 5 – Share subscription options or share purchase options exercised by Executive Directors during the 2020 financial year

Names of Executive Directors	Number and date of the plan	Number of options exercised during the year	Exercise price
No share subscription or share purchase options were exercised during the 2020 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 2020 financial year.							

Table 7 – Performance shares available for Executive Directors during the 2020 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 2020 financial year (no award of this type of share).			

Table 8 – History of share subscription options, share purchase options and free share allocations during the 2020 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 share subscription options, share purchase options or free shares were granted during the 2020 financial year.						

Table 9 – Share subscription options or share purchase options exercised by the top 10 non-corporate officer employees during the 2020 financial year

Name of non-executive employee	Number and date of the plan	Number of options awarded and exercised during the 2020 financial year	Weighted average price
No share subscription or share purchase options were awarded or exercised by Banque Palatine employees during the 2020 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 plans	Payments or benefits due or potentially due owing to sale or change in duties	Compensation relating to a non-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 business leaders Enforced loss of office benefit	No
Patrick Ibry Deputy Chief Executive Officer	14/02/2019	14/02/2024	Yes	KLESIA: pay-as-you-go system	No	No

Pursuant to the provisions of the Pacte Act the appended table sets out the average remuneration of the Chairwoman of the Board of Directors, the Chief Executive Officer and each Deputy CEO 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	2020
Chairwoman of the Board of Directors (CBD)*	0	0	0	0	0	0
Chief Executive Officer (CEO)	€290,000	€290,000	€290,000	€290,000	€295,833	€325,000
Deputy Chief Executive Officer (DCEO)	€205,000	€205,000	€205,000	€205,000	€205,000	€205,000
Permanent employees: mean salary	€47,024	€47,533	€48,101	€48,765	€50,146	€50,474
CBD/employee ratio	0	0	0	0	0	0
CEO/employee ratio	6.17	6.10	6.03	5.95	5.87	6.44
DCEO/employee ratio	4.36	4.31	4.26	4.20	4.07	4.06

* *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 Chairwoman of the Board of Directors, the Chief Executive Officer and each Deputy CEO 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	2020
Chairwoman of the Board of Directors (CBD)	0	0	0	0	0	0
Chief Executive Officer (CEO)	€290,000	€290,000	€290,000	€290,000	€295,833	€325,000
Deputy Chief Executive Officer (DCEO)	€205,000	€205,000	€205,000	€205,000	€205,000	€205,000
Median salary of employees on permanent contracts	€42,724	€43,000	€43,407	€44,357	€45,561	€46,081
CBD/employee ratio	0	0	0	0	0	0
CEO/employee ratio	6.79	6.74	6.68	6.54	6.49	7.05
DCEO/employee ratio	4.80	4.77	4.72	4.62	4.50	4.45

Employment contract of the Deputy Chief Executive Officer

The Deputy Chief Executive Officer, Patrick Ibry, has an employment contract.

The substance of these contracts is reflected particularly in the reporting relationship with respect to the Chief Executive Officer, and furthermore, true technical functions exist that are separate from the corporate office of the Deputy Chief Executive Officer and the employment contract of the Head of Finance.

Its missions are, although the list is not exhaustive:

- 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;
- perform the reporting its activities to the Chief Executive Officer and report to her on its 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 Deputy Chief Executive Officer 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 Deputy CEO’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 business leaders (*Garantie sociale des chefs d’entreprise* – GSC). 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 24 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 the 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 his or her position at a Group entity (Banque Palatine, Banque Populaire or Caisse d'Epargne) in year N, the reference remuneration is set following discussions between 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 remuneration be paid during the three most recent years of the then current term of office (or during the term of service, supplemented by the term of any prior office in the event of reappointment), the benefit will be paid in full.

If the amounts paid do not amount to at least 33.33% of the maximum variable remuneration over the reference period, no benefit will 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 his or her 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 10 years of service, without any minimum attendance requirements within Groupe BPCE.

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 the Banque Populaire banks, Chairmen of the Management Boards of the Caisse d'Epargne banks, 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 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.

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 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 his or her position at a Group entity (Banque Palatine, Banque Populaire or Caisse d'Epargne) in year N, the reference remuneration is set following discussions between the governing body and the central body.

The amount of the compensation is equal to:

Monthly reference remuneration x (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 paid under an employment contract.

Deputy Chief Executive Officer

The Deputy Chief Executive Officers 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 Deputy CEO 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 Deputy CEO),
  - tranche B remuneration: 9.45% (7.09% payable by Banque Palatine and 2.36% payable by the Chief Executive Officer and the Deputy CEO).

The Chief Executive Officer also benefits from:

- 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 the 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 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 its 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 Deputy CEO holds a corporate office and an employment contract, he or she is covered by Unedic unemployment insurance.

Arrangements under which remuneration is maintained for 24 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 24 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 Deputy CEO 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 classified as regulated persons based on 18 criteria (15 qualitative and 3 quantitative) as set out in European Commission (EU) Delegated Regulation No. 604/2014 of 4 March 2014 to which two criteria have been added to include employees covered by the 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 department, supported by the risk management, compliance, permanent controls and financial security departments, during the meeting of the committee identifying material risk takers (MRT) and the associated variable remunerations.

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 relating to remuneration

At the Annual General Meeting, the resolutions setting out the total remuneration paid to the Chief Executive Officer and the Deputy CEO for the 2020 financial year will be submitted to the shareholders for approval.

In addition, the overall package of remuneration of any kind in respect of the 2020 financial year paid to all regulated persons will also be submitted to the shareholders for their opinion.

Appendix 1

Company: Banque Palatine
Remuneration policy and practice for the persons
defined in Article L. 511-71 of the French Monetary and Financial Code
FY 2020

1 Description of the company's remuneration policy

A. Remuneration of corporate officers at Banque Palatine

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

A.1 Executive body

A.1.1 Chief Executive Officer

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

- fixed remuneration paid in respect of the corporate office;
- variable remuneration;
- benefits in kind: social security cover for business leaders, defined-benefit pension plan.

The criteria and amount of the Chief Executive Officer's variable remuneration are set by the Board of Directors on the recommendation of the 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 of the Chief Executive Officer is capped at 80% of fixed remuneration when 100% performance is achieved.

In any event, the variable portion allocated for the financial year to the Chief Executive Officer may not exceed 100% of the fixed remuneration.

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.

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 the variable remuneration take the form of cash indexed to an indicator representing changes in the value of Groupe BPCE. The indicator used is the net income attributable to equity holders of the parent calculated as a rolling average over the last three calendar years preceding the year of allocation of the variable portion and the year of payment of each deferred portion from the variable portion.

A.1.2 Deputy Chief Executive Officer

The remuneration of the Deputy Chief Executive Officer 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;
- the amount of the variable remuneration is equal to 50% of the fixed remuneration when a 100% performance rate is attained. In any event, in a situation of outperformance, the variable portion allocated for the financial year to the Deputy Chief Executive Officer may not exceed 62.50% of the fixed remuneration. 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 *pro rata 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.

In accordance with Groupe BPCE's rules, Directors representing BPCE SA or being remunerated by BPCE SA do not receive the remuneration for their office, as it is transferred directly and in full to BPCE SA.

B. Remuneration of the regulated population

B.1 Definition of the regulated population

A Banque Palatine employee is deemed to be a regulated person if he or she fulfils 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 subject to 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 departments during the meeting of the committee identifying the material risk takers and the 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 Remuneration of the members of Executive Management

Executive remuneration is described in A.1.

B.3 Remuneration of the Directors

Directors' remuneration is described in A.2.

B.4 Remuneration of the other members of Executive Management

The remuneration of the Head 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 Head 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 Head of Human Resources consists of a base salary and a variable remuneration based on objectives set and assessed by the hierarchy; it is set at 21.7% of the gross annual fixed salary in the event of the achievement of the objectives and is capped at 27.5% in the event of (i) exceeding the individual objectives and (ii) taking into account the bank coefficient.

B.5 Remuneration of control employees

The 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 persons belonging to the regulated population

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 in 2019 for the 2020 financial 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 settlement

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.

Where variable remuneration granted in respect of the 2020 financial year 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 2022, 2023 and 2024, *i.e.* 16.66% for each of the three years.

The deferred portions of the variable remuneration take the form of cash indexed to an indicator representing changes in the value of Groupe BPCE. The indicator used is the net income attributable to equity holders of the parent calculated as a rolling average over the last three calendar years preceding the year of allocation of the variable portion and the year of payment of each deferred portion from the variable portion.

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 Head of Human Resources and Services. It is controlled by the Board of Directors, after review by the Remuneration Committee, which verifies its proper application. 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 regulated: proposals for salary changes are first arbitrated by the Directors and then approved by the Head of Resources and Services, who informs the Executive Management Committee.

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

C.2 Basic salary evolution rules

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 Target population

All bank entities are involved in this performance management and variable remuneration system.

All employees within the above scope are eligible for the scheme with the exception of the Chief Executive Officer, Deputy CEO, the Head of Resources and Services, the Head of Transformation and Strategy and the Head of the Private Banking Market.

C.3.3 Number and nature of the performance targets

The 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%	1 Target 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 network, the entity is represented by the branch to which the employees are attached. For those whose function is performed at the regional level, the latter constitutes the entity.

In the business lines and functional departments, 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 business line itself or a department.

For the members of the Executive Committee, the Executive Committee may represent the concept of an entity.

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[(1)] aims are proposed by a Head of department or a Manager.

C.3.4 Weight of the 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.

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

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.

Target weightings

	Entity portion			Individual portion		
Individual profile				Target No. 1 40% of indiv. portion	Target No. 2 35% of indiv. portion	Target No. 3 25% of indiv. portion
"Corporate" individual profile	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

C.3.5 Assessment of the 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.

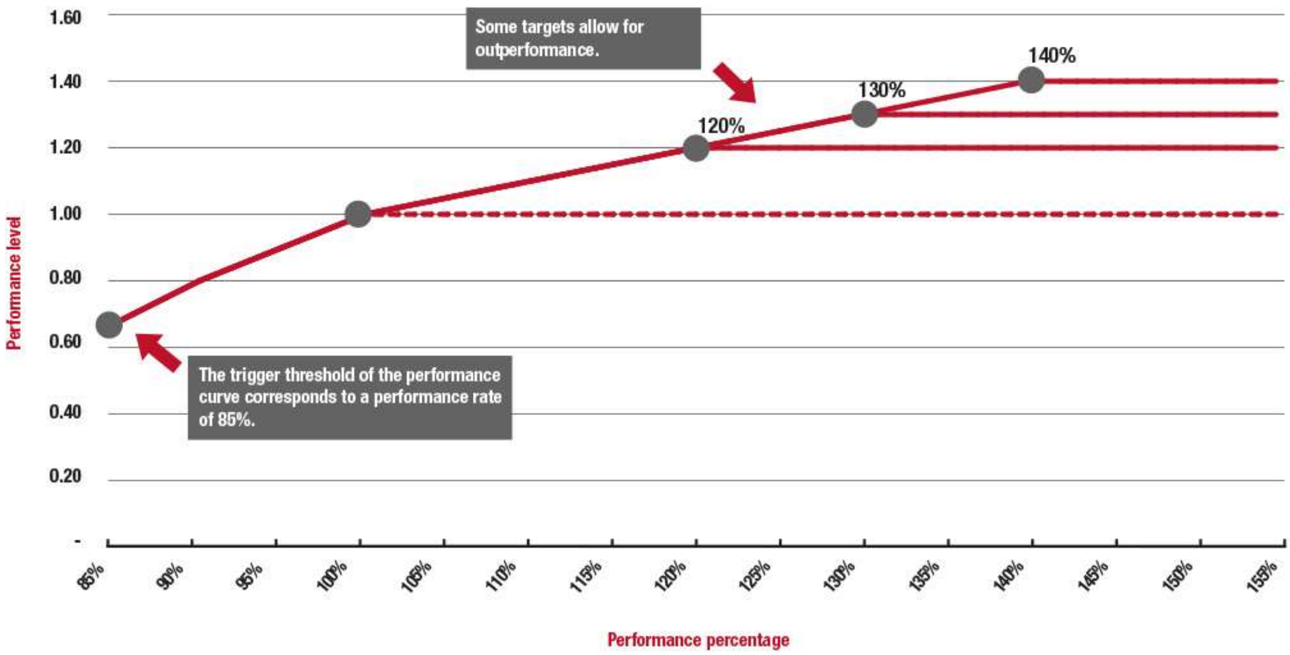
(1) Starting from the setting of 2017 targets, the team target may be individualised if management deems it appropriate and possible.

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 Schedule of the performance management

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 involved

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).

			Composition of bonus			Level of bonus		
Contribution profiles	**Persons concerned**	**Bonus base**	**Indiv. portion**	**Entity portion**	**Team portion**	**On-Target bonus**	**Bonus +**	**Maxi bonus**
Executive Officer	The members of the bank's Executive Committee (If allocated to the branch network, specific amounts)	Annual basic salary	50%	50%		21.7%	25.0% (29.3%)	27.5% (32.2%)
Head of department	Non-executives managing an operational or functional department	Annual basic salary	50%	50%		13.0%	15.0%	16.4%
Head of Support Activities	The heads of Middle Office, Back Office or Support Functions	Annual basic salary	67%	33%		10.0%	12.0%	13.2%
Head of Section[1]	The managers of a middle office/back office of a market department, the heads of a functional department, the coordination managers (if assigned to the branch network, specific amounts). The group managers	Annual basic salary Amount	67%	33%		5.0% €1,500	6.0% (6.7%) €1,800	6.6% (7.3%) €1,980
Regulatory functions	The auditors and research officers of the audit department, the controllers or compliance officers of the compliance and permanent control department, the managers or those responsible of oversight and control of the risk management department	Annual basic salary		33%	67%	4.0%	4.8%	5.3%
Financial analyst	The analysts of the risk management department and of the commitments department (including special affairs employees)	Annual basic salary		33%	67%	4.0%	4.8%	5.3%
Project manager	The project leaders, the section heads in the information systems department and the organisers of the organisation management department	Annual basic salary	80%	20%		4.0%	5.0%	5.5%
Market department customer experts	The 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	The private bankers, large-corporate customer relationship managers, department heads or service managers of front office units in the market departments, business managers salary in market departments (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	The network area managers	Amount	50%	50%		€12,200	€16,470	€18,117
Branch manager	The network branch and regulated real estate professions managers	Amount	50%	50%		€8,700	€11,745	€12,920
Customer portfolio manager	The roles including CAE/DCE, CGP/CCP/RCP/DCP in the network, management of the private customer and commercial market, and regulated real estate professions (If allocated to the branch network, specific amounts)	Amount	80%	20%		€5,800	€7,192 (€7,565)	€7,911 (€8,422)
Financing of senior executives	The senior executive financing department employees of the private customers market department	Annual basic salary	30%	70%		30.0%	36.0%	40.0%
"Investment Bankers" individual profile	The investment banker department employees of the corporate market department	Annual basic salary	70%	30%		30.0%	36.0%	40.0%

	Head of department	Annual basic salary	50%	50%		55.0%	55.0%	55.0%
	The employees of the finance department, excluding commercial, ALM and treasury activities	Annual basic salary	25%	75%		100.0%	100.0%	100.0%
Specialised business lines	The employees of the finance department, commercial, ALM and treasury activities	Annual basic salary	25%	75%		40.0%	40.0%	40.0%
Head of corporate	The Head of the corporate finance department	Annual basic salary	50%	50%		82.0%	91.0%	100.0%
Corporate Project Manager(2)	The heads of department and project heads in the corporate finance department	Annual basic salary	30%	70%		77.0%	91.0%	100.0%
Corporate Project Manager(3)	The project managers in the corporate finance department	Annual basic salary	30%	70%		55.0%	65.0%	72.0%
Corporate affairs business managers	The business managers and agents in the corporate finance department	Annual basic salary	30%	70%		40.0%	47.0%	52.0%
Corporate project manager	The project managers in the corporate finance department	Annual basic salary	30%	70%		20.0%	24.0%	26.0%
Financial operator	The 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 department	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 (If allocated to the branch network, specific amounts)	Amount		33%	66%	€1,000	€1,200 (€1,333)	€1,320 (€1,467)

(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 million.

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

C.3.8 Bonus amount per 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.

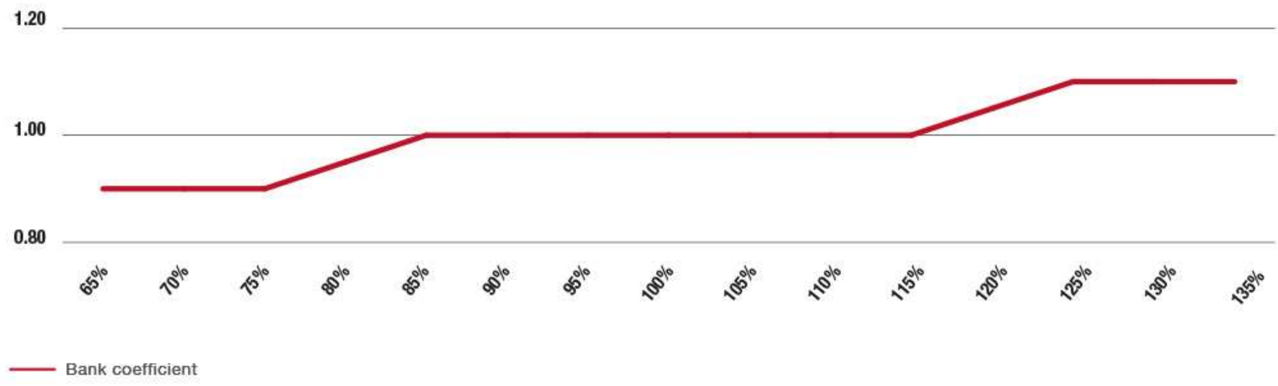
"Bonus +": the amount of bonus in the event of maximum outperformance on certain targets and a 100% bank performance.

"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 Modulating coefficient linked to the bank's performance

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 points 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 points 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 come under the 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 the bonus

The bonus in respect of each year's performance is paid in a single payment along with the following April's salary, except for the bonus of risk takers equal to or exceeding €100,000.

C.4 Corporate prescription premium

The bonus is aimed at business-generating network employees at the corporate department 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 loyalty bonus, in the amount of €3,500, paid as part of the circle of excellence, is intended for the 20 employees of the agency network recognised each year under this scheme.

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 31 July 2020. The parties agreed to enter into a profit-sharing agreement for a period of one year for the 2020 financial year alone. This choice is made in the particular context of the year 2020 due to the health and economic context. The year 2021 will therefore see the opening of new negotiations.

The agreement negotiated for the year 2020 is based on two additional envelopes:

- an initial budget based on a single criterion, the most representative of the bank's results and its redistributive capacity: net income;
- a second envelope associating employees with the performance of the bank in the success of organisational changes and working methods around digital and remote operations.

D.3 Contributions

On 28 November 2014, a first agreement on an employer contribution was agreed on with all the unions representing employees. The agreement was renegotiated with the three unions on 27 November 2015, 20 December 2016, 15 December 2017 and 21 May 2019. Following the negotiations held on 31 July 2020, an open-ended agreement was signed.

It provides for the possibility, for all employees of the bank benefiting from the profit-sharing scheme, to also benefit from a contribution paid by the bank into the Group savings plan (PEG) or employee savings scheme (PERCO).

As a result, for any investment into the Group PEG and/or PERCO, the bank contributed up to €780, calculated as follows:

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

This agreement maintains the provision relating to the payment of the matching contribution in the event of voluntary payment into the PEG and/or 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 of risk takers

F.1 Minimum capital threshold

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 the year 2020, this reference corresponds to a CET1 ratio in pillar 2 (including P2R and P2G and buffers) to be complied with of at least 10.32% as prescribed by the ECB on 8 April 2020.

The level recorded at 31 December 2020 was 16%, allowing the allocation of variable remuneration for the 2020 financial year as well as the allocation of deferred third portions.

This condition being met, the allocation of variable remunerations for the 2020 financial year is therefore possible. 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 Principle applicable to deferred variable remuneration

Pursuant to Article L. 511-83 of the French Monetary and Financial Code, it was decided by the governing body, on the proposal of the Remuneration Committee, that each deferred payment of variable remuneration to the effective managers already awarded should be paid in full only if the net income, IFRS, excluding exceptional items from BPCE SA or excluding exceptional items approved by the Board of Directors, calculated as a rolling average over the last three calendar years preceding the year of allocation, is positive.

If this criterion is not met, the deferred variable remuneration will be reduced by 50%. Depending on the value of the average net income indicated above, the Board of Directors may decide to adjust the value of the reduction made.

F.3 Principle of cancellation or reduction of variable remuneration

The variable remuneration of 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%;
- in terms of risk or compliance: in the event of a significant breach[(1)], evidenced by a call to order (formal and explicit letter) from a company or Group executive in charge of risk or compliance, the variable remuneration (awarded for the period or deferred portions not yet due) of employees identified as risk takers may be subject to a reduction up to and including the cancellation thereof;
- 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 MRT Committee, the variable remuneration of employees identified as risk takers (excluding effective managers) may be reduced 5% per training not taken.

The review of the situations giving rise to the application of these reduction or cancellation criteria was carried out during the committee meeting identifying risk takers and the associated remunerations held on 28 January 2021. This review did not reveal any situation that could give rise to the application of a reduction or cancellation.

2 Decision-making process

The Remuneration Committee had four members at 31 December 2020:

- 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 2020, the committee's members were as follows:

- Christine Fabresse – Chairwoman;
- Maurice Bourrigaud – Member of the committee;
- Marie Pic-Pâris Allavena – Member of the committee;
- CAISSE D'EPARGNE PROVENCE ALPES CORSE represented by Didier Moaté – Member of the committee.

The Committee met three times during the year 2020.

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;
- of the remuneration section 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 0.50% 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 the regulated population 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 3 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 subject to 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. The application of this criterion concerned a total of 405 employees, with 50 already recognised under another criterion, and 355 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 (124 employees);
- exclusion of business line specialists or experts (101 employees); and
- exclusion of employees in management positions (81 employees).

The identification of the regulated population was approved by the human resources, risk management, compliance, permanent controls and financial security departments during the meeting of the committee identifying MRTs and the associated remunerations held on 28 January 2021.

In 2020, Banque Palatine had 66 employees considered regulated persons and they had the following positions:

- Chief Executive Officer
- Deputy Chief Executive Officer, Finance Management
- Directors
- Head of Private Banking
- Head of Resources and Services
- Head of Human Resources
- Head of Transformation and Strategy
- Deputy Head of Compliance and Risk
- Head of Audit and Inspection
- Head of Compliance and Risk
- Head of the ethics compliance department
- Head of the financial risk department
- Head of Finance and International
- Head of the AML and MLT investor departments and
- Head of the engineering and trading department
- Head of the Lab FT and anti-fraud coordination department
- Head of the prudential management and collective provisions department
- Head of the permanent controls management department*
- Head of the credit risk department
- Head of the euro/currency department
- Head of the market risk and banking management department
- Head Supervisor of Internal Audit
- Head of Legal and Recovery Accounting
- Head of Management Control
- Head of the remuneration and benefits department
- Head of Legal and Tax Affairs
- Head of Information Systems and Innovation
- Head of International
- Delegation Analyst*
- Commitments Analyst
- Head of Corporate Finance
- Head of Real Estate
- Head of Region*
- Head of the COFI department

* *Functions that were filled by more than one person during the 2020 financial year.*

- Head of the PRI commercial department
- Head of the credit department*
- Head of the debt and ECM department
- Head of the structured financing and distribution department
- Head of the large corporates department
- Head of the LMBO department
- Head of Commitments
- Head of Corporate Markets
- Head of PRI
- Dealing Room Trader*
- Treasury Manager
- Market Operator*
- Head of the Foreign Exchange department
- Head of Banking Services*
- 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 2020 for their different regulated functions exercised in year 2020 are added.

Deferred and conditional payment of a portion of variable remuneration

Where variable remuneration granted in respect of year 2020 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 2022, 2023 and 2024, *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 a performance condition. 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.

* *Functions that were filled by more than one person during the 2020 financial year.*

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

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

Payment in shares or equivalent instruments

The deferred portions of the 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.

For the financial years prior to 2016, the indexation was carried out on the net income attributable to equity holders of the parent after neutralisation of the revaluation of the own debt.

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 the 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))

The ratio is reported each year by BPCE.

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

In the event of a risk-taker leaving the company (mobility to another company in the Group, voluntary departure from the Group, forced departure from the Group, retirement, death), the variable remuneration for the current financial year, calculated *pro rata temporis,* if it is planned to award one, and the deferred fractions due and not due, will be processed without impact of the departure.

The variable remuneration for the current financial year, if it is planned to grant one, and the deferred portions are therefore systematically kept and paid at the normal dates, according to the conditions (performance, penalty, etc.) and the form provided for initially (cash, securities, equivalent instruments).

These "post-departure" remuneration items also remain subject to the reduction rules introduced by the company under Articles L. 511-83, L. 511-84 and L.

In the event of forced departure due to serious misconduct or gross misconduct, these "post-departure" remuneration elements may be reduced or eliminated, in particular by applying the provisions provided for by the company under Articles L. 511-84 and L. 511-84-1.

As an exception, in the event of the death of the risk-taker, the deferred portions are settled immediately.

4. Aggregate quantitative information on the remuneration of regulated persons

Aggregate quantitative information on remuneration, broken down by sector of activity

Awarded in respect of the 2020 financial year – excluding employer contributions (in euros)	Management body executive	Management body supervisory function	Investment banking	Retail banking	Asset management	Support functions	Independent control function	Other	Total
Workforce	2	4	0	5	0	29	12	14	66
Fixed remuneration	530,000	0	0	448,732	0	2,817,987	926,228	944,459	5,667,406
Variable remuneration	208,011	0	0	59,841	0	877,384	119,599	€813,525	2,078,360
Total remuneration	**738,011**	**0**	**0**	**508,573**	**0**	**3,695,371**	**1,045,827**	**1,757,984**	**7,745,766**

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 the 2020 financial year – excluding employer contributions (in euros)	Management body	Other	Total
Workforce	6	60	66
Total remuneration	**738,011**	**7,007,755**	**7,745,766**
of which fixed remuneration	530,000	5,137,406	5,667,406
of which variable remuneration	208,011	1,870,349	2,078,360
of which non-deferred	143,043	1,870,349	2,013,393
of which cash	*143,043*	*1,870,349*	*2,013,393*
of which shares and related instruments	*0*	*0*	*0*
of which other instruments	*0*	*0*	*0*
of which deferred	64,968	0	64,968
of which cash	*0*	*0*	*0*
of which shares and related instruments	*64,968*	*0*	*64,968*
of which other instruments	*0*	*0*	*0*

Other items of remuneration for risk-takers

Amounts in euros – excluding employer contributions	Management body	Other	Total
Amount of deferred variable remuneration awarded for financial years prior to 2020 and not vested	202,628	156,044	358,672
Amount of deferred variable remuneration awarded for financial years prior to 2020 paid in 2020 (in amount awarded)	104,004	73,664	177,667
Amount of deferred variable remuneration awarded for financial years prior to 2020 paid in 2020 (in amount paid)	110,076	78,025	188,100
Amount of explicit reductions made on deferred variable remuneration in 2020	0	0	0
Amount of termination benefits agreed in 2020	0	822,276	822,276
Number of employees having received termination benefits in 2020	0	3	3
Highest amount of termination benefits agreed	0	551,076	551,076
Total amounts paid for recruitment in 2020	0	0	0
Number of employees having received a hiring bonus	0	0	0

In 2020, no Banque Palatine employees received total remuneration of more than €1 million.

5 Individual information

Amounts due in respect of 2020: all remuneration due, on a *pro rata temporis* basis, in respect of duties performed during the 2020 financial year, regardless of the date of payment.

Amounts paid in 2020: all sums actually paid and received in 2020 in respect of positions held that year.

	Amounts in respect of the 2020 financial year	
Christine Jacglin	**Due**	**Paid**
Fixed remuneration	€325,000	€325,000
Variable remuneration	€260,000	€129,935
Remuneration of Board members	NC	NC
Benefits in kind		€24,283

	Amounts in respect of the 2020 financial year	
Patrick Ibry	**Due**	**Paid**
Fixed remuneration	€205,000	€205,000
Variable remuneration	€102,500	€81,979
Remuneration of Board members	€20,500	€20,500
Benefits in kind		€11,160

	Amounts in respect of the 2020 financial year	
Risk and Compliance Manager	**Due**	**Paid**
Fixed remuneration	€110,000	€110,000
Variable remuneration	€23,870	€18,201
Benefits in kind		€3,380

	Amounts in respect of the 2020 financial year	
Compliance Manager	**Due**	**Paid**
Fixed remuneration	€93,000	€93,000
Variable remuneration	€20,181	€18,878
Benefits in kind		€3,679

Appendix 2

Offices and duties exercised by corporate officers
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

GIE i-BP: Permanent representative of Banque Palatine, Director

PALATINE ASSET MANAGEMENT: Vice-Chairwoman of the Supervisory Board, Chairwoman of the Audit and Risk Committee and of the Remuneration Committee

NAXICAP PARTNERS: Director

OCBF: Permanent representative of Banque Palatine, Director

Patrick IBRY

DoB: 11/04/1963

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

BANQUE PALATINE: Chief Executive Officer and Effective Manager

ARIÈS ASSURANCES: Chairman of the Supervisory Committee

CONSERVATEUR FINANCE: representing Banque Palatine, Director and member of the Audit Committee

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

GIE BPCE SERVICES FINANCIERS: Director

GPM ASSURANCES: representing Banque Palatine, member of the Supervisory Board

Christine FABRESSE

DoB: 24/05/1964

Term of office: 26/05/2020 until the General Meeting called to approve the financial statements for the year ending on 31/12/2023

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

BANQUE PALATINE: Chairwoman of the Board of Directors, Chairwoman of the Appointments Committee, Chairwoman 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, Director

Maurice BOURRIGAUD

DoB: 21/01/1958

Term of office: 26/05/2020 until the General Meeting called to approve the financial statements for the year ending on 31/12/2021

BANQUE POPULAIRE GRAND OUEST (BPGO): Permanent representative, Chief Executive Officer

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

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

BANQUE POPULAIRE DEVELOPPEMENT: Permanent representative of BPGO, Director

COMITE REGIONAL FBF DE BRETAGNE: Vice-Chairman of the Committee

COMITE REGIONAL FBF DES PAYS DE LA LOIRE: Vice-Chairman of the Committee

FONDATION D'ENTREPRISE BPO: Director

INFORMATIQUE BANQUES POPULAIRES – i-BP: Permanent representative of BPGO, Director

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

OUEST CROISSANCE GESTION: Permanent representative of BPGO, Chairman of the Supervisory Board

Stéphanie CLAVIÉ

DoB: 16/08/1970

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

BANQUE PALATINE: Permanent representative of BPCE, Director, Member of the Audit Committee and the Appointments Committee

FIDOR BANK AG: Director

BPCE SERVICES: Permanent representative of BPCE, Director

ONEY BANK: Permanent representative of BPCE, Director

Sylvie GARCELON

DoB: 14/04/1965

Term of office: 16/05/2017 to 26/05/2020

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

Sylvia GRANDEL

DoB: 13/04/1974

Term of office: 16/05/2017 to 02/12/2020

BANQUE PALATINE: Director representing employees (technical staff)

Bruno GORÉ

DoB: 25/09/1961

Term of office: 26/05/2020 until the General Meeting called to approve the financial statements for the year ending on 31/12/2021

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

BANQUE PALATINE: Director, Member of the Risk Committee, Member of the Appointments Committee

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

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

Nadia MAUZELAF

DoB: 08/07/1977

Term of office: 02/12/2020 to the employee elections in 2024

BANQUE PALATINE: Director representing employees (technical staff)

Christine MEYER-FORRLER

DoB: 07/05/1969

Term of office as permanent representative of Caisse d'Epargne Grand Est Europe until 26/05/2020

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

Didier MOATÉ

DoB: 17/04/1963 **Mandate as permanent representative of Caisse d'Epargne Provence Alpes Corse as of 26/05/2020**	**CAISSE D'EPARGNE CEPAC: Member of the Management Board in charge of the Metropolitan department** BANQUE PALATINE: Director, Member of the Risk Committee, Member of the Remuneration Committee CEPAC INVESTISSEMENT ET DEVELOPPEMENT: Chairman CEPAC IMMOBILIER: Chairman C INVEST HOLDING: Chairman SOCFIM: Member of the Supervisory Board (term expired on 15/10/2020) ACG MANAGEMENT: Chairman of the Board of Directors ERILIA: Director SOGIMA: Member of the Supervisory Board LOGIREM: Director HABITAT EN REGION SERVICES (HRS): Director SEMEPA: Director UPE 13: Vice-Chairman

Marie PIC-PÂRIS ALLAVENA

DoB: 04/07/1960 **Term of office: 26/05/2020 until the General Meeting called to approve the financial statements for the year ending on 31/12/2021**	**GROUPE EYROLLES: Chief Executive Officer, Director** BANQUE PALATINE: Director, Chairwoman of the Risk Committee, Member of the Remuneration Committee TF1: Director BANQUE POPULAIRE RIVES DE PARIS (BPRI): Chairwoman 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 to 26/05/2020**	**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 until 30 April 2020, then member of the Steering and Supervisory Board** BANQUE PALATINE: Director, Chairman of the Audit Committee, Member of the Remuneration Committee, Member of the Appointments Committee FNCE: Member of the Bureau, Member of the Board of Chairmen of Cos, Member of the CSR Committee, Chairman of the General Meeting, Member on the Board of Directors, Member of the Federal Council IMF CREASOL: Director NATIXIS FACTOR: Director SLE PROVENCE OUEST: Chairman

Guillemette VALANTIN

DoB: 25/07/1966 **Term of office: 02/12/2020 to the employee elections in 2024**	**BANQUE PALATINE: Director representing executive staff employees, Member of the Audit Committee** PANDORA: Manager

2

2020 FINANCIAL STATEMENTS

1 Parent-company annual financial statements

at 31 December 2020

1.1 Income statement

in millions of euros	Notes	FY 2020	FY 2019
Interest and similar income	3.1	261.4	268.1
Interest and similar expenses	3.1	(48.8)	(54.5)
Income from variable-income securities	3.3	5.7	7.9
Fee and commission income	3.4	76.3	84.9
Fee and commission expenses	3.4	(5.1)	(6.9)
Net gains or losses on trading book transactions	3.5	0.6	15.0
Net gains or losses on available-for-sale securities and similar items	3.6	(0.1)	1.8
Other banking income	3.7	1.1	2.5
Other banking expenses	3.7	(4.9)	(1.4)
NET BANKING INCOME		**286.4**	**317.4**
General operating expenses	3.8	(231.2)	(249.8)
Depreciation, amortisation and impairment of property, plant & equipment and intangible assets	3.8	(4.9)	(4.7)
GROSS OPERATING INCOME		**50.3**	**62.9**
Cost of risk	3.9	(83.8)	(45.5)
OPERATING INCOME		**(33.5)**	**17.4**
Gains or losses on long-term investments	3.10	2.6	8.5
INCOME BEFORE TAX		**(30.9)**	**25.9**
Non-recurring items	3.11	0.0	0.0
Income tax	3.12	2.4	(3.4)
FRBG charges/reversals and regulated provisions		0.0	0.0
NET INCOME		**(28.5)**	**22.5**

1.2 Balance sheet and off-balance sheet

Assets

in millions of euros	Notes	31/12/2020	31/12/2019
Cash, central banks		911.1	305.9
Treasury bills and similar securities	4.3	932.2	1,085.5
Loans and advances due from credit institutions	4.1	3,264.8	2,566.1
Customer transactions	4.2	11,249.1	9,784.1
Bonds and other fixed-income securities	4.3	366.0	523.5
Equities and other variable-income securities	4.3	0.2	0.2
Investments in subsidiaries and long-term equity investments	4.4	12.6	11.9
Investments in associates	4.4	6.4	6.4
Intangible assets	4.6	104.7	106.3
Property, plant and equipment	4.6	14.8	16.4
Other assets	4.8	252.8	178.4
Accrual accounts	4.9	219.7	128.2
TOTAL ASSETS		**17,334.2**	**14,712.9**

Off-balance sheet items

in millions of euros	Notes	31/12/2020	31/12/2019
Commitments given			
Financing commitments	5.1	2,136.2	2,102.3
Guarantees issued	5.1	1,101.3	1,123.1
Commitments on securities		50.1	0.0

Liabilities

in millions of euros	Notes	31/12/2020	31/12/2019
Cash placed with central banks		0.0	0.1
Amounts due to credit institutions	4.1	2,867.5	1,313.3
Customer transactions	4.2	11,114.8	9,493.3
Debt securities	4.7	1,613.0	2,216.9
Other liabilities	4.8	72.8	43.5
Accrual accounts	4.9	279.9	223.3
Provisions	4.10	102.6	92.1
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**	**978.8**	**1,025.6**
Issued capital		688.8	688.8
Share premium		56.7	56.7
Retained earnings		50.9	49.8
Carried forward		210.8	207.7
Net income/(loss) for the year		(28.5)	22.5
TOTAL LIABILITIES		**17,334.2**	**14,713.0**

Off-balance sheet items

in millions of euros	Notes	31/12/2020	31/12/2019
Commitments received			
Financing commitments	5.1	265.7	346.1
Guarantees issued	5.1	162.9	255.3
Commitments on securities		0.0	0.0

2 Notes to the parent-company annual financial statements

Note 1 General background

1.1 Groupe BPCE

Groupe BPCE,[1] of which Banque Palatine is a part, also includes the Banque Populaire network, the Caisse d'Epargne network, the BPCE central body and its subsidiaries.

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

Groupe BPCE is a cooperative group whose members own two retail banking networks: the 14 Banque Populaire banks and the 15 Caisse d'Epargne banks. Each of the two networks owns an equal share in BPCE, the Group's central body.

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

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

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

The 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 the 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 and 15 Caisse d'Epargne banks.

BPCE must comply with the cooperative principles of the Banque Populaire and Caisse d'Epargne banks at 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 70.662% 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 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 banks that was recorded by BPCE as a ten-year term account renewable in perpetuity.

(1) Banque Palatine is included in Groupe BPCE's consolidated financial statements. Its financial statements are available at its registered office and on its 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 and 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 €176 million at 31 December 2020.

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

The year 2020 was marked by the Covid-19 health crisis. The rapid spread of the pandemic has led to a deterioration in the global economic situation, affecting many sectors of activity and having significant repercussions on the economic activities of many countries. Restrictions on mobility in the affected areas and the disruption of supply chains due to the closure of industrial and commercial companies during 2020 have had a clear impact on economic value chains in the affected geographical areas and sectors of activity (tourism revenues, air transport, local sales, etc.).

In order to support the economy during this health crisis, the national government has announced measures to provide financial and non-financial assistance to the affected sectors.

The Covid-19 crisis has also spread to the financial world, leading to very high volatility and erratic market fluctuations. In an environment marked by a high degree of uncertainty, Groupe BPCE has taken into account the effects of the crisis, as they could be apprehended at the balance sheet date, in determining the valuation of financial assets and liabilities as well as impairments and provisions in its financial statements for the year ended 31 December 2020.

The impacts of the crisis on the financial statements at 31 December 2020 are detailed in Note 1.5.

Banque Palatine has mobilised considerable resources during the Covid-19 crisis, firstly internally with the activation of the emergency and business continuity plan (EBCP) which enabled the majority of employees to be equipped with remote access at the end of the first week of the lockdown. In accordance with government decisions, teleworking was maintained throughout the year.

Initially scheduled for the beginning of the second half of 2020, the migration of Banque Palatine's information system was completed during the 17 to 18 October 2020 week-end. The migration cost for the 2020 financial year was €40.9 million.

The establishment then helped to quickly support its customers by setting up an exceptional system in favour of companies which on 31 December resulted in:

- deferral by up to six months of the repayments of 2,766 corporate loans representing a total of €2.055 billion in outstanding loans;
- the arrangement of 1,655 State-guaranteed loan dossiers for €1.5 billion.

Banque Palatine recorded a cost of risk of €83.8 million, compared with €45.5 million the previous year.

At 31 December 2020, net expense was €28.5 million, compared with net income of €22.5 million in 2019.

1.4 Post-balance sheet events

No events liable to have a material effect on the 2020 financial statements occurred after the reporting date.

1.5 Impact of the health crisis on the financial statements

The effects of the health crisis on the individual accounts are described in the following paragraphs.

1.5.1 Measures to support the economy

As early as 15 March 2020, prior to the announcement of the lockdown in France, the French Banking Federation (*Fédération bancaire française* – FBF) testified to the total mobilisation of French banks in order to support their customers, in particular retailers, professionals, small- and medium-sized enterprises, who could face difficulties resulting from the development of the Covid-19 epidemic that could temporarily impact their activity.

In this context, Banque Palatine committed to serving its professional and corporate customers experiencing cash flow difficulties by actively implementing the measures to support the economy decided by the French State:

- the deferral of credit repayments for companies without penalties or additional costs;
- distribution of loans guaranteed by the French State.

The measures taken to support the economy in the year 2020 are described below.

1.5.1.1 Loans guaranteed by the French State

The State-guaranteed loan (*Prêt garanti par l'État* – PGE) is a support mechanism set up in application of Article 6 of Act No. 2020-289 of 23 March 2020 on rectifying the financial situation for 2020 and of the Order of the Minister of the Economy and Finance of 23 March 2020 granting the State guarantee to credit institutions and finance companies as of 16 March 2020 in order to meet the cash flow needs of companies impacted by the Covid-19 health crisis. The scheme has been extended until 30 June 2021 by the Finance Act for 2021. The loans guaranteed by the French State must comply with eligibility criteria common to all establishments distributing these loans as defined by law.

State-guaranteed loans are liquidity loans with a one-year grace period. Beneficiary companies may decide, after the first year, to amortise the State-guaranteed loan over a further one to five years or to start capital amortisation only from the second year of the amortisation period.

For eligible companies, the amount of the State-guaranteed loan is capped, in the general case (excluding innovative and recently created companies, and excluding the Season loans for our Tourism/Hotels/Catering customers for example), at 25% of the company's revenue. State-guaranteed loans are 70% to 90% guaranteed by the French State, depending on the borrowing company's size, with the lending banks carrying the remaining risk. The State guarantee covers a percentage of the outstanding amount of the debt (capital, interest and accessories) until its expiry. The State guarantee may be called before the expiry of the term in the event of a credit event.

The early repayment penalty is fixed in the contract and in a reasonable way (2% of the remaining capital due during the initial period of the loan, 3% to 6% of the remaining capital due during the amortization period of the loan). The terms of extension are not set in advance but are established two to three months before the expiration of the extension option, depending on market conditions.

The State-guaranteed loans do not need to be covered by other collateral or guarantees than the guarantee offered by the French State except when they are granted within the framework of an order issued by the Minister of the Economy and Finance. It is accepted that the professional or manager may request or be offered death insurance, but not have it imposed on him or her.

With regard to the State guarantee, it is considered an integral part of the terms of the contract and is taken into account in the calculation of expected credit loss impairments. The guarantee fee paid at the granting of the loan by Banque Palatine to the French State is recognised in profit or loss over the initial term of the State-guaranteed loan according to the Effective Interest Rate (EIR) method. The impact is presented within the net interest margin.

At 31 December 2020, 1,655 loans guaranteed by the French State had been issued by Banque Palatine for an amount of €1.5 billion (of which 1,612 had been disbursed at 31 December for an amount of €1.4 billion).

1.5.1.2 Deferral of credit repayments (moratoria) and other credit restructuring

In the context of the Covid-19 crisis, Banque Palatine decided to grant its retail, professional, SME and large corporate customers concessions in various forms (temporary suspension of deadlines, rescheduling, renegotiations) in order to help them overcome temporary cash flow difficulties caused by the crisis.

Generalised measures

As soon as the lockdown was announced in France, the two Banque Populaire and Caisse d'Epargne networks offered their professional and SME customers, in clearly identified sectors of activity, a general deferral of their loan payments, including capital and interest, for a period of six months. Subsequently, other generalised measures were granted to specific sectors of activity, such as a deferral of up to 12 months of credit maturities to small- and medium-sized enterprises in the tourism, hotel and restaurant sectors. In France, the Marketplace Protocol has not been updated to reflect this latest amendment.

The conditions of these moratoria are in line with the general moratoria provisions set out in Article 10 of the EBA guidelines (EBA/GL/2020/02) published on 2 April 2020 and amended on 2 December 2020 (EBA/GL/2020/15).

In application of this text, the granting of moratoria in a broad manner, without specific conditions for granting them, to counterparties that were not in financial difficulty prior to the Covid-19 crisis, does not in itself constitute an indicator of significant deterioration in credit risk. Thus, the implementation of a generalised moratorium in order to deal with a temporary liquidity crisis in the context of the Covid-19 crisis does not lead to an automatic downgrading to Status 2 (or doubtful/Status 3 when the loss is greater than 1% of the difference between the net present value before restructuring and the net present value after restructuring) of the loans that were classified as sound before this crisis.

Individual measures

In addition, Banque Palatine provided individual support to its customers by granting them various forms of concessions (moratoria, rescheduling or other changes in loan terms), the terms of which were set on the basis of the customer's individual situation. When such a concession is granted, a specific analysis is carried out in order to identify whether the counterparty presents, at that time, indications of financial difficulties. In the presence of such an indicator, the loan is downgraded to Status 2 (or Status 3 when the loss is greater than 1% of the difference between the net present value before restructuring and the net present value after restructuring), resulting in an adjustment of its provisioning level.

The moratoria granted by the Group's institutions are generally charged at the original interest rate of the loan, which means that interest continues to accrue during the period of the moratorium. At the end of the moratorium, the interest is included in the principal of the loan and repaid over the remaining term of the loan (which is extended due to the moratorium). In this case, the moratorium does not imply a loss of cash flow for the bank. Therefore, no impact on the result is to be recorded. In practice, the granting of moratoria alone does not give rise to the derecognition of the receivable insofar as it does not significantly affect the net economic value of the credit.

As of 31 December 2020, 2,766 loans granted by Banque Palatine representing €2,055 million were subject to moratoria for a period of six months. The duration of the moratorium can be up to 12 months for the tourism, hotel and restaurant sectors.

1.5.2 Consequences for the use of estimates

1.5.2.1 Credit risk impairment

The health crisis has spread to the real economy, with significant repercussions on many sectors of activity in the affected areas and the disruption of supply chains due to the closure of industrial and commercial companies in the first half of 2020. The Group relied on the various announcements published by ESMA, EBA, ECB and IASB for its interpretation of the accounting principles applicable in the context of the Covid-19 crisis, in particular the provisioning model. On the instructions of Groupe BPCE, Banque Palatine applied a common methodology for impairments or provisions for expected credit losses. The Palatine Group recognised an amount of €15.3 million based on forward-looking data (IFRS 9 – Stage 2) with the application of a new moderate budget scenario to take into account the measures taken by the French State in favour of companies and long-term trends. In addition, an additional provision of €4 million has been recorded to anticipate the downgrading of counterparty ratings.

In addition, an additional provision of €4 million was recorded in anticipation of the downgrading of the ratings of counterparties.

1.5.2.2 Fair value of financial assets impacted by the health crisis

Given the effects of the Covid-19 health crisis on the financial markets, the valuation of some products was affected during the 2020 financial year by the illiquidity of the markets.

Investments in unlisted private equity funds are valued according to the rules set by the International Private Equity and Venture Capital Valuation (IPEV) Guidelines, which are also recommended by Invest Europe. The valuation of the shares held by Banque Palatine in unlisted funds was subject to an in-depth review as of 31 December 2020. In the absence of a recent net asset value (NAV) established by the management company or when it does not take into account the effects of the crisis (or only partially), a discount determined on the basis of a sectoral approach was applied to the last available NAV. These valuations are used to assess any impairment of the securities held.

The valuation of investments held in real estate funds has also been reviewed as at 31 December 2020 and a discount applied where appropriate to reflect the impact of the crisis on the valuation of the underlying assets. Any real estate discounts are based on BPCE Solutions immobilières' estimates using macroeconomic and real estate indicators (GDP by region, household disposable income by department, rent forecasts, yield forecasts, risk premium forecasts).

The Palatine institution has not identified any significant losses on these financial assets.

1.5.2.3 Summary table of the main impacts of the Covid-19 crisis

in millions of euros	FY 2020
Net banking income	
Valuation of unlisted assets	
Other impacts on NBI (including CVA)	
Cost of risk	
Expected credit losses	*19.3*
Other impacts	

Note 2 General accounting principles and methods

2.1 Measurement and presentation methods

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

2.2 Changes in accounting methods

No change in accounting methods affected the financial statements for the 2020 financial year.

The texts adopted by the ANC for which application was mandatory in 2020 did not have any significant impact on the company's individual financial statements.

However, Banque Palatine applies Regulation No. 2020-10 of 22 December 2020 amending ANC Regulation No. 2014-07 of 26 November 2014 on the financial statements of companies in the banking sector, which changes the presentation of securities borrowing and regulated savings. Assets are presented as a deduction from liabilities in Notes 4.2, 4.3.1, 4.8 and 4.14.

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 accordance with the precautionary principle and the basic assumptions:

- 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.

Banque Palatine applies the new definition of default under Article 178 of EU Regulation No. 575/2013 which is presented in Notes 4.1 and 4.2.1.

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 dated 27 October 2015.

Concerning guarantee funds for cash, surety and securities facilities, the contributions paid by the Group totalled €12.8 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €2.7 million. The 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 €10.1 million.

The resolution fund was created in 2015 pursuant to EU Directive No. 2014/59/EU (the Bank Recovery and Resolution Directive – BRRD) establishing a framework for the recovery and resolution of credit institutions and investment firms and EU Regulation No. 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 funding mechanism available to the Single Resolution Board (SRB). This system could call upon this fund as part of the implementation of resolution procedures.

In compliance with EU Delegated Regulation No. 2015/63 and Implementing Regulation No. 2015/81 supplementing the BRRD directive on ex ante contributions to the systems for financing the resolution, the SRB determined the contributions to the SRF for 2020. The amount of the contributions paid by the Group for the financial year was €5.7 million of which €4.8 million was recognised as an expense and €0.9 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 amounted to €3.9 million as at 31 December 2020.

Note 3 Information on the income statement

3.1 Interest, income and similar expenses

Accounting principles

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

At 31 December 2020, the negative interest was presented as follows:

- a negative interest on an asset is shown as an interest expense in the NBI;
- a negative interest on a liability is shown as interest income in the NBI.

As at 31 December 2019, negative interest was shown net of positive interest on financial assets and liabilities respectively.

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

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 2020			FY 2019		
in millions of euros	Income	Expense	Net	Income	Expense	Net
Transactions with credit institutions	13.0	(22.0)	(9.0)	30.3	(10.4)	19.9
Customer transactions	182.9	(14.6)	168.3	181.9	(15.8)	166.1
Bonds and other fixed-income securities	48.9	(6.5)	42.4	38.7	(20.0)	18.7
Subordinated debt	0.0	(4.3)	(4.3)	0.0	(7.5)	(7.5)
Other	16.7	(1.3)	15.3	17.2	(0.8)	16.4
TOTAL	**261.4**	**(48.8)**	**212.7**	**268.1**	**(54.5)**	**213.6**

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 €2.5 million in respect of the 2020 financial year, compared with €2.3 million in 2019.

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 2020	FY 2019
Investments in subsidiaries and long-term equity investments	0.3	0.1
Investments in associates	5.5	7.8
TOTAL	**5.7**	**7.9**

Including €5.4 million in dividends received from the Palatine Asset Management subsidiary, compared to €7.3 million in 2019.

3.4 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 2020			FY 2019		
in millions of euros	Income	Expense	Net	Income	Expense	Net
Cash and interbank transactions	0.1	(0.1)	0.1	0.1	(0.1)	0.0
Customer transactions	50.1	(0.7)	49.4	42.3	0.0	42.3
Securities transactions	2.1	(1.7)	0.4	7.3	(0.1)	7.2
Payment services	6.7	(2.3)	4.4	10.2	(6.4)	3.9
Insurance products	11.9	0.0	11.9	16.2	0.0	16.2
Foreign exchange transactions	2.4	(0.1)	2.3	0.8	0.0	0.8
Financial services	1.9	(0.3)	1.6	5.3	(0.3)	5.1
Other fee and commission income(1)	1.1	0.0	1.1	2.5	0.0	2.5
TOTAL	**76.3**	**(5.1)**	**71.2**	**84.9**	**(6.9)**	**78.0**

(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 2020	FY 2019
Foreign exchange transactions	1.2	7.9
Forwards, futures and options	(0.6)	7.1
TOTAL	**0.6**	**15.0**

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.

	FY 2020	FY 2019
in millions of euros	Available-for-sale securities	Available-for-sale securities
Impairment		
Charges	0.2	2.0
Reversals	0.0	0.0
Net gain/(loss) on disposal	(0.3)	(0.1)
TOTAL	**(0.1)**	**1.8**

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 2020			FY 2019		
in millions of euros	Income	Expense	Total	Income	Expense	Total
Rebilling of banking income and expense	0.5	0.0	0.5	0.5	0.0	0.5
Miscellaneous other activities	0.6	(4.9)	(4.3)	2.0	(1.4)	0.6
TOTAL	**1.1**	**(4.9)**	**(3.7)**	**2.5**	**(1.4)**	**1.1**

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 2020	FY 2019
Wages and salaries	(76.2)	(72.4)
Pension costs and similar obligations	(9.2)	(8.3)
Other social security charges	(29.8)	(29.2)
Employee incentive scheme	(2.6)	(7.0)
Employee profit-sharing scheme	(0.6)	(0.4)
Payroll taxes	(11.7)	(13.3)
TOTAL SALARY AND EMPLOYEE BENEFIT EXPENSE	**(130.0)**	**(130.7)**
Taxes other than on income	(4.2)	(3.8)
Other operating expenses	(97.1)	(115.3)
TOTAL OTHER OPERATING EXPENSES	**(101.2)**	**(119.1)**
TOTAL	**(231.2)**	**(249.8)**

The Group's average headcount during the year, broken down by professional category, was as follows: 839 managers and 454 non-managers, representing a total of 1,293 employees.

Abolition of the tax credit for competitiveness and employment (CICE) on 1 January 2019.

The bank completed its migration to the Banque Populaire Group information system at the end of 2020. The bulk of the migration and transformation costs was recorded under expenses, *i.e.* €40.9 million as compared to €58.9 million for the 2019 financial year.

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

in millions of euros	31/12/2020	31/12/2019
Amortisation and depreciation:		
• of property, plant and equipment	(0.7)	(0.8)
• of intangible assets	(4.2)	(4.0)
TOTAL	**(4.9)**	**(4.7)**

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 on loans that are not impaired but show a significant increase in credit risk 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 2020					FY 2019				
	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	(121.3)	117.9	(75.9)	1.2	(78.2)	(56.1)	88.5	(65.9)	2.8	(30.6)
Securities portfolio and other receivables	(0.5)	2.9	(5.0)	0.0	(2.7)	(16.6)	0.0	0.0	0.0	(16.6)
Provisions		.								
Off-balance sheet commitments	(17.1)	11.4	0.0	0.0	(5.7)	(6.0)	6.8	0.0	0.0	0.8
Provisions for customer credit risks	0.0	0.2	0.0	0.0	0.2	0.0	0.9	0.0	0.0	0.9
Other	2.6	0.0	0.0	0.0	2.6	0.0	0.0	0.0	0.0	0.0
TOTAL	**(136.4)**	**132.4**	**(81.0)**	**1.2**	**(83.8)**	**(78.6)**	**96.2**	**(65.9)**	**2.8**	**(45.5)**
o/w:										
• reversals of obsolete impairment charges	0.0	132.2	0.0	0.0	132.2	0.0	95.3	0.0	0.0	95.3
• reversals of impairment losses used	0.0	75.9	0.0	0.0	75.9	0.0	65.9	0.0	0.0	65.9
• reversals of obsolete provisions	0.0	0.2	0.0	0.0	0.2	0.0	0.9	0.0	0.0	0.9
• 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	(75.9)	0.0	0.0	(75.9)	0.0	(65.9)	0.0	0.0	(65.9)
NET REVERSALS	**0.0**	**132.4**	**0.0**	**0.0**	**132.4**	**0.0**	**96.2**	**0.0**	**0.0**	**96.2**

3.10 Gains or losses on non-current assets

Accounting principles

The gains or losses on non-current 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 2020			FY 2019		
	Investments in subsidiaries and other long-term equity investments	Property, plant and equipment and intangible assets	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	0.0	0.0	0.0
Reversals	0.0	0.0	0.0	0.0	0.0	0.0
Net gain/(loss) on disposal	3.6	(1.0)	2.6	0.0	8.5	8.5
TOTAL	**3.6**	**(1.0)**	**2.6**	**0.0**	**8.5**	**8.5**

3.11 Non-recurring items

No non-recurring items were recorded in 2020.

3.12 Income tax

Accounting principles

Since the 2009 financial year, 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 2020

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 2020		FY 2019	
Tax bases at the rate of	**31.00%**	**28%**	**33.33%**	**28%**
Tax on income before non-recurring items	0.0	(23.8)	4.2	0.5
Tax bases	**0.0**	**(23.8)**	**4.2**	**0.0**
Corresponding tax expense	0.0	0.0	1.4	0.1
• Deductions in respect of tax credits	0.0	0.0	(0.5)	0.0
Tax expense reported	**0.0**	**0.0**	**0.9**	**0.1**
Provisions for taxes	0.0	0.0	2.4	0.0
Miscellaneous(1)	(2.4)	0.0	0.0	0.0
TOTAL	**(2.4)**	**0.0**	**3.3**	**0.1**

(1) *Corresponds mainly to tax income related to the tax consolidation of our main subsidiary.*

3.12.2 Breakdown of 2020 taxable income – reconciliation from book to taxable income

in millions of euros	FY 2020	FY 2019
Accounting net income (A)	**(28.5)**	**22.5**
Social tax (B)	**(2.4)**	**3.4**
Reinstatements (C)	**53.5**	**50.1**
Impairment of long-term investments	0.0	0.0
Other impairment losses and provisions	41.8	45.0
Other	11.7	5.1
Deductions (D)	**46.4**	**71.3**
Reversals of impairment losses and provisions	35.7	63.6
Dividend payments	5.4	7.7
Other	5.3	0.0
Tax base at standard rate (A) + (B) + (C) - (D)	**(23.8)**	**4.7**

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 Regulation No. 2014-07 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC) 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 Regulation No. 2014-07 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC), restructured loans are doubtful loans 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 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.

Assets

in millions of euros	31/12/2020	31/12/2019
Current accounts	*278.9*	*30.5*
Overnight loans	*151.4*	*1,090.4*
Demand accounts	**430.3**	**1,120.9**
Term accounts and loans	*2,814.3*	*1,427.9*
Subordinated and participating loans	*1.7*	*1.7*
Term accounts	**2,816.0**	**1,429.6**
Accrued interest	**18.5**	**15.6**
Doubtful loans and advances	**0.0**	**0.0**
Impairment of interbank loans	**0.0**	**0.0**
TOTAL	**3,264.8**	**2,566.1**

The funds collected for Livret A and LDD accounts and held centrally by *Caisse des Dépôts et Consignations* amounted to €240.6 million at 31 December 2020, compared to €236.9 million at 31 December 2019.

Liabilities

in millions of euros	31/12/2020	31/12/2019
Current accounts in credit	*68.0*	*4.0*
Overnight deposits	*0.0*	*0.0*
Other amounts due	*5.5*	*6.0*
Demand accounts	**73.5**	**10.1**
Term accounts and loans	*2,793.9*	*1,311.4*
Securities under term repurchase agreements	*0.0*	*0.0*
Accrued interest payable on term loans	*0.0*	*(8.1)*
Term accounts	**2,793.9**	**1,303.3**
TOTAL	**2,867.5**	**1,313.3**

4.2 Customers transactions

4.2.1 Customers 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 Regulation No. 2014-07 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC), restructured loans are doubtful loans 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. 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.

Assets in millions of euros	31/12/2020	31/12/2019
Current accounts with overdrafts	**704.2**	**534.6**
Trade receivables	**121.5**	**156.5**
Export loans	*38.6*	*72.9*
Short-term and consumer credit facilities	*4,126.6*	*1,570.9*
Equipment loans	*3,105.7*	*2,365.0*
Home loans	*2,588.8*	*2,503.0*
Other customer loans	*185.0*	*2,289.7*
Other	*112.9*	*82.5*
Other facilities granted to customers	**10,157.6**	**8,884.0**
Accrued interest	**21.1**	**20.0**
Doubtful loans and advances	**501.8**	**442.8**
Impairment of loans and advances to customers	**(257.2)**	**(253.8)**
TOTAL LOANS AND ADVANCES ON CUSTOMERS	**11,249.1**	**9,784.1**

At 31 December 2020, no receivable was provided to Banque de France under the TRICP system.

Liabilities in millions of euros	31/12/2020	31/12/2019
Regulated savings accounts	**1,117.5**	**1,245.0**
Livret A savings accounts	*29.3*	*184.9*
PEL/CEL	*204.8*	*206.6*
Other regulated savings accounts	*883.4*	*853.5*
Other accounts and loans from customers(1)	**9,814.3**	**8,232.7**
Guarantee deposits	**0.0**	**0.0**
Other amounts due	**181.8**	**14.3**
Accrued interest	**1.3**	**1.3**
TOTAL AMOUNTS DUE TO CUSTOMERS	**11,114.8**	**9,493.3**

(1) Breakdown of accounts and loans from customers.

	31/12/2020			31/12/2019		
in millions of euros	Demand	Term	Total	Demand	Term	Total
Current accounts in credit	9,229.5		9,229.5	7,590.6		7,590.6
Other accounts and loans		584.8	584.8		642.1	642.1
TOTAL	**9,229.5**	**584.8**	**9,814.3**	**7,590.6**	**642.1**	**8,232.7**

4.2.2 Breakdown of outstanding loans by sector

in millions of euros	Performing loans and advances	Doubtful loans and advances		o/w Irrecoverable doubtful loans and advances	
	Gross	Gross	Specific impairment	Gross	Specific impairment
Non-financial companies	9,310.4	434.4	243.8	230.2	(133.8)
Self-employed customers	71.9	2.7	0.3	0.6	(0.1)
Individual customers	1,324.6	64.6	13.2	20.2	(10.2)
Non-profit institutions	41.7	0.2	0.0	0.0	0.0
Government and social security institutions	1.8	0.0	0.0	0.0	0.0
Other	254.0	0.0	0.0	0.0	0.0
TOTAL AT 31 DECEMBER 2020	**11,004.5**	**501.8**	**257.2**	**251.0**	**(144.1)**
Total at 31 December 2019	**9,595.1**	**442.8**	**253.8**	**395.2**	**(202.5)**

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 Regulation No. 2014-07 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC), 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.

In the event of a securities lending transaction, the securities loaned cease to appear on the balance sheet and a receivable representing the book value of the securities loaned is recognised as an asset.

In the case of a securities borrowing transaction, the borrowed securities are recorded in the trading securities category with a corresponding liability to the securities debt to the lender for an amount equal to the market price of the securities in question on the date of borrowing. Borrowed securities are presented in the balance sheet as a deduction from the debt representing the value of the borrowed securities.

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 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.

	31/12/2020			31/12/2019		
in millions of euros	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Gross	920.8	0.0	920.8	1,070.4	0.0	1,070.4
Accrued interest	12.9	0.0	12.9	15.0	0.0	15.0
Impairment	(1.7)	0.0	(1.7)	0.0	0.0	0.0
Treasury bills and similar securities	**932.2**	**0.0**	**932.2**	**1,085.5**	**0.0**	**1,085.5**
Gross	58.8	324.2	382.9	105.7	433.0	538.7
Accrued interest	0.3	3.0	3.3	1.0	5.6	6.6
Impairment	0.0	(20.1)	(20.1)	(2.9)	(18.9)	(21.8)
Bonds and other fixed-income securities	**59.0**	**307.0**	**366.0**	**103.8**	**419.7**	**523.5**
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	**991.4**	**307.0**	**1,298.3**	**1,189.5**	**419.7**	**1,609.2**

The market value of held-to-maturity securities amounted to €312.5 million.

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

Treasury bills and other similar securities

	31/12/2020			31/12/2019		
in millions of euros	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Listed securities	919.2	0.0	919.2	1,070.4	0.0	1,070.4
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	12.9	0.0	12.9	15.0	0.0	15.0
TOTAL	**932.2**	**0.0**	**932.2**	**1,085.5**	**0.0**	**1,085.5**
o/w subordinated notes	*0.0*	*0.0*	*0.0*	*0.0*		*0.0*

Bonds and other similar securities

	31/12/2020			31/12/2019		
in millions of euros	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Listed securities	58.8	0.0	58.8	98.8	0.0	98.8
Unlisted securities	0.0	305.5	305.5	0.0	391.1	391.1
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	(1.5)	(1.5)	4.0	23.0	27.0
Accrued interest	0.3	3.0	3.3	1.0	5.6	6.6
TOTAL	**59.0**	**307.0**	**366.0**	**103.8**	**419.7**	**523.5**
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 €100 million, to the disposal of sovereign securities for €100 million, and to the acquisition of sovereign securities for €125 million.

No unrealised capital losses on investment securities were recognised as at 31 December 2020, compared with €2.9 million at 31 December 2019.

Unrealised capital gains on available-for-sale securities after deduction of hedging (mostly swapped assets) totalled €42.7 million at 31 December 2020, compared to €17.3 million at 31 December 2019.

Unrealised capital gains on held-to-maturity securities amounted to €9.1 million at 31 December 2020. At 31 December 2019, unrealised capital gains on held-to-maturity securities amounted to €0.5 million.

Unrealised capital losses on investment securities amounted to €16.4 million at 31 December 2020.

The portion of bonds and other fixed-income securities issued by public bodies amounted to €919.2 million at 31 December 2020.

Equities and other variable-income securities

	31/12/2020	31/12/2019
in millions of euros	Available-for-sale securities	Available-for-sale securities
Listed securities	0.2	0.2
TOTAL	**0.2**	**0.2**

Among the shares and other variable-income securities, there were €0.2 million in money market UCITS at 31 December 2020.

4.3.2 Changes in held-to-maturity securities

in millions of euros	01/01/2020	Purchases	Sales	Redemptions	Discount/premium	Other changes	31/12/2020
Treasury bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds and other fixed-income securities	419.7	14.6	(8.0)	(121.7)	0.0	2.4	307.0
TOTAL	**419.7**	**14.6**	**(8.0)**	**(121.7)**	**0.0**	**2.4**	**307.0**

4.3.3 Asset reclassifications

Accounting principles

To harmonise accounting practices and ensure consistency with IFRS, Regulation No. 2014-07 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC) 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 French National Accounting Board (*Conseil national de la comptabilité* – CNC) 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	31/12/2019	Increase	Decrease	Conversion	Other changes	31/12/2020
Investments in subsidiaries and long-term equity investments	11.9	2.4	(1.6)	0.0	0.0	12.6
Investments in associates	10.8	0.0	0.0	0.0	0.0	10.8
Gross	**22.8**	**2.4**	**(1.6)**	**0.0**	**0.0**	**23.4**
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	**18.3**	**2.4**	**(1.6)**	**0.0**	**0.0**	**19.0**

Other long-term equity investments include associate or association certificates with guarantee deposits (€6.2 million).

4.4.2 Table of subsidiaries and equity investments

The amounts shown are stated in millions of euros.

Subsidiaries and investments	Share capital at 31/12/2020	Equity other than share capital including fund for general banking risks, as appropriate at 31/12/2020	% Interest held at 31/12/2020	Carrying amount of shares held at 31/12/2020 Gross	Net	Loans and advances granted by the company and not yet redeemed (incl. perpetual subordinated notes) in 2020	Guarantees and endorsements given by the parent-company in 2020	Net revenue before tax for the year to 31/12/2020	Net income for the year to 31/12/2020	Dividends received by the parent company in 2020	Observations
A. DETAILED INFORMATION ON EACH SHARE WHOSE GROSS VALUE EXCEEDS 1% OF THE COMPANY'S SHARE CAPITAL SUBJECT TO PUBLICATION											
Subsidiaries (over 50%-owned)											
B. GENERAL INFORMATION ON OTHER SECURITIES WHOSE GROSS VALUE DOES NOT EXCEED 1% OF THE COMPANY'S SHARE CAPITAL SUBJECT TO PUBLICATION.											
SA PALATINE ASSET MANAGEMENT 42, rue d'Anjou – 75008 PARIS	1.9	12.4	100.0%	5.8	5.8	0.0	0.0	25.0	5.7	5.4	0.0
French subsidiaries (together)				5.0	0.6	0.0	0.0			0.1	0.0
Investments in French companies				5.9	5.9	0.0	0.0			0.3	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 FINANCIAL SERVICES	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 GDS 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
I-BP	23, place de Wicklow – 78180 MONTIGNY-LE-BRETONNEUX	Economic Interest Grouping

4.4.4 Transactions with affiliates

	31/12/2020			31/12/2019
in millions of euros	Credit institutions	Other businesses	Total	Total
Receivables	**0.8**	**0.2**	**1.0**	**0.8**
Liabilities	**2.4**	**0.7**	**3.1**	**0.7**
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

Emergency Committee Opinion No. 2006-C of the French National Accounting Board (*Conseil national de la comptabilité* – CNC) states that non-current 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 Regulation No. 2014-07 of the French Accounting Standards Authority (*Autorité des normes comptables* – 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 non-current assets 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 maximum period of 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	31/12/2019	Increase	Decrease	Other changes	31/12/2020
Leasehold rights and commercial goodwill	106.3	0.0	(1.1)	0.0	105.3
Software	41.4	0.0	(0.2)	0.0	41.2
Other	0.0	0.0	0.0	0.1	0.1
Gross	**147.7**	**0.0**	**(1.3)**	**0.1**	**146.6**
Leasehold rights and commercial goodwill	1.1	0.0	0.0	0.0	1.1
Software	40.3	0.7	(0.2)	0.0	40.8
Amortisation and impairment	**41.4**	**0.7**	**(0.2)**	**0.0**	**41.9**
TOTAL NET VALUES	**106.3**	**(0.7)**	**(1.1)**	**0.1**	**104.7**

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	31/12/2019	Increase	Decrease	Other changes	31/12/2020
Land	12.0	0.7	0.0	0.0	12.7
Other	36.5	1.7	(7.6)	0.6	31.1
Property, plant and equipment used in operations	**48.5**	**2.3**	**(7.6)**	**0.6**	**43.8**
Property, plant and equipment not used in operations	**0.4**	**0.0**	**(0.3)**	**0.0**	**0.1**
Gross	**48.9**	**2.3**	**(7.9)**	**0.6**	**43.9**
Land	8.5	0.3	0.0	0.0	8.8
Other	23.9	3.9	(7.6)	0.0	20.1
Property, plant and equipment used in operations	**32.3**	**4.2**	**(7.6)**	**0.0**	**28.9**
Property, plant and equipment not used in operations	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**
Amortisation and impairment	**32.6**	**4.2**	**(7.7)**	**0.0**	**29.1**
TOTAL NET VALUES	**16.4**	**(1.9)**	**(0.2)**	**0.6**	**14.8**

4.7 Debts 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	31/12/2020	31/12/2019
Certificates of deposit and savings bonds	0.0	0.0
Interbank market instruments and money market instruments	1,613.7	2,148.4
Other debt securities	0.0	0.1
Accrued interest	(0.8)	68.4
TOTAL	**1,613.0**	**2,216.9**

4.8 Other assets and liabilities

	31/12/2020		31/12/2019	
in millions of euros	Assets	Liabilities	Assets	Liabilities
Settlement accounts in credit on securities transactions	0.0	0.1	0.0	0.0
Tax and social security receivables and liabilities	6.4	8.8	0.1	12.5
Security deposits paid and received	167.7	5.6	95.0	9.2
Other non-trade receivables, other accounts payable	78.7	58.4	83.3	21.8
TOTAL	**252.8**	**72.8**	**178.4**	**43.5**

Guarantee deposits paid reflect the €148.6 million in cash collateral paid at 31 December 2020, compared to €88.6 million at the end of 2019.

No guarantee deposit received recorded cash collateral receipts at the end of 2020 compared to €9 million at the end of 2019.

4.9 Accruals accounts

	31/12/2020		31/12/2019	
in millions of euros	Assets	Liabilities	Assets	Liabilities
Foreign exchange commitments	0.0	2.5	42.0	48.2
Deferred gains and losses on forwards, futures and options used for hedging purposes	0.5	51.1	0.0	28.2
Prepaid expenses and unearned income	1.6	5.3	1.6	2.8
Accrued income/expenses	70.8	138.3	15.0	88.6
Items in process of collection	0.8	46.7	26.4	44.5
Other[1]	146.0	36.0	43.2	11.1
TOTAL	**219.7**	**279.9**	**128.2**	**223.3**

(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 Regulation No. 2014-03 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC).

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. They are classified into four categories:

- Short-term employee benefits

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

- Long-term employee benefits

Long-term employee benefits are generally linked to seniority, accruing to current employees and payable 12 months or more after the end of the period in which the employee renders the related service; 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 (not representing a commitment to be funded by the company) and defined-benefit plans (representing a commitment payable by the company and giving rise to valuation and provisioning).

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 Table of changes in provisions

in millions of euros	31/12/2019	Charges	Reversals	Uses	31/12/2020
Provisions for counterparty risks on guarantee and financing commitments	**69.0**	**14.5**	**(11.4)**	**0.0**	**72.1**
Provisions for employee benefit obligations	**9.5**	**1.8**	**(0.1)**	**0.0**	**11.2**
Provisions for PEL/CEL regulated accounts	**2.3**	**0.2**	**0.0**	**0.0**	**2.5**
Provisions for disputes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Provisions for restructuring	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Securities portfolio and forwards, futures and options	*2.1*	*3.7*	*(0.3)*	*0.0*	*5.6*
Litigation	*5.5*	*2.9*	*(2.1)*	*(1.0)*	*5.3*
Provisions for contingencies	*0.7*	*0.0*	*(0.2)*	*0.0*	*0.6*
Other	*3.0*	*2.5*	*0.0*	*0.0*	*5.5*
Other provisions for contingencies	**11.3**	**9.1**	**(2.5)**	**(1.0)**	**16.9**
TOTAL	**92.1**	**25.6**	**(14.0)**	**(1.0)**	**102.6**

4.10.2 Provisions and impairment for counterparty risks

in millions of euros	31/12/2019	Allocations(3)	Reversals(3)	Uses	Translation and other movements(4)	31/12/2020
Impairment of loans and advances to customers	253.8	121.3	(43.4)	(73.4)	(1.1)	257.2
Impairment of other loans and advances	21.8	0.5		(2.9)	0.7	20.1
Impairment of assets	**275.6**	**121.8**	**(43.4)**	**(76.3)**	**(0.4)**	**277.3**
Provisions for off-balance sheet commitments(1)	26.6	11.8	(11.4)	0.0	0.0	27.1
Other provisions for customer counterparty risk(2)	42.4	2.6	0.0	0.0	0.0	45.0
Provisions for counterparty risk recognised as liabilities	**69.0**	**14.5**	**(11.4)**	**0.0**	**0.0**	**72.1**
TOTAL	**344.6**	**136.3**	**(54.8)**	**(76.3)**	**(0.4)**	**349.4**

(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 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

	FY 2020					FY 2019				
	Post-employment benefits under defined-benefit plans		Other long-term benefits			Post-employment benefits under defined-benefit plans		Other long-term benefits		
in millions of euros	Supplementary pension benefits and other	Termination benefits	Long-service awards	Other long-term benefits	Total	Supplementary pension benefits and other	Termination benefits	Long-service awards	Other long-term benefits	Total
Actuarial liabilities	0.8	5.7	3.2	6.6	16.2	0.8	2.7	2.4	6.0	11.8
Unrecognised actuarial gains/(losses)	0.0	(5.0)	0.0	0.0	(5.0)	0.1	(2.4)	0.0	0.0	(2.3)
NET AMOUNT REPORTED ON THE BALANCE SHEET	**0.8**	**0.7**	**3.2**	**6.6**	**11.2**	**0.9**	**0.3**	**2.4**	**6.0**	**9.5**
Employee benefits, liabilities	0.8	0.7	3.2	6.6	11.2	0.9	0.3	2.4	6.0	9.5

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.

Analysis of the expense for the period

	Post-employment benefits under defined-benefit plans		Other long-term benefits	FY 2020	FY 2019
in millions of euros	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Total
Service cost	0.0	1.0	0.3	1.3	1.1
Interest cost	0.0	0.1	0.0	0.1	0.3
Benefits paid	(0.1)	(0.8)	(0.2)	(1.1)	(1.0)
Actuarial gains and losses	0.0	0.1	0.6	0.6	0.0
Other	0.0	0.1	0.0	0.1	0.0
TOTAL EXPENSE FOR THE PERIOD	**(0.1)**	**0.5**	**0.7**	**1.1**	**0.3**

Main actuarial assumptions

	FY 2020			FY 2019		
	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	0.04%	0.48%	0.11%	0.65%	0.65%	0.65%
Inflation/wage growth rate	1.60%	1.60%	160%	1.52%	1.52%	1.52%
Wage growth rate	0.00%	0.00%	0.00%	0.76%	0.76%	0.76%

IFRS 19 provides that the discount rate used is determined on the basis of a market yield curve depending on the duration of the liability.

The life tables used are those drawn up by INSEE by cohort and by gender (TH 00-02 and TF 00-02).

The retirement age is determined individually as the one at which the employee reaches the full pensionable rate under the social security pension scheme. If the start date of professional activity is not known, then the assumption of the starting age used is 23 for managers and 20 for non-managers.

Groupe BPCE is assuming voluntary retirement.

The remuneration growth assumption is added to the forward-looking inflation assumption.

The average prospective inflation rate over the period covered by the commitments is set at 1.60%.

4.10.4 PEL/CEL provisions

Deposit account balances

in millions of euros	31/12/2020	31/12/2019
Deposits held in PEL regulated home savings plans		
• plans in place for less than 4 years	3.6	5.9
• plans in place for more than 4, but less than 10 years	81.8	79.5
• plans in place for more than 10 years	97.7	101.0
Deposits collected *via* PEL regulated home savings plans	**183.1**	**186.4**
Deposits collected *via* CEL regulated home savings accounts	**17.2**	**17.3**
TOTAL	**200.2**	**203.8**

Loans granted

in millions of euros	31/12/2020	31/12/2019
Loans granted		
• in respect of PEL regulated home savings plans	0.0	0.0
• in respect of CEL regulated home savings accounts	0.0	0.1
TOTAL	**0.0**	**0.1**

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

in millions of euros	31/12/2019	Charges/net reversals	31/12/2020
Provisions for PEL regulated home savings plans			
• plans in place for less than 4 years	0.1	0.0	0.1
• plans in place for more than 4, but less than 10 years	0.4	(0.1)	0.3
• plans in place for more than 10 years	1.8	0.3	2.1
Provisions for PEL regulated home savings plans	**2.2**	**0.2**	**2.4**
Provisions for CEL regulated home savings accounts	**0.1**	**0.1**	**0.1**
Provisions for regulated home savings loans	**0.0**	**0.0**	**0.0**
TOTAL	**2.3**	**0.2**	**2.5**

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	31/12/2020	31/12/2019
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 31/12/2020 *(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*	No	
TOTAL		**300.0**	**300.0**					

(1) Above the 3-month EURIBOR
** 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	31/12/2020	31/12/2019
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 2018	**538.8**	**56.7**	**49.8**	**230.8**	**(23.1)**	**853.0**
Changes during the year	150.0	0.0		(23.1)	45.6	172.5
Total at 31 December 2019	**688.8**	**56.7**	**49.8**	**207.7**	**22.5**	**1,025.5**
Appropriation of 2019 income			1.1	3.1	(4.3)	0.0
Dividend payments					(18.3)	(18.3)
Capital increase						0.0
Net income for the period					(28.5)	(28.5)
TOTAL AT 31 DECEMBER 2020	**688.8**	**56.7**	**50.9**	**210.8**	**(28.5)**	**978.9**

Banque Palatine's share capital amounts to €688.8 million and comprises 34,440,134 shares with a par value of €20 each, fully subscribed to by BPCE.

4.14 Residual duration of uses and resources

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

	31/12/2020						
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	191.7	310.6	429.9	0.0	932.2
Loans and advances due from credit institutions	883.4	1,037.5	1,143.9	200.0	0.0	0.0	3,264.8
Customer transactions	1,435.4	561.7	2,564.2	3,739.7	2,703.6	244.5	11,249.1
Bonds and other fixed-income securities	79.5	0.0	108.1	139.5	38.9	0.0	366.0
Finance and operating leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL USES OF FUNDS	**2,398.2**	**1,599.2**	**4,008.0**	**4,389.8**	**3,172.3**	**244.5**	**15,812.0**
Amounts due to credit institutions	73.5	53.5	1,518.4	1,222.0	0.0	0.0	2,867.5
Customer transactions	10,501.3	17.5	132.2	458.9	4.9	0.0	11,114.8
Debt securities	346.6	592.9	613.2	59.7	0.5	0.0	1,613.0
Subordinated debt	3.5	0.0	0.0	150.0	50.0	100.0	303.5
TOTAL SOURCES OF FUNDS	**10,924.9**	**664.0**	**2,263.8**	**1,890.7**	**55.4**	**100.0**	**15,898.7**

Following the application of ANC Regulation No. 2020-10, debts represented by a security are presented after deduction of borrowed securities and the receivable on the savings fund is presented as a deduction from regulated savings. Please refer to Notes 4.2, 4.3.1 and 4.8

Note 5 Information on off-balance sheet and similar transactions

5.1 Commitments received and given

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.

Guarantees issued

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	31/12/2020	31/12/2019
FINANCING COMMITMENTS GIVEN		
To credit institutions	**0.0**	**0.0**
Documentary credits	21.4	79.0
Other confirmed credit lines	1,998.2	1,948.2
Other commitments	116.6	75.0
To customers	**2,136.2**	**2,102.3**
TOTAL FINANCING COMMITMENTS GIVEN	**2,136.2**	**2,102.3**
FINANCING COMMITMENTS RECEIVED		
From credit institutions	**265.7**	**346.1**
From customers	**0.0**	**0.0**
TOTAL FINANCING COMMITMENTS RECEIVED	**265.7**	**346.1**

5.1.2 Guarantee commitments

in millions of euros	31/12/2020	31/12/2019
GUARANTEE COMMITMENTS GIVEN	**0.0**	**0.0**
Confirmed documentary credit lines	70.0	40.8
Other guarantees	18.5	8.7
To credit institutions	**88.5**	**49.5**
Real estate guarantees	148.3	163.4
Government and tax guarantees	77.8	88.5
Other guarantees and sureties given	0.0	0.0
Other guarantees given	786.8	821.7
To customers	**1,012.8**	**1,073.7**
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,101.3**	**1,123.1**
Guarantee commitments received from credit institutions	162.9	255.3
TOTAL GUARANTEE COMMITMENTS RECEIVED	**162.9**	**255.3**

5.1.3 Other commitments not recognised off-balance sheet

	31/12/2020		31/12/2019	
in millions of euros	Commitments given	Commitments received	Commitments given	Commitments received
Other securities pledged as collateral to credit institutions	0.0	0.0	414.1	0.0
Other securities pledged as collateral received from customers	0.0	6,209.7	0.0	5,160.0
TOTAL	**0.0**	**6,209.7**	**414.1**	**5,160.0**

No value pledged as collateral as part of the refinancing arrangements was recognised as of 31 December 2020, compared with €348.6 million as of 31 December 2019.

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

5.2 Transactions on forward financial instruments

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

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

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

Should 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 *pro rata* basis under “Interest and similar income” and “Interest and similar expenses”. Unrealised gains and losses are not recorded.

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

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

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

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

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

Balances on terminations or transfers are recognised as follows:

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

Options

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

For transactions involving interest rate, currency, or equity options, the premiums paid or received are recognised in a suspense account. At the end of the period, any options traded 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	31/12/2020 Hedge	31/12/2020 Other transactions	31/12/2020 Total	31/12/2020 Fair value	31/12/2019 Hedge	31/12/2019 Other transactions	31/12/2019 Total	31/12/2019 Fair value
Futures and forwards								
Interest rate contracts	0.0	10.1	10.1	0.0	0.0	9.1	9.1	0.0
Currency contracts	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other contracts	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Transactions in organised markets	**0.0**	**10.1**	**10.1**	**0.0**	**0.0**	**9.1**	**9.1**	**0.0**
Currency contracts	*0.0*	*0.0*	*0.0*		*0.0*	*4.0*	*4.0*	
Forward rate agreements (FRA)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Interest rate swaps	*6,748.3*	*473.6*	*7,222.0*	*(38.8)*	*5,253.5*	*509.7*	*5,763.2*	*(39.2)*
Currency swaps	*0.0*	*6,116.9*	*6,116.9*	*3.2*	*0.0*	*2,305.0*	*2,305.0*	*0.0*
Other forward and futures	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*84.4*	*84.4*	*0.2*
Over-the-counter transactions	**6,748.3**	**6,590.6**	**13,338.9**	**(35.5)**	**5,253.5**	**2,903.1**	**8,156.5**	**(39.0)**
TOTAL FUTURES AND FORWARDS	**6,748.3**	**6,600.7**	**13,349.0**	**(35.5)**	**5,253.5**	**2,912.2**	**8,165.6**	**(39.0)**
Options								
Transactions in organised markets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Interest rate options	8,458.0	896.4	9,354.4	3.6	8,855.5	74.5	8,930.0	6.3
Currency options	531.2	1,377.4	1,908.7	1.8	1,925.3	2,651.5	4,576.8	0.0
Over-the-counter transactions	**8,989.2**	**2,273.8**	**11,263.1**	**5.4**	**10,780.8**	**2,726.0**	**13,506.8**	**6.3**
TOTAL OPTIONS	**8,989.2**	**2,273.8**	**11,263.1**	**5.4**	**10,780.8**	**2,726.0**	**13,506.8**	**6.3**
TOTAL FINANCIAL AND FOREIGN EXCHANGE INSTRUMENTS	**15,737.6**	**8,874.5**	**24,612.1**	**(30.2)**	**16,034.3**	**5,638.2**	**21,672.5**	**(32.7)**

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

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

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

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

	31/12/2020				31/12/2019			
in millions of euros	Micro-hedge	Macro-hedge	Isolated open position	Total	Micro-hedge	Macro-hedge	Isolated open position	Total
Interest rate contract	*0.0*	*0.0*	*10.1*	*10.1*	*0.0*	*0.0*	*9.1*	*9.1*
Interest rate swaps	*6,255.4*	*492.9*	*473.6*	*7,222*	*4,839.5*	*414.0*	*509.7*	*5,763.2*
Currency contracts	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*4.0*	*4.0*
Currency swaps	*0.0*	*0.0*	*6,116.9*	*6,119.8*	*0.0*	*0.0*	*2,305.0*	*2,305.0*
Other interest rate forwards	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*84.4*	*84.4*
Futures and forwards	**6,255.4**	**492..9**	**6,600.7**	**13,349.0**	**4,839.5**	**414.0**	**2,912.2**	**8,165.6**
Interest rate options	*8,458.0*	*0.0*	*896.4*	*9,354.4*	*8,855.5*	*0.0*	*74.5*	*8,930.0*
Currency options	*531.2*	*0.0*	*1,377.4*	*1,908.7*	*1,925.3*	*0.0*	*2,651.5*	*4,576.8*
Options	**8,989.2**	**0.0**	**2,273.8**	**11,263.1**	**10,780.8**	**0.0**	**2,726.0**	**13,506.8**
TOTAL	**15,244.7**	**492.9**	**8,874.5**	**24,612.1**	**15,620.3**	**414.0**	**5,638.2**	**21,672.5**

As part of the migration of the information system, Palatine has aligned its implementation of French management standards with those recommended by Groupe BPCE, particularly in the context of the risk policy on financial transactions. Back-to-back derivative transactions are now subject to a trading book policy and are therefore included in the category of isolated open positions.

	31/12/2020				31/12/2019			
in millions of euros	Micro-hedge	Macro-hedge	Isolated open position	Total	Micro-hedge	Macro-hedge	Isolated open position	Total
Fair value	(11.1)	(33.5)	14.4	(30.2)	(24.9)	(5.7)	(2.0)	(32.6)

5.2.3 Commitments on forwards, futures and options by maturity

	31/12/2020			
in millions of euros	Less than 1 year	1 year to 5 years	Over 5 years	Total
Transactions in organised markets	10.1	0.0	0.0	10.1
Over-the-counter transactions	5,342.0	5,009.4	2,610.3	12,961.8
Futures and forwards	**5,352.1**	**5,009.4**	**2,610.3**	**12,971.9**
Over-the-counter transactions	3,426.0	6,993.6	840.6	11,260.1
Options	**3,426.0**	**6,993.6**	**840.6**	**11,260.1**
TOTAL	**8,778.1**	**12,003.0**	**3,450.9**	**24,232.0**

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 *pro rata* basis. Other currency forwards and futures and financial forwards and futures denominated in foreign currencies are marked to market. Outright currency forwards and futures and those hedged by forwards, futures and options, are remeasured over the remaining term. Foreign exchange swaps are recognised as combined spot purchase/forward sale transactions. Currency swaps are subject to the provisions of ANC Regulation No. 2014-07.

in millions of euros	31/12/2020	31/12/2019
Spot foreign exchange transactions		
Currencies receivable not received	27.5	180.8
Currencies deliverable not delivered	31.6	180.9
TOTAL	**59.2**	**361.7**

5.4 Balance sheet breakdown by currency

	31/12/2020		31/12/2019	
in millions of euros	Assets	Liabilities	Assets	Liabilities
Euro	16,799.3	16,796.0	14,563.4	14,371.2
Dollar	391.8	398.0	115.2	207.3
Pound sterling	91.3	90.6	19.6	58.8
Swiss franc	2.2	5.8	2.5	2.8
Yen	3.1	1.8	0.7	0.6
Other	46.7	42.1	11.5	72.3
TOTAL	**17,334.2**	**17,334.2**	**14,712.9**	**14,712.9**

Note 6 Other information

6.1 Consolidation

With reference to Article 4111-1 of Regulation No. 2014-07 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC), in accordance with Article 111-1 of ANC Regulation 2020-01, Banque Palatine prepares consolidated financial statements in accordance with international accounting standards.

Its individual financial statements are included in the consolidated financial statements of Groupe BPCE.

6.2 Remuneration, advances, credits and commitments

Total remuneration paid in 2020 to members of the management bodies came to €1 million.

During 2020, no advances and loans were granted to any member of the administrative, management or supervisory bodies.

6.3 Fees paid to Statutory Auditors

	Deloitte				PricewaterhouseCoopers				KPMG				Total			
	Amount		%		Amount		%		Amount		%		Amount		%	
In thousands of euros	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Role of certification of financial statements	0	2	0%	100%	279	162	100%	94%	273	169	100%	93%	552	333	75%	94%
Issuer	0	2			279	162			273	169			552	333		
Services other than the certification of the financial statements	181	0	100%	0%	0	10	0%	6%	0	13	0%	7%	181	23	25%	6%
Issuer	181	0			0	10			0	13			181	23		
TOTAL	**181**	**2**	**100%**	**100%**	**279**	**172**	**100%**	**100%**	**273**	**182**	**100%**	**100%**	**733**	**356**	**100%**	**100%**
Change (%)	*100%*				*62%*				*50%*				*106%*			

The total amount of Deloitte' fees recorded in the corporate income statement for the financial year amounted to €181 thousand, corresponding to a specific assignment involving a review of the reconciliation between accounting and management.

The total amount of PricewaterhouseCoopers' fees recorded in the corporate income statement for the financial year amounted to €279 thousand, of which €202 thousand for the certification of the financial statements of Banque Palatine and of which €77 thousand for an IT audit of the migration.

The total amount of KPMG's fees recorded in the income statement for the financial year amounted to €273 thousand, of which €196 thousand for the certification of the financial statements of Banque Palatine and of which €77 thousand for an IT audit of the migration.

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

At 31 December 2020, 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 2020	FY 2019
Interest and similar income	4.1	272.5	270.1
Interest and similar expenses	4.1	(52.9)	(49.7)
Fee and commission income	4.2	98.9	107.6
Fee and commission expenses	4.2	(9.2)	(11.8)
Gains or losses on financial instruments at fair value through profit or loss	4.3	15.4	17.1
Net gains or losses on financial instruments at fair value through equity	4.4	3.2	0.0
Net gains or losses arising from derecognition of financial assets at amortised cost	4.5	0.8	0.1
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	0.6	1.9
Expenses from other activities	4.6	(6.2)	(2.1)
NET BANKING INCOME		**323.0**	**333.3**
General operating expenses	4.7	(231.4)	(250.3)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		(12.7)	(12.3)
Gross operating income		**78.9**	**70.7**
Cost of credit risk	7.1.1	(100.3)	(49.0)
OPERATING INCOME		**(21.4)**	**21.7**
Share in net income of associates and joint ventures consolidated under the equity method	11.4.2	0.3	0.6
Gains or losses on other assets	4.8	(1.0)	7.2
Changes in the value of goodwill	3.5.1	0.0	0.0
INCOME BEFORE TAX		**(22.1)**	**29.4**
Income tax expense	10.1	7.4	(11.1)
Net income after tax from discontinued operations		0.0	0.0
NET INCOME		**(14.7)**	**18.4**
Non-controlling interests	5.17	0.0	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**(14.7)**	**18.4**

3.2 Comprehensive income

in millions of euros	FY 2020	FY 2019
NET INCOME	(14.7)	18.4
ITEMS THAT MAY BE RECLASSIFIED TO NET INCOME	10.2	10.0
Remeasurement of financial assets at fair value through recyclable equity	13.8	13.5
Income taxes	(3.6)	(3.5)
ITEMS THAT CANNOT BE RECLASSIFIED TO NET INCOME	(2.0)	(0.6)
Remeasurement (or actuarial gains and losses) in respect of defined-benefit plans	(2.8)	(0.7)
Other items recognised through equity of non-reclassifiable items	0.1	0.0
Income taxes	0.7	0.1
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY	8.3	9.3
COMPREHENSIVE INCOME	(6.4)	27.7
Attributable to equity holders of the parent	(6.4)	27.7
Non-controlling interests	0.0	0.0
For information: amount of non-recyclable items transferred to reserve	0.0	0.0

3.3 Consolidated balance sheet

Assets

in millions of euros	Notes	31/12/2020	31/12/2019
Cash, central banks	5.1	911.1	305.9
Financial assets at fair value through profit or loss	5.2.1	297.5	302.4
Hedging derivatives	5.3	0.9	2.1
Financial assets at fair value through equity	5.4	1,041.9	1,221.0
Securities at amortised cost	5.5.1	303.9	419.3
Loans and advances due from credit institutions and similar items at amortised cost	5.5.2	3,502.1	2,569.3
Loans and advances due from customers at amortised cost	5.5.3	11,168.5	9,714.7
Remeasurement gains and losses on interest rate risk-hedged portfolios		6.3	7.0
Current tax assets		5.9	3.4
Deferred tax assets	10.2	24.9	20.5
Accrued income and other assets	5.7	207.6	101.2
Non-current assets held for sale	5.8	0.0	0.0
Shares in associates	11.4.1	4.1	3.8
Investment property	5.9	0.0	0.3
Property, plant and equipment	5.10	41.0	50.3
Intangible assets	5.10	8.3	9.1
Goodwill	3.5.1	0.0	0.0
TOTAL ASSETS		**17,524.0**	**14,730.3**

Liabilities

in millions of euros	Notes	31/12/2020	31/12/2019
Cash placed with central banks	5.1	0.0	0.1
Financial liabilities at fair value through profit or loss	5.2.2	116.3	151.4
Hedging derivatives	5.3	45.5	49.8
Debt securities	5.11	1,613.0	2,216.9
Amounts due to credit institutions and similar items	5.12.1	2,860.3	1,313.3
Amounts due to customers	5.12.2	11,356.4	9,492.9
Remeasurement gains and losses on interest rate risk-hedged portfolios		0.0	1.3
Current tax liabilities		0.0	0.0
Deferred tax liabilities		0.0	0.0
Accrued expenses and other liabilities	5.13	248.7	198.5
Provisions	5.14	75.2	68.6
Subordinated debt	5.15	200.2	200.2
Equity		1,008.3	1,037.3
Equity attributable to equity holders of the parent		**1,008.3**	**1,037.3**
Share capital and share premium		745.5	745.5
Retained earnings		261.8	266.0
Gains and losses recognised directly in other lines of comprehensive income	5.18	15.7	7.4
Net income for the period		(14.7)	18.4
Non-controlling interests	**5.17**	**0.0**	**0.0**
TOTAL EQUITY AND LIABILITIES		**17,524.0**	**14,730.3**

3.4 Statement of changes in equity

	Retained earnings				
in millions of euros	Share capital	Premiums	Retained earnings	Perpetual deeply subordinated notes	Retained earnings
EQUITY AT 31 DECEMBER 2019	**688.8**	**56.7**	**257.5**	**100.0**	**(91.5)**
Allocation of net income for the 2019 financial year			26.8		(8.4)
EQUITY AT 1 JANUARY 2020	**688.8**	**56.7**	**284.3**	**100.0**	**(99.9)**
Distribution			(22.6)		
Capital increase					
Issue of perpetual deeply subordinated notes					
Remuneration of perpetual deeply subordinated notes					
Impact of acquisitions and disposals on non-controlling interests (5)					
TOTAL MOVEMENTS RELATED TO RELATIONS WITH SHAREHOLDERS	**0.0**	**0.0**	**0.0**	**0.0**	**(22.6)**
Gains and losses recognised directly in equity					
Net income					
COMPREHENSIVE INCOME	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Other changes					
EQUITY AT 31 DECEMBER 2020	**688.8**	**56.7**	**284.3**	**100.0**	**(122.5)**

Gains and losses recognised directly in other lines of comprehensive income								
Recyclable				Non-recyclable				
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**
(0.1)	**13.0**	**0.0**	**(3.3)**	**(2.2)**	**18.4**	**1,037.3**		**1,037.3**
					(18.4)	0.0		0.0
(0.1)	**13.0**	**0.0**	**(3.3)**	**(2.2)**	**0.0**	**1,037.3**		**1,037.3**
						(22.6)		(22.6)
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**(22.6)**		**(22.6)**
	10.2	0.0	0.1	(2.1)		8.3		8.3
					(14.7)	(14.7)		(14.7)
0.0	**10.2**	**0.0**	**0.1**	**(2.1)**	**(14.7)**	**(6.4)**		**(6.4)**
(0.1)	**23.2**	**0.0**	**(3.2)**	**(4.3)**	**(14.7)**	**1,008.3**		**1,008.3**

3.5 Statement of cash flows

in millions of euros	31/12/2020	31/12/2019
Income before tax	**(22.1)**	**29.4**
Net depreciation and amortisation of property, plant and equipment, and intangible assets	12.7	12.3
Goodwill impairment	0.0	0.0
Net charges to provisions and impairment losses (including technical insurance provisions)	20.1	(28.1)
Share in net income of associates	(0.3)	(0.2)
Net gains/losses on investment activities	(13.1)	(24.1)
Income/expenses from financing activities	0.0	0.0
Other changes	(22.7)	58.4
Total non-cash items included in net income before tax	**(3.2)**	**18.4**
Net increase or decrease arising from transactions with credit institutions	(144.8)	721.7
Net increase or decrease arising from transactions with customers	392.1	(318.1)
Net increase or decrease arising from transactions affecting financial assets and liabilities	(448.8)	(808.1)
Net increase or decrease arising from transactions affecting non-financial assets and liabilities	(21.7)	5.8
Tax paid	(2.4)	8.6
Net increase/(decrease) in assets and liabilities generated by operating activities	**(225.6)**	**(390.1)**
NET CASH FLOWS FROM OPERATING ACTIVITIES (A) – CONTINUING OPERATIONS	**(250.9)**	**(342.2)**
NET CASH FLOW FROM OPERATING ACTIVITIES (A) – DIVESTED OPERATIONS	**0.0**	**0.0**
Net increase or decrease relating to financial assets and investments	128.0	23.1
Net increase or decrease relating to investment property	0.4	1.4
Net increase or decrease relating to property, plant and equipment, and intangible assets	(3.6)	(11.5)
NET CASH FLOWS FROM INVESTING ACTIVITIES (B) – CONTINUING OPERATIONS	**124.8**	**12.9**
NET CASH FROM INVESTING ACTIVITIES (B) – DIVESTED OPERATIONS	**0.0**	**0.0**
Cash flow received from or paid to shareholders(1)	(22.5)	145.7
Cash flows from financing activities	0.0	0.0
NET CASH FLOWS FROM FINANCING ACTIVITIES (C) – CONTINUING OPERATIONS	**(22.5)**	**145.7**
EFFECT OF EXCHANGE RATE FLUCTUATIONS (D) – CONTINUING OPERATIONS	**0.0**	**0.0**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(148.6)**	**(183.6)**
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)
Repurchase transactions	0.0	0.0
OPENING CASH POSITION	**1,416.7**	**1,600.3**
Cash and net balance of accounts with central banks	**911.1**	**305.8**

Cash and net balance of accounts with central banks (assets)	911.1	305.9
Cash placed with central banks (liabilities)	0.0	(0.1)
Net balance of demand transactions with credit institutions	**357.0**	**1,111.0**
Current accounts with overdrafts[(2)]	279.1	30.6
Demand accounts and loans	151.4	1,090.5
Demand accounts in credit	(73.5)	(10.1)
Repurchase transactions	0.0	0.0
Closing cash and cash equivalents	**1,268.1**	**1,416.7**
CHANGE IN NET CASH	**(148.6)**	**(183.6)**

(1) The cash flows received from or paid to shareholders correspond to dividends paid.

(2) Current accounts with overdrafts do not include Livret A, LDD and LEP passbook savings accounts centralised with Caisse des Dépôts et Consignations.

4 Notes to the Palatine Group consolidated financial statements

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 and the 15 Caisse d'Epargne banks. Each of the two networks owns an equal share in BPCE, the Group's central body.

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

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

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

The share capital of the Caisse d'Epargne banks is wholly owned by the local savings companies. Local savings companies are cooperative entities with open-ended share capital owned by cooperative members. They are tasked with coordinating the cooperative membership, in line with the general objectives 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 and 15 Caisse d'Epargne banks.

BPCE must comply with the cooperative principles of the Banque Populaire and Caisse d'Epargne banks at 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 70.662% 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 Caisse d'Epargne banks that was recorded by BPCE as a ten-year term account renewable in perpetuity.

The **Mutual Guarantee Fund** was formed through deposits made by the Banque Populaire and 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 €176 million at 31 December 2020.

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

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

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

1.3 Significant events

The year 2020 was marked by the Covid-19 health crisis. The rapid spread of the epidemic (recognised as a pandemic by the World Health Organization since 11 March 2020) has led to a deterioration in the global economic situation, affecting many sectors of activity and resulting in significant repercussions on economic activity in many countries. Restrictions on mobility in the affected areas and the disruption of supply chains due to the closure of industrial and commercial companies during 2020 have had a clear impact on economic value chains in the affected geographical areas and sectors of activity (tourism revenues, air transport, local sales, etc.).

In order to support the economy during this health crisis, the national government has announced measures to provide financial and non-financial assistance to the affected sectors.

The Covid-19 crisis has also spread to the financial world, leading to very high volatility and erratic market fluctuations. In an environment marked by a high degree of uncertainty, Groupe BPCE has taken into account the effects of the crisis, as they could be apprehended at the balance sheet date, in determining the valuation of financial assets and liabilities as well as impairments and provisions in its financial statements for the year ended on 31 December 2020.

Banque Palatine has mobilised considerable resources during the Covid-19 crisis, in particular internally with the activation of the Emergency and Business Continuity Plan (EBCP) which enabled the majority of employees to be equipped with remote access at the end of the first week of the lockdown. In accordance with government decisions, teleworking was maintained throughout the year.

The establishment then helped to quickly support its customers by setting up an exceptional system for companies which resulted in:

the deferral by up to six months of the repayments of 2,766 corporate loans representing €2.055 billion in outstanding loans;

the arrangement of 1,655 State-guaranteed loan dossiers for €1.5 billion.

Initially scheduled for the beginning of the second half of 2020, the migration of Banque Palatine's information system was completed during the 17 to 18 October 2020 week-end. The migration cost for the 2020 financial year was €40.9 million.

Banque Palatine recorded a cost of risk of €100.3 million which takes into account the review of forward-looking data (IFRS 9 – Stages 1 and 2 and forward looking) for an amount of €16.5 million.

The IFRS consolidated net income at 31 December 2020 represented a loss of €14.7 million compared to a profit of €18.4 million at 31 December 2019.

1.4 Post-balance sheet events

Since 31 December 2020 and until 4 March 2021, 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.

1.5 Impact of the health crisis on the financial statements

1.5.1 Measures to support the economy

As early as 15 March 2020, prior to the announcement of the lockdown in France, the French Banking Federation (*Fédération bancaire française* – FBF) testified to the total mobilisation of French banks in order to support their customers, in particular retailers, professionals, small- and medium-sized enterprises, who could face difficulties resulting from the development of the Covid-19 epidemic that could temporarily impact their activity.

In this context, Groupe BPCE is committed to serving its professional and corporate customers experiencing cash flow difficulties by actively implementing the measures to support the economy decided by the French State:

- the deferral of loan repayments for companies without penalties or additional costs;
- distribution of loans guaranteed by the French State.

The measures taken to support the economy in the year 2020 are described below.

1.5.1.1 Loans guaranteed by the French State

The State-guaranteed loan (*Prêt garanti par l'État* – PGE) is a support mechanism set up in application of Article 6 of Act No. 2020-289 of 23 March 2020 on rectifying the financial situation for 2020 and of the Order of the Minister of the Economy and Finance of 23 March 2020 granting the State guarantee to credit institutions and finance companies as of 16 March 2020 in order to meet the cash flow needs of companies impacted by the Covid-19 health crisis The scheme has been extended until 30 June 2021 by the Finance Act for 2021. The loans guaranteed by the French State must comply with eligibility criteria common to all establishments distributing these loans as defined by law.

State-guaranteed loans are liquidity loans with a one-year grace period. Beneficiary companies may decide, after the first year, to amortise the State-guaranteed loan over a further one to five years or to start capital amortisation only from the second year of the amortisation period.

For eligible companies, the amount of the State-guaranteed loan is capped, in the general case (excluding innovative and recently created companies, and excluding the Season loans for our Tourism/Hotels/Catering customers for example), at 25% of the company's revenue. State-guaranteed loans are 70% to 90% guaranteed by the French State, depending on the borrowing company's size, with the lending banks carrying the remaining risk. The State guarantee covers a percentage of the outstanding amount of the debt (capital, interest and accessories) until its expiry. The State guarantee may be called before the expiry of the term in the presence of a credit event.

The early repayment penalty is fixed in the contract and in a reasonable way (2% of the remaining capital due during the initial period of the loan, 3% to 6% of the remaining capital due during the amortisation period of the loan). The terms of extension are not set in advance but are established two to three months before the expiration of the extension option, depending on market conditions.

The State-guaranteed loans do not need to be covered by other collateral or guarantees than the guarantee offered by the French State except when they are granted within the framework of an order issued by the Minister of the Economy and Finance. It is accepted that the professional or manager may request or be offered death insurance, but not have it imposed on him or her.

Given these characteristics, the loans guaranteed by the French State meet the basic lending criteria (see Note 2.5.1). They are recognised in the “Amortised cost” category since they are held in a collection management model whose objective is to hold the loans in order to collect the cash flows (see Note 2.5.1). At subsequent reporting periods, they will be measured at amortised cost using the effective interest rate method.

With regard to the State guarantee, it is considered an integral part of the terms of the contract and is taken into account in the calculation of expected credit loss impairments. The guarantee fee paid at the granting of the loan by Groupe BPCE to the French State is recognised in profit or loss over the initial term of the State-guaranteed loan according to the Effective Interest Rate (EIR) method. The impact is presented within the net interest margin.

A State-guaranteed loan granted to a counterparty considered doubtful at the inception (Stage 3) is classified as a Purchased or Originated Credit Impaired (POCI).

However, the granting of a State-guaranteed loan to a given counterparty does not in itself constitute a criterion for downgrading the risk, which would lead to a transition to Stage 2 or 3 of the other outstandings of this counterparty.

At 31 December 2020, Banque Palatine had issued 1,655 State-guaranteed loans for an amount of €1.5 billion (of which 1,612 had been disbursed by 31 December for an amount of €1.4 billion).

1.5.1.2 Deferral of credit repayments (moratoria) and other credit restructuring

In the context of the Covid-19 crisis, Groupe BPCE has decided to grant its retailer, professional, SMEs and large company customers concessions in various forms (temporary suspension of deadlines, rescheduling, renegotiations) in order to help them overcome temporary cash flow difficulties caused by the crisis.

Generalised measures

As soon as the lockdown was announced in France, the two Banque Populaire and Caisse d’Epargne networks offered their professional and SME customers, in clearly identified sectors of activity, a general deferral of their loan repayments, including capital and interest, for a period of six months. Subsequently, other generalised measures were granted to specific sectors of activity, such as a deferral of up to 12 months of credit maturities to small- and medium-sized enterprises in the tourism, hotel and restaurant sectors.

The conditions of these moratoria are in line with the general moratoria provisions set out in Article 10 of the EBA guidelines (EBA/GL/2020/02) published on 2 April 2020 and amended on 2 December 2020 (EBA/GL/2020/15). In France, the Marketplace Protocol has not been updated to reflect this latest amendment.

In application of this text, the granting of moratoria in a broad manner, without specific conditions for granting them, to counterparties that were not in financial difficulty prior to the Covid-19 crisis, does not in itself constitute an indicator of significant deterioration in credit risk. Thus, the implementation of a general moratorium in order to deal with a temporary liquidity crisis in the context of the Covid-19 crisis does not result in an automatic downgrading to Stage 2 (or Stage 3 when the loss is greater than 1% of the difference between the net present value before restructuring and the net present value after restructuring) of loans that were classified as Stage 1 before this crisis.

Individual measures

In addition, Groupe BPCE has provided individual support to its customers by granting them various forms of concessions (moratoria, rescheduling or other changes in loan terms), the terms of which were set on the basis of the customer’s individual situation. When such a concession is granted, a specific analysis is carried out in order to identify whether the counterparty presents, at that time, indications of financial difficulties. In the presence of such an indicator, the loan is downgraded to Stage 2 (or Stage 3 when the loss is greater than 1% of the difference between the net present value before restructuring and the net present value after restructuring), resulting in an adjustment of its provisioning level.

The moratoria granted by the Group’s institutions are generally charged at the original interest rate of the loan, which means that interest continues to accrue during the period of the moratorium. At the end of the moratorium, the interest is included in the principal of the loan and repaid over the remaining term of the loan (which is extended due to the moratorium). In this case, the moratorium does not imply a loss of cash flow for the bank. Therefore, no impact on the result is to be recorded. In practice, the granting of moratoria alone does not give rise to the derecognition of the receivable insofar as it does not significantly affect the net economic value of the credit.

As of 31 December 2020, 2,766 loans granted by Banque Palatine representing €2,055 million were subject to moratoria for a period of six months. The duration of the moratorium can be up to 12 months for the tourism, hotel and restaurant sectors.

1.5.2 Consequences on the use of estimates

1.5.2.1 Impairment of credit risk

The health crisis has spread to the real economy, with significant repercussions on many sectors of activity in the affected areas and the disruption of supply chains due to the closure of industrial and commercial companies in the first half of 2020. The Group relied on the various announcements published by ESMA, EBA, ECB and IASB for its interpretation of the accounting principles applicable in the context of the Covid-19 crisis, in particular the provisioning model. On the instructions of Groupe BPCE, the Palatine Group applied a common methodology for impairments or provisions for expected credit losses. The Palatine Group recognised an amount of €15.3 million based on forward-looking data (IFRS 9 – Stages 1 and 2) with the application of a new moderate budget scenario to take into account measures taken by the French State in favour of companies and long-term trends. In addition, an additional provision of €4 million was recorded in anticipation of the downgrading of the ratings of counterparties.

1.5.2.2 Fair value of financial assets impacted by the health crisis

Given the effects of the Covid-19 health crisis on the financial markets, the valuation of some products was affected during the 2020 financial year by the illiquidity of the markets.

Investments in unlisted private equity funds are valued according to the rules set by the International Private Equity and Venture Capital Valuation (IPEV) Guidelines, also recommended by Invest Europe. The valuation of the shares held by the Palatine Group in unlisted funds was subject to an in-depth review as of 31 December 2020. In the absence of a recent net asset value (NAV) established by the management company or when it does not take into account the effects of the crisis (or only partially), a discount determined on the basis of a sectoral approach was applied to the last available NAV.

The valuation of investments held in real estate funds has also been reviewed as at 31 December 2020 and a discount applied where appropriate to reflect the impact of the crisis on the valuation of the underlying assets. Any real estate discounts are based on BPCE Solutions immobilières' estimates using macroeconomic and real estate indicators (GDP by region, household disposable income by department, rent forecasts, yield forecasts, risk premium forecasts).

1.5.2.3 Goodwill

Although an important event in an entity's environment, the Covid-19 health crisis is not in itself an objective indicator of impairment. However, given the spread of the health crisis to the real economy and the financial market, impairment tests were carried out on the CGUs as at 31 December 2020 and are presented in Note 3.2. These tests resulted in no recognition of impairment loss on the line "Share in profit or loss of companies accounted for using the equity method" of the consolidated income statement.

1.5.2.4 Summary table of the main impacts of the Covid-19 crisis

in millions of euros	FY 2020
Net banking income	
Valuation of unlisted assets	
Other impacts on NBI (including CVA)	
Cost of risk	
Expected credit losses	19.3
Other impacts	

Note 2 Applicable accounting standards and comparability

2.1 Regulatory framework

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

2.2 Accounting standards

The standards and interpretations used and outlined in the financial statements at 31 December 2019 were complemented by standards, amendments and interpretations, application of which is mandatory for reporting periods starting on or after 1 January 2020.

As a reminder, IFRS 9 has replaced IAS 39 since 1 January 2018 and defines the new rules for the classification and measurement of financial assets and liabilities, the new method of impairment for credit risk of financial assets as well as the treatment of hedging transactions, with the exception of macro-hedging transactions for which a separate draft standard is being studied by the IASB.

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 17 March 2020, the IASB decided to postpone its application for two years, as clarifications still need to be made on key points of the standard. 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 2023. An amendment was published on 25 June 2020. This amendment brings improvements for the application of IFRS 17.

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, Oney Insurance, Oney Life, 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” replaces IAS 17 “Leases” and its interpretations since 1 January 2019.

At the meeting of 26 November 2019, the IFRS Interpretation Committee (IFRS IC) provided clarifications on the application of IFRS 16 on the methods used to assess the term of leases. On 3 July 2020, the French Accounting Standards Authority (*Autorité des normes comptables* – ANC) published a statement of conclusions on the application of IFRS 16, replacing the one published on 16 February 2018.

The work carried out led the Group to review its application of the accounting principles applied to determine the duration of commercial leases under French law in a situation known as tacit extension. These changes have negligible effects on the financial statements.

Amendment to IAS 39 and IFRS 9: benchmark rate reform (Phase 1 and Phase 2)

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 (Phase 1). These amendments were adopted by the European Commission on 16 January 2020. Its application date was set for 1 January 2020 with early application possible. Groupe BPCE opted for early application as at 31 December 2019.

On 27 August 2020, the IASB published amendments dealing with issues related to the replacement of benchmark rates by their alternative reference rate (Phase 2). These amendments amend IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on changes to financial assets and financial liabilities (including liabilities related to leases) in connection or not with the implementation of existing contractual clauses (*i.e.* fallback clauses), hedge accounting and disclosures. These amendments were adopted by the European Commission on 13 January 2021. Its application date was set for 1 January 2021 with early application possible. Groupe BPCE opted for early application as at 31 December 2020.

The uncertainties relating to the benchmark rate reform and the organisation in place at Groupe BPCE are presented in Note 5.21.

The other standards, amendments and interpretations adopted by the European Union have no significant impact on the Group’s financial statements.

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 2023. At its meeting of 17 March 2020, the IASB resolved to postpone the standard’s application by two years, 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 2023. A draft amendment was published on 25 June 2020, which provides improvements for the implementation of IFRS 17. EU Regulation No. 2020/2097 of 15 December 2020 adopts the amendments to IFRS 4 relating to the extension of the exemption period from the application of IFRS 9 for all insurance companies.

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.

Groupe BPCE’s insurance entities have set up project structures that are in line with the changes brought about by the standard and are continuing preparatory work: examination and documentation of standards, modelling, adaptation of systems and organisations, production of financial statements and changeover strategy, financial communication and change management.

New definition of default

The guidelines of the European Banking Authority (EBA) on the application of the definition of default under Article 178 of EU Regulation No. 575/2013, applicable from 1 January 2021, and the provisions of Regulation No. 2018/1845 of the European Central Bank relating to the threshold for assessing the importance of arrears on credit obligations, applicable no later than 31 December 2020, will strengthen the consistency of the practices of European credit institutions in identifying defaults.

The definition of defaulted outstandings is thus clarified by the introduction of a relative threshold and an absolute threshold to be applied to payment arrears in order to identify default situations, and the clarification of the criteria for a return to sound outstandings with a probation period and the introduction of explicit criteria for classifying restructured loans as being in default.

Groupe BPCE has applied these new provisions to identify defaulted outstandings from 22 October 2020.

The details provided for the identification of loans in default remain consistent with the criteria for assessing the doubtful nature of loans classified as Stage 3 in application of the provisions of IFRS 9 relating to the recognition of expected credit losses. The changes resulting from the application of the new provisions relating to defaulted outstandings have no significant effect on its consolidated financial statements.

2.3 Use of estimates and judgments

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 2020, 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”);
- uncertainties relating to tax treatment of income tax (Note 10.1 “Income taxes”);
- the deferred tax assets and liabilities (Note 10.2 “Deferred taxes”);
- uncertainties related to the application of certain provisions of the BMR Regulation (Note 5.21);
- 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 (Note 11.2.2).

The uncertainties related to the Covid-19 context are detailed in Note 1.5.

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

By means of the referendum of 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.

2.4 Presentation of the consolidated financial statements and reporting date

As no specific format is required under IFRS, the presentation used for the summarised statements follows Recommendation No. 2017-02 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC) on 2 June 2017.

The consolidated financial statements are based on the financial statements at 31 December 2020. The Palatine Group’s consolidated financial statements for the financial year ended 31 December 2020 were approved by the Board of Directors on 4 March 2021. They will be presented to the General Meeting on 20 May 2021.

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.

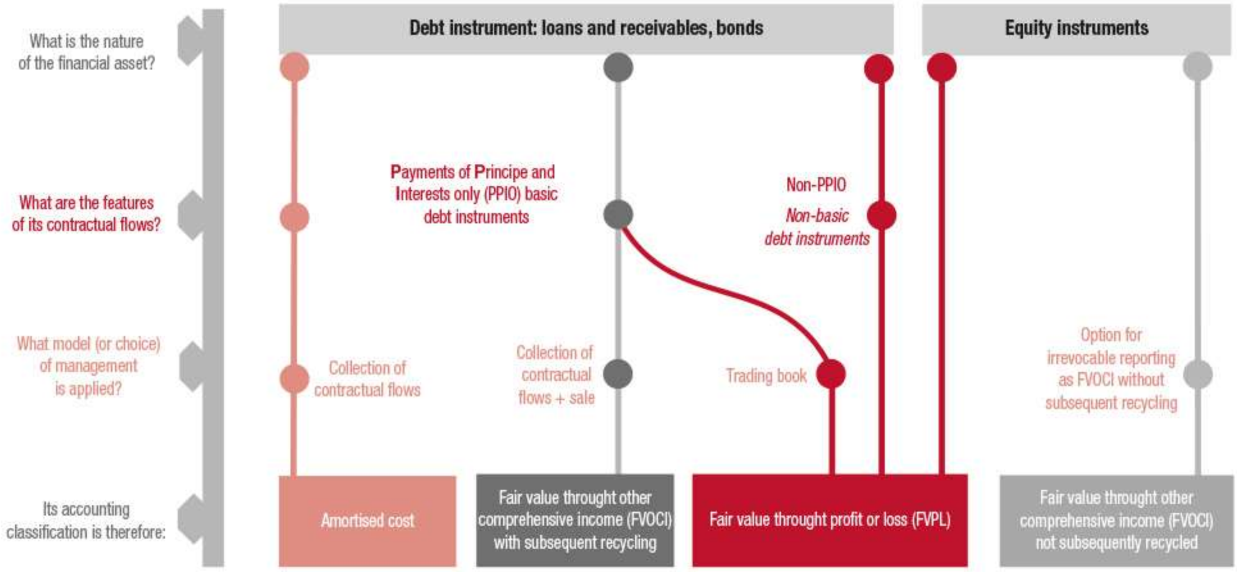
2.5 General accounting principles and measurement methods

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 measurement of 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 departments;
- 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 those 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 *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. In the absence of any possible recourse against the borrower, to be classified as a basic asset, it is necessary to examine the structure of the other possible recourse or mechanisms of protection of the lender in the event of default: takeover of the underlying asset, collateral contributed (security deposit, margin call, etc.) or enhancements made.

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, which define it as basic (Solely Payments of Principal and Interest – 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, which define it as basic (Solely Payments of Principal and Interest – 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”.

Pension funds and supplementary health insurance plans for the Group’s employees 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 activities

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 Translation of the accounts of foreign entities

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, the goodwill is determined with reference to the 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 the 2020 financial year

There were no changes in Palatine Group’s scope of consolidation in the 2020 financial year.

	31/12/2020				
	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%

3.5 Goodwill

3.5.1 Value of goodwill

in millions of euros	31/12/2020	31/12/2019
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 (NBI) 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, income and similar 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.

As at 31 December 2020, negative interest is presented as follows:

- a negative interest on an asset is shown as an interest expense in the NBI;
- a negative interest on a liability is shown as interest income in the NBI.

As at 31 December 2019, negative interest was shown net of positive interest on financial assets and liabilities respectively.

	FY 2020			FY 2019		
in millions of euros	Interest income	Interest expense	Net	Interest income	Interest expense	Net
Loans/borrowing to credit institutions(1)	23.5	(0.9)	22.6	30.3	(9.1)	21.2
Loans/borrowing to customers	195.7	(14.5)	181.2	198.9	(17.5)	181.4
Bonds and other debt securities held/issued	18.2	(0.3)	17.9	15.4	(1.1)	14.3
Subordinated debt	///	(3.1)	(3.1)	///	(3.3)	(3.3)
Rental liabilities	///	(0.1)	(0.1)	///	(0.1)	(0.1)
Financial assets and liabilities at amortised cost (excluding finance lease contracts)(2)	**237.4**	**(18.9)**	**218.5**	**244.7**	**(31.1)**	**213.6**
Finance lease operations	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Debt securities	5.3	///	5.3	9.4	///	9.4
Other	0.0	///	0.0	0.0	///	0.0
Financial assets at fair value through equity	**5.3**	**///**	**5.3**	**9.4**	**///**	**9.4**
TOTAL FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST AND FAIR VALUE THROUGH EQUITY	**242.7**	**(18.9)**	**223.8**	**254.1**	**(31.1)**	**223.0**
Non-standard financial assets not held for trading	**0.0**	**///**	**0.0**	**0.0**	**///**	**0.0**
Hedging derivatives	**29.8**	**(34.0)**	**(4.1)**	**16.0**	**(18.5)**	**(2.5)**
Derivatives for economic hedging	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL INTEREST INCOME AND EXPENSE	**272.5**	**(52.9)**	**219.6**	**270.1**	**(49.7)**	**220.4**

(1) Interest income on loans and advances from credit institutions comprises €1.9 million (€2.5 million in 2019) collected on the Livret A, LDD and LEP passbook savings accounts centralised with Caisse des Dépôts et Consignations.

(2) Including interest income from financial assets at amortised cost with a proven risk indicator (S3): €15.5 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 2020.

4.2 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 2020			FY 2019		
in millions of euros	Income	Expense	Net	Income	Expense	Net
Cash and interbank transactions	0.4	(0.1)	0.3	0.1	(0.1)	0.0
Customer transactions	37.5	0.0	37.5	42.0	0.0	42.0
Financial services	6.0	(4.4)	1.6	5.6	(5.2)	0.4
Sales of life insurance products	13.7	///	13.7	13.2	///	13.2
Payment services	10.1	(4.5)	5.6	12.6	(6.4)	6.3
Securities transactions	1.6	(0.2)	1.3	1.4	(0.1)	1.3
Fiduciary and trust activities	26.2	///	26.2	25.8	0.0	25.8
Transactions on financial instruments and off-balance sheet	0.0	0.0	0.0	0.0	0.0	0.0
Other fee and commission income	3.5	0.0	3.5	6.9	0.0	6.9
TOTAL FEES AND COMMISSIONS	**98.9**	**(9.2)**	**89.6**	**107.6**	**(11.8)**	**95.8**

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 2020	FY 2019
Gains and losses on financial instruments obligatorily measured at fair value through profit or loss[(1)]	14.3	9.2
Change in fair value hedges	(8.1)	(5.4)
Change in the hedged item	8.1	5.4
Gains and losses on foreign exchange transactions	1.1	8.0
TOTAL NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**15.4**	**17.1**

(1) Including economic currency hedging.

Net gains and losses on financial instruments at fair value by income decreased by €1.7 million, due to the health crisis marked by strong market volatility.

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 as cost of risk;
- gains and losses recognised directly in equity.

in millions of euros	FY 2020	FY 2019
Gains or losses on debt instruments	2.9	(0.1)
Net gains or losses on equity instruments (dividends)	0.3	0.1
TOTAL GAINS AND LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**3.2**	**0.0**

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 2020			FY 2019		
in millions of euros	Gains	Losses	Net	Gains	Losses	Net
Debt securities	0.8	0.0	0.8	0.1	0.0	0.1
Gains and losses on financial assets at amortised cost	**0.8**	**0.0**	**0.8**	**0.1**	**0.0**	**0.1**
Gains and losses on financial liabilities at amortised cost	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
NET GAINS OR LOSSES ARISING FROM THE DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST	**0.8**	**0.0**	**0.8**	**0.1**	**0.0**	**0.1**

Gains recorded for the financial year after the sale of financial assets at amortised cost amounted to €0.8 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).

	FY 2020			FY 2019		
in millions of euros	Income	Expense	Net	Income	Expense	Net
Income and expense on investment property	**0.1**	**0.0**	**0.1**	**1.3**	**0.0**	**1.3**
Transfers of expenses and income	*0.0*	*(1.0)*	*(1.0)*	*0.2*	*(1.0)*	*(0.8)*
Other miscellaneous operating income and expenses	*0.5*	*(4.0)*	*(3.5)*	*0.4*	*(1.1)*	*(0.7)*
Additions to and reversals of provisions to other operating income and expenses	*///*	*(1.1)*	*(1.1)*	*///*	*0.0*	*0.0*
Other banking income and expenses	**0.5**	**(6.2)**	**(5.7)**	**0.6**	**(2.1)**	**(1.5)**
TOTAL INCOME AND EXPENSES FROM OTHER ACTIVITIES	**0.6**	**(6.2)**	**(5.6)**	**1.9**	**(2.1)**	**(0.2)**

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 dated 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 €12.8 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €2.7 million. The 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 €10.1 million.

EU Directive No. 2014/59/EU referred to the Bank Recovery and Resolution Directive (BRRD) that establishes a framework for the correction and resolution of credit institutions and investment corporations and EU Regulation No. 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 Single Resolution Board (SRB). This system could call upon this fund as part of the implementation of resolution procedures.

In compliance with EU Delegated Regulation No. 2015/63 and Implementing Regulation No. 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 2020. The amount of the contributions paid by the Group for the financial year was €5.7 million of which €4.8 million was recognised as an expense and €0.9 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 amounted to €3.9 million as at 31 December 2020.

in millions of euros	FY 2020	FY 2019
Payroll costs	**(136.0)**	**(136.2)**
Taxes, levies and regulatory contributions(1)	(10.6)	(8.9)
External services and other general operating expenses	(63.6)	(86.1)
Rental expenses(2)	(21.2)	(19.0)
Other administrative expenses	**(95.4)**	**(114.1)**
TOTAL GENERAL OPERATING EXPENSES	**(231.4)**	**(250.3)**

(1) *Taxes and regulatory contributions include the contribution to the Single Resolution Fund (SRF) in an annual amount of €4.8 million (versus €3.9 million in 2019). The tax levied on banks for systemic risk was abolished in 2019.*

(2) *The item "Rental expenses" was identified in 2019 following the application of IFRS 16.*

The bank has completed its migration to the Group information system for Banque Populaire banks. The bulk of the migration and transformation costs is now recorded under expenses, *i.e.* €40.9 million for the 2020 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 2020	FY 2019
Gains or losses on disposals of property, plant and equipment and operating intangible assets	(1.0)	7.2
Gains or losses on disposals of consolidated holdings	0.0	0.0
TOTAL GAINS OR LOSSES ON OTHER ASSETS	**(1.0)**	**7.2**

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	31/12/2020	31/12/2019
Cash	9.8	7.9
Cash placed with central banks	901.3	297.9
TOTAL CASH AND ASSETS PLACED WITH CENTRAL BANKS	**911.1**	**305.9**

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.

	31/12/2020				31/12/2019			
	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			
in millions of euros	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 optionally	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 on option	Total
Bonds and other debt securities	0.0	18.2	0.0	18.2	0.0	19.4	0.0	19.4
Debt securities	**0.0**	**18.2**	**0.0**	**18.2**	**0.0**	**19.4**	**0.0**	**19.4**
Equity instruments	**0.0**	**0.0**	**///**	**0.0**	**0.0**	**0.0**	**///**	**0.0**
Trading derivatives	**130.7**	**///**	**///**	**130.7**	**154.7**	**///**	**///**	**154.7**
Security deposits paid	**148.6**	**///**	**///**	**148.6**	**128.3**	**///**	**///**	**128.3**
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**279.3**	**18.2**	**0.0**	**297.5**	**283.0**	**19.4**	**0.0**	**302.4**

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 Credit Valuation Adjustment (CVA) derivative portfolio (transaction and hedging), *i.e.* €3.4 million at 31 December 2020.

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.

	31/12/2020			31/12/2019		
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	116.3	///	116.3	142.5	///	142.5
Guarantee deposits received	0.0	///	0.0	9.0	///	9.0
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**116.3**	**0.0**	**116.3**	**151.4**	**0.0**	**151.4**

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 Debit Valuation Adjustment (DVA) derivative portfolio (transaction and hedging), *i.e.* €0.1 million at 31 December 2020.

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.

	31/12/2020			31/12/2019		
in millions of euros	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Interest rate instruments	6,270.4	80.0	74.2	4,975.0	75.0	70.4
Currency instruments	3,098.5	27.2	24.0	2,387.8	50.4	49.0
Futures and forwards	**9,368.9**	**107.2**	**98.2**	**7,362.7**	**125.4**	**119.5**
Interest rate instruments	9,620.0	24.8	21.2	8,675.9	7.5	1.3
Currency instruments	1,543.1	(1.3)	(3.1)	3,253.1	21.7	21.7
Options	**11,163.1**	**23.5**	**18.1**	**11,928.9**	**29.2**	**23.0**
TOTAL TRADING DERIVATIVES	**20,532.0**	**130.7**	**116.3**	**19,291.6**	**154.7**	**142.5**

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 for:

- 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.

in millions of euros	31/12/2020 Notional	31/12/2020 Positive fair value	31/12/2020 Negative fair value	31/12/2019 Notional	31/12/2019 Positive fair value	31/12/2019 Negative fair value
Interest rate instruments	558.5	0.9	45.5	797.3	2.1	49.8
Futures and forwards	**558.5**	**0.9**	**45.5**	**797.3**	**2.1**	**49.8**
Options	0.0	0.0	0.0	0.0	0.0	0.0
Fair value hedge	**558.5**	**0.9**	**45.5**	**797.3**	**2.1**	**49.8**
TOTAL HEDGING DERIVATIVES	**558.5**	**0.9**	**45.5**	**797.3**	**2.1**	**49.8**

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 2020

	Under 1 year	1 year to 5 years	6 to 10 years	Over 10 years
Interest rate hedges	15.8	203.3	339.5	0.0
Cash flow hedging instruments	0.0	0.0	0.0	0.0
Fair value hedging instruments	15.8	203.3	339.5	0.0
TOTAL	**15.8**	**203.3**	**339.5**	**0.0**

Hedged items

Fair value hedge

	Fair value hedge								
	At 31 December 2020								
	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*	Hedged component yet to be spread**	Carrying amount	o/w remeasurement of the hedged component*	Hedged component yet to be spread**	Carrying amount	o/w remeasurement of the hedged component*	Hedged component yet to be spread**
Assets									
Financial assets at fair value through equity	**259.1**	**11.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities	259.1	11.3	-	-	-	-	-	-	-
Financial assets at amortised cost	**1,214.4**	**6.9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans or advances due from customers	1,214.3	6.9	-	-	-	-	-	-	-
Debt securities	0.1	0.0	-	-	-	-	-	-	-
TOTAL ASSETS	**1,473.5**	**18.1**							
Liabilities									
Financial liabilities at amortised cost	**2,640.5**	**0.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Amounts due to customers	2,640.5	0.0	-	-	-	-	-	-	-
TOTAL LIABILITIES	**2,640.5**	**0.0**							

* *Fair value excluding accrued interest.*

** *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	31/12/2020	31/12/2019
Debt securities	1,033.8	1,214.9
Shares and other equity securities(1)	8.1	6.1
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**1,041.9**	**1,221.0**
O/w impairment for expected credit losses	*0.0*	*0.0*
O/w gains and losses recognised directly in equity (before tax)	*31.2*	*17.3*
• Debt instruments	31.2	17.3
• Equity instruments	0.0	0.0

(1) Including the share of non-controlling interests.

At 31 December 2020, 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.

in millions of euros	31/12/2020				31/12/2019			
		Dividends recognised over the period	Derecognition over the period			Dividends recognised over the period	Derecognition over the period	
	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	3.3	0.0	0.0	0.0	3.1	0.1	0.0	0.0
Shares and other equity securities	4.9	0.3	0.0	0.0	3.1	0.0	0.0	0.0
TOTAL	**8.1**	**0.3**	**0.0**	**0.0**	**6.1**	**0.1**	**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.

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.

"Restructured" outstandings correspond to financing arrangements that constitute a concession when these arrangements are made with debtors facing or about to face financial difficulties. The "restructured" outstandings therefore result from the combination of a concession and financial difficulties.

The adjustments targeted by the "restructurings" must bring a more advantageous situation to the debtor (*e.g.* suspension of interest or principal repayment, extension of maturity, etc.) and are materialised by the introduction of amendments modifying the terms of an existing contract or by the total or partial refinancing of an existing loan.

The financial difficulty is determined by observing a certain number of criteria such as the existence of non-payment of more than 30 days or the presence of a sensitive note. The implementation of a "restructuring" does not necessarily imply the classification of the counterparty concerned by the restructuring in the Basel defaults category. The classification in default of the counterparty depends on the result of the viability test carried out during the restructuring of the counterparty.

Under IFRS 9, the treatment of restructurings due to financial difficulties remains similar to that which prevailed under IAS 39: in the event of restructuring following a proven credit loss event, the loan is considered as an impaired loan (in Stage 3) and is subject to a discount equal to the difference between the discounting of the initially expected contractual flows and the discounting of the expected future flows of capital and interest following the restructuring. The discount rate used is the initial effective interest rate. This discount is expensed to the "Cost of 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.

The moratoria generally granted to companies and aimed at responding to temporary cash flow difficulties related to the Covid-19 crisis modify the repayment schedules of these receivables without substantially modifying their characteristics. These receivables are therefore modified without being derecognised. In addition, the granting of this adjustment is not in itself an indicator that these companies are in any financial difficulty (see Note 1.5).

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	31/12/2020	31/12/2019
Treasury bills and similar securities	0.0	0.2
Bonds and other debt securities	326.0	442.1
Impairment for expected credit losses	(22.0)	(23.0)
TOTAL SECURITIES AT AMORTISED COSTS	**303.9**	**419.3**

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	31/12/2020	31/12/2019
Current accounts with overdrafts	279.1	30.6
Repurchase agreements	0.0	0.0
Accounts and loans[1]	3,216.3	2,533.9
Other loans and advances due from credit institutions	0.0	1.7
Security deposits paid	7.0	3.3
Impairment for expected credit losses	(0.3)	(0.2)
TOTAL	**3,502.1**	**2,569.3**

(1) Livret A, LDD and LEP savings accounts centralised with Caisse des Dépôts et Consignations and recorded under “Accounts and loans” amounted to €242.6 million at 31 December 2020, versus €239.1 million at 1 December 2019.

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	31/12/2020	31/12/2019
Current accounts with overdrafts	**818.1**	**617.4**
Other facilities granted to customers	**10,682.7**	**9,414.1**
• Short-term loans	4,253.2	1,639.5
• Equipment loans	3,201.9	2,455.9
• Home loans	2,660.6	2,588.6
• Export loans	48.3	75.9
• Subordinated loans	1.8	0.1
• Other loans	516.8	2,654.0
Other loans and advances due from customers	**5.7**	**2.3**
Security deposits paid	**2.6**	**3.1**
GROSS LOANS AND RECEIVABLES DUE FROM CUSTOMERS	**11,509.0**	**10,036.8**
Impairment for expected credit losses	(340.5)	(322.1)
TOTAL	**11,168.5**	**9,714.7**

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 2020.

5.7 Accruals and miscellaneous assets

in millions of euros	31/12/2020	31/12/2019
Collection accounts	0.8	20.2
Prepaid expenses	2.3	2.4
Accrued income	21.5	13.2
Other accrual accounts	148.7	43.3
ACCRUAL ACCOUNTS – ASSETS	**173.4**	**79.1**
Guarantee deposits in respect of GF	3.9	4.3
Guarantee deposits in respect of SRF	3.9	3.0
Miscellaneous debtors	26.4	14.8
SUNDRY ASSETS	**34.2**	**22.1**
TOTAL ACCRUED INCOME AND SUNDRY ASSETS	**207.6**	**101.2**

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 properties

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”.

	31/12/2020			31/12/2019		
in millions of euros	Gross	Accumulated depreciation and impairment	Net	Gross	Accumulated depreciation and impairment	Net
Property recognised at fair value	0.0	0.0	0.0	0.0	0.0	0.0
Property recognised at historical cost	0.0	0.0	0.0	0.4	(0.1)	0.3
TOTAL INVESTMENT PROPERTY	**0.0**	**0.0**	**0.0**	**0.4**	**(0.1)**	**0.3**

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.

	31/12/2020			31/12/2019		
in millions of euros	Gross	Accumulated depreciation and impairment	Net	Gross	Accumulated depreciation and impairment	Net
PROPERTY, PLANT AND EQUIPMENT						
• Real estate	12.5	(9.6)	2.9	11.9	(9.3)	2.6
• Movable assets	31.2	(20.3)	10.9	36.6	(24.0)	12.6
Property, plant and equipment given under operating leases	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Movable assets	0.0	0.0	0.0	0.0	0.0	0.0
Rights of use under leases	**42.0**	**(14.9)**	**27.1**	**42.4**	**(7.2)**	**35.2**
On real estate properties	42.0	(14.9)	27.1	42.4	(7.2)	35.2
TOTAL PROPERTY, PLANT AND EQUIPMENT	**85.8**	**(44.8)**	**41.0**	**90.9**	**(40.6)**	**50.3**
INTANGIBLE ASSETS						
• Leasehold rights	9.1	(1.4)	7.6	9.1	(1.4)	7.6
• Software	41.7	(41.1)	0.6	42.0	(40.6)	1.4
• Other intangible assets	0.1	0.0	0.1	0.1	0.0	0.1
TOTAL INTANGIBLE ASSETS	**50.9**	**(42.6)**	**8.3**	**51.1**	**(42.0)**	**9.1**

5.11 Debts represented by a security

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	31/12/2020	31/12/2019
Interbank market instruments and negotiable debt securities	1,613.7	2,218.1
TOTAL	**1,613.7**	**2,218.1**
Accrued interest	(0.8)	(1.2)
TOTAL DEBT SECURITIES	**1,613.0**	**2,216.9**

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	31/12/2020	31/12/2019
Demand accounts	73.5	10.1
Repurchase agreements	0.0	0.0
Accrued interest	0.0	0.0
DEMAND ACCOUNTS TO CREDIT INSTITUTIONS AND SIMILAR	**73.5**	**10.1**
Term deposits and loans	2,793.9	1,311.4
Repurchase agreements	0.0	0.0
Accrued interest	(10.5)	(8.1)
TERM ACCOUNTS TO CREDIT INSTITUTIONS AND SIMILAR	**2,783.4**	**1,303.3**
Guarantee deposits received	3.3	0.0
TOTAL DEBTS TO CREDIT INSTITUTIONS AND SIMILAR	**2,860.3**	**1,313.3**

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	31/12/2020	31/12/2019
Current accounts in credit	**9,293.8**	**7,590.5**
Livret A savings accounts	201.9	184.9
Regulated home savings products	204.8	206.6
Other regulated savings accounts	953.4	853.5
Regulated savings accounts	**1,360.1**	**1,245.0**
Demand accounts and loans	116.8	14.3
Term accounts and loans	584.8	642.2
Accrued interest	0.3	0.7
Other customer accounts	**701.9**	**657.1**
Guarantee deposits received	0.7	0.2
TOTAL AMOUNTS DUE TO CUSTOMERS	**11,356.4**	**9,492.9**

The fair value of amounts due to customers is presented in Note 9 "Fair value of financial assets and liabilities".

5.13 Accruals and miscellaneous liabilities

in millions of euros	31/12/2020	31/12/2019
Collection accounts	49.3	44.6
Prepaid income	5.3	3.0
Accrued expenses	79.3	81.6
Other accrual accounts	66.2	11.1
ACCRUAL ACCOUNTS – LIABILITIES	**200.1**	**140.3**
Settlement accounts in credit on securities transactions	0.1	0.3
Sundry creditors	21.5	22.4
Rental liabilities(1)	27.1	34.6
OTHER LIABILITIES	**48.6**	**58.3**
TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES	**248.7**	**198.5**

(1) The impacts of the first-time application of IFRS 16 on the balance sheet at 1 January 2019 (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.

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. On this basis, a provision is made for the same generation of contracts in the event of a potentially unfavourable situation for the Group, without compensation between generations.

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	01/01/2020	Increase	Use	Unused reversals	Other movements[1]	31/12/2020
Provisions for employee benefit obligations	12.8	1.7	0.0	(0.2)	2.8	17.1
Legal and tax risks	5.5	3.2	(1.0)	(2.1)	0.0	5.6
Loan and guarantee commitments	44.2	14.3	0.0	(12.5)	0.0	46.1
Provisions for regulated home savings products	2.3	0.2	0.0	0.0	0.0	2.5
Other operating provisions	3.7	0.3	0.0	(0.2)	0.0	3.8
TOTAL PROVISIONS	**68.6**	**19.8**	**(1.0)**	**(14.9)**	**2.8**	**75.2**

(1) Other changes mainly correspond to changes in actuarial liabilities on employee benefit obligations (€2.8 million).

5.14.1 Deposits collected *via* regulated home savings products

in millions of euros	31/12/2020	31/12/2019
Deposits held in PEL regulated home savings plans		
• plans in place for less than 4 years	3.6	5.9
• plans in place for more than 4, but less than 10 years	81.8	79.5
• plans in place for more than 10 years	97.7	101.0
Deposits collected *via* PEL regulated home savings plans	**183.1**	**186.4**
Deposits collected *via* CEL regulated home savings accounts	**17.2**	**17.3**
TOTAL DEPOSITS COLLECTED *VIA* REGULATED HOME SAVINGS PRODUCTS	**200.2**	**203.8**

5.14.2 Loans granted *via* home savings products

in millions of euros	31/12/2020	31/12/2019
Loans granted under CEL regulated home savings accounts	0.0	0.1
TOTAL OUTSTANDING LOANS GRANTED FOR HOME SAVINGS	**0.0**	**0.1**

5.14.3 Provisions set aside for regulated home savings products

in millions of euros	31/12/2020	31/12/2019
Provisions for PEL regulated home savings plans		
• plans in place for less than 4 years	0.0	0.0
• plans in place for more than 4, but less than 10 years	0.3	0.4
• plans in place for more than 10 years	2.1	1.8
Provisions for PEL regulated home savings plans	**2.4**	**2.2**
Provisions for CEL regulated home savings accounts	**0.1**	**0.1**
Provisions for PEL loans		
Provisions for CEL loans		
Provisions for regulated home savings loans		
TOTAL PROVISIONS FOR HOME SAVINGS PLANS	**2.5**	**2.3**

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	31/12/2020	31/12/2019
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	31/12/2019	Issue	Reimbursement	Other changes	31/12/2020
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

	31/12/2020			31/12/2019		
in millions of euros	Number	Par value	Share capital	Number	Par value	Share capital
Banque Palatine ordinary shares						
Opening balance	34,440,134	20	688.8	26,940,134	20	538.8
Capital increase				7,500,000	20	150.0
Capital reduction						
Other changes						
Closing balance	**34,440,134**	**20**	**688.8**	**34,440,134**	**20**	**688.8**

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 31/12/2020	Par value in millions of euros 31/12/2019
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.

	FY 2020			FY 2019		
in millions of euros	Gross	Taxes	Net	Gross	Taxes	Net
Remeasurement of non-current assets						
Remeasurement (or actuarial gains and losses) in respect of defined-benefit plans	(2.8)	0.7	(2.1)	(0.7)	0.2	(0.5)
Other items recognised through equity of items that cannot be reclassified to net income	0.1	0.0	0.1	0.0	(0.1)	(0.1)
ITEMS THAT CANNOT BE RECLASSIFIED UNDER INCOME	**(2.6)**	**0.7**	**(2.0)**	**(0.7)**	**0.1**	**(0.6)**
Remeasurement of financial assets at fair value through recyclable equity	13.8	(3.6)	10.2	13.5	(3.5)	10.0
ITEMS RECYCLABLE TO PROFIT OR LOSS	**13.8**	**(3.6)**	**10.2**	**13.5**	**(3.5)**	**10.0**
GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY (NET OF TAX)	**11.2**	**(2.9)**	**8.3**	**12.7**	**(3.4)**	**9.3**
Attributable to equity holders of the parent	11.2	(2.9)	8.3	12.7	(3.4)	9.3
Non-controlling interests	0.0	0.0	0.0	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

in millions of euros	31/12/2020				31/12/2019			
	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	131.6	21.2	4.0	106.5	156.8	15.4	2.3	7.3
Repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	**131.6**	**21.2**	**4.0**	**106.5**	**156.8**	**15.4**	**2.3**	**7.3**

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

in millions of euros	31/12/2020				31/12/2019			
	Net amount of financial liabilities presented on the balance sheet	Associated financial assets and financial instruments given as collateral	Margin calls paid (cash collateral)	Net exposure	Net amount of financial liabilities presented on the balance sheet	Associated financial assets and financial instruments given as collateral	Margin calls paid (cash collateral)	Net exposure
Derivatives	161.8	154.4	7.4	0.0	192.3	15.4	3.0	0.0
Repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	**161.8**	**154.4**	**7.4**	**0.0**	**192.3**	**15.4**	**3.0**	**0.0**

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.

5.20 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 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. To assess the substantial nature of the change, IFRS 9 sets a threshold of 10% on the basis of discounted cash flows including any fees and expenses: if the difference is greater than or equal to 10%, all costs or expenses incurred are recognised in 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

in millions of euros	Carrying amount				
	Loans of "outright" securities	Repos	Assets transferred or pledged as collateral	Securitisation	31/12/2020
Financial assets at fair value through equity	0.0	0.0	0.0	0.0	0.0
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
o/w financial assets transferred but not fully derecognised	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***

Repurchase transactions

The Palatine Group did not carry out any repurchase transactions as of 31 December 2020 and 31 December 2019.

Sales of receivables

In 2020, the Palatine Group assigned 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.

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.

5.21 Financial instruments subject to the benchmark index reform

Accounting principles

In accordance with the amendments to IFRS 9 and IAS 39 relating to the reform of reference rates (Phase 1), until the uncertainties related to the reform are resolved, it is considered that:

- 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.

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. The hedging transactions are presented in Note 5.3.

The amendments of Phase 2, post implementation of alternative rates, introduce a practical expedient, which consists in modifying the effective interest rate prospectively without impact on net income in the case where the changes in flows of financial instruments are exclusively related to the reform and make it possible to maintain an economic equivalence between the old flows and the new ones.

If these conditions are met, they also introduce flexibility in the eligibility criteria for hedge accounting in order to maintain the hedging relationships affected by the reform. These provisions concern in particular the impacts related to the redocumentation of hedges, portfolio hedging, the treatment of the OCI reserve for CFH hedges, the identification of an identifiable risk component and retrospective effectiveness tests.

European Union 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 the BMR Regulation, the EURIBOR, LIBOR and EONIA interest rate benchmarks have been declared as critical 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 €ster rate tracker. This will replace the "recalibrated" EONIA as of 1 January 2022.

With regard to EURIBOR, the implementation of a new calculation methodology, recognised by the Belgian regulator as in compliance with the requirements of the Benchmark Regulation, aimed at switching to a so-called "Hybrid" EURIBOR, was finalised in November 2019. At this stage, there is moderate uncertainty as to the sustainability of the EURIBOR, resulting from the limited number of banks contributing to the determination of the index. Two consultations were launched, in November 2020, by the European working group on alternative reference rates, in order to assist the entities in the drafting of the fallback clauses. These consultations concern, in this respect, the determination of the events triggering the permanent termination of the EURIBOR and the methods for determining the rate, based on the €ster, which will then replace the EURIBOR.

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.

As regards LIBOR, at this stage, alternative rates known as "risk free rates" have been defined for LIBOR GBP, UK, CHF and Yen.

However, work is still under way to define the terms of transition to these rates. Legislative solutions are also being considered at the European level, in the United Kingdom and in the United States, for contracts referenced at the LIBOR rate, which would not have been renegotiated at the end of the transition period.

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.

During the year 2019, work focused on the reform of the EURIBOR and the transition from the EONIA to the €ster. In 2020, a more operational phase began, focusing on the transition and the reduction of exposure to reference rates likely to disappear. It includes the use of new indices, inventory remediation and more active communication with the bank's customers. However, the vast majority of contracts affected by the reform will only be remedied with alternative rates in 2021.

Information on outstanding financial assets excluding derivatives, financial liabilities excluding derivatives, and derivatives subject to transition is presented in Chapter 5 "Risk management – Interest rate and liquidity risk".

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 correspond to the nominal value of the commitments given.

6.1 Financing commitments

in millions of euros	31/12/2020	31/12/2019
Financing commitments given to:		
• credit institutions		
• from customers		
Confirmed credit lines	2,019.6	2,027.3
Other commitments	116.6	74.9
TOTAL FINANCING COMMITMENTS GIVEN	**2,136.2**	**2,102.2**
Financing commitments received:		
• from credit institutions	265.7	346.1
• from customers	0.0	0.0
TOTAL FINANCING COMMITMENTS RECEIVED	**265.7**	**346.1**

6.2 Guarantee commitments

in millions of euros	31/12/2020	31/12/2019
Guarantee commitments given:		
• to credit institutions	108.3	49.3
• to customers	993.0	1,073.7
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,101.3**	**1,123.0**
Guarantee commitments received:		
• from credit institutions	162.9	255.3
• from customers(1)	1,531.3	424.2
TOTAL GUARANTEE COMMITMENTS RECEIVED	**1,694.2**	**679.5**

(1) The loans guaranteed by the French State are not included in the amount of customer guarantees given in the table above.

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 Risk exposures

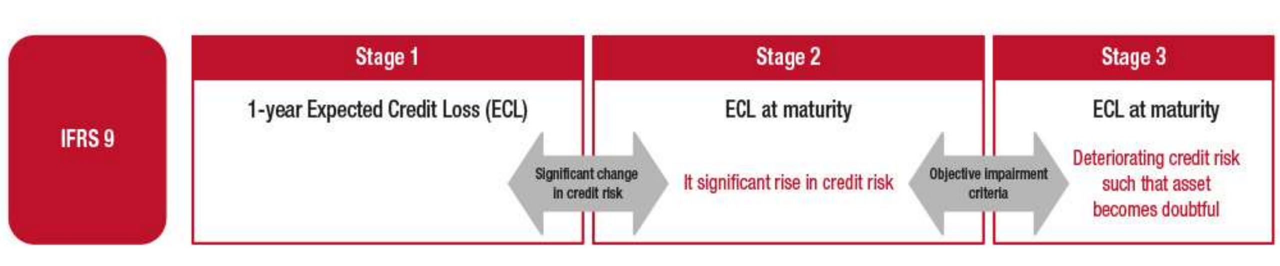
The risk exposures addressed below comprise credit risk, market risk, global interest rate risk, exchange rate risk and liquidity risk.

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 2020	FY 2019
Net impairment losses and provisions	(99.0)	(48.3)
Recoveries of bad debts written off	1.2	2.8
Unrecoverable loans and receivables not covered by impairment losses	(2.5)	(3.5)
TOTAL COST OF CREDIT RISK	**(100.3)**	**(49.0)**

Cost of credit risk for the period by type of asset

in millions of euros	FY 2020	FY 2019
Interbank transactions	(0.1)	0.3
Customer transactions	(97.6)	(33.6)
Other financial assets	(2.6)	(15.7)
TOTAL COST OF CREDIT RISK	**(100.3)**	**(49.0)**

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 (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 (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 (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, receivables for which an event of default has been identified as defined in Article 178 of EU Regulation No. 575/2013 of 26 June 2013 on the prudential requirements applicable to credit institutions in line with the EBA guidelines (EBA/GL/2016/07) on the application of the definition of default and Delegated Regulation No. 2018/1845 of the European Central Bank on the threshold for assessing the importance of arrears on credit obligations, applicable no later than 31 December 2020. The definition of defaulted outstandings is thus clarified by the introduction of a relative threshold and an absolute threshold to be applied to payment arrears to identify default situations, the clarification of the criteria for reverting to sound outstandings with a probation period and the introduction of explicit criteria for classifying restructured loans as default:
- 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 – POCI). These assets can be transferred to Stage 2 in the event of an improvement of the credit risk.

For receivables resulting from operating leases or finance leases which fall under IFRS 16, the Group has decided not to retain the option of applying the simplified method proposed by IFRS 9 §5.5.15.

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. The same principles as those determining the entry into Stage 2 are applied to improve the significant deterioration in credit risk.

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 particular, the moratoria granted to support companies experiencing generalised cash flow difficulties, as well as the granting of loans guaranteed by the French State, do not in themselves lead to the existence of financial difficulties that call into question the capacity of the counterparty to honour its contractual agreements at maturity. Consequently, the principles mentioned are fully applicable depending on the specific situation of the counterparty.

In the 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 Groupe BPCE 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 for debt securities rated investment grade and managed as part of BPCE’s liquidity reserve, as defined by the Basel III regulations. The “Investment grade” rating corresponds to ratings with a rating equal to or higher than BBB- or its equivalent by Standards and Poor’s, Moody’s or Fitch.

In accordance with IFRS 9, the recognition of guarantees and collateral does not affect the assessment of the significant deterioration in credit risk: this is based on changes in the credit risk on the debtor without taking into account guarantees.

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 life of the financial instrument, discounted to the valuation date – these flows are determined according to the characteristics of the contract, its effective interest rate and, for mortgages, the expected level of early repayment on the contract;
- 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 the 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.

The methods used to measure expected credit losses take into account collateral and other credit enhancements that are part of the contractual terms and that the entity does not recognise separately. The estimate of expected cash flow shortfalls of a secured financial instrument reflects the amount and timing of collateral recovery.

Inclusion of forward-looking information

Groupe BPCE 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.

The projections are broken down, mainly on the French market, through the main macro-economic variables such as GDP and its components, the unemployment rate and the ten-year interest rates on French sovereign debt.

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:

- there are objective indications of impairment on an individual basis or on a portfolio basis: these are "trigger events" or "loss events" that characterise a counterparty risk and occur after the initial recognition of the loans concerned. An objective indication of impairment is the occurrence of an arrears for at least three consecutive months (at least six months for receivables from local authorities) for which the amount is above the absolute thresholds (of €100 for a retail exposure otherwise €500) and relative to 1% of the counterparty's exposures, or the restructuring of loans in the event of achievement of certain criteria or, independently of any arrears, the observation of financial difficulties of the counterparty leading to consider that all or part of the amounts due will not be recovered, or the implementation of litigation procedures. The restructured outstandings are classified as Stage 3 when the loss is greater than 1% of the difference between the net present value before restructuring and the net present value after restructuring;
- 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 stage: S1, S2, S3 or POCI). 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 impairments for expected credit losses of financial assets at fair value through equity

	Stage 1		Stage 2		Stage 3		Assets impaired on origination or acquisition (S2 POCI)		Assets impaired on origination or acquisition (S3 POCI)		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	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2020	**1,214.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1,214.9**	**0.0**
New contracts originated or acquired	78.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	78.0	0.0
Variations connected to changes in credit risk parameters (excluding transfers)	81.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	81.9	0.0
Contracts redeemed in full or sold during the period	(341.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(341.1)	0.0
BALANCE AT 31/12/2020	**1,033.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1,033.8**	**0.0**

Change in impairments for credit losses of debt securities at amortised cost:

	Stage 1		Stage 2		Stage 3		Assets impaired on origination or acquisition (S2 POCI)		Assets impaired on origination or acquisition (S3 POCI)		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	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2020	**389.1**	**(1.4)**	**26.2**	**(0.6)**	**27.0**	**(21.0)**	**0.0**	**0.0**	**0.0**	**0.0**	**442.3**	**(23.0)**
New contracts originated or acquired	13.1	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	1.6	0.0	14.8	(0.4)
Variations connected to changes in credit risk parameters (excluding transfers)	13.3	0.0	0.4	0.3	5.7	(0.5)	0.0	0.0	0.0	0.0	19.3	(0.3)
Contracts redeemed in full or sold during the period	(151.4)	0.1	0.0	0.0	(8.5)	2.9	0.0	0.0	0.0	0.0	(159.8)	3.0
Impairment (write-off)	0.0	0.0	0.0	0.0	(4.0)	4.0	0.0	0.0	0.0	0.0	(4.0)	4.0
Reclassification of financial assets	(2.2)	0.7	(1.3)	(0.9)	3.0	0.0	0.0	0.0	0.0	0.0	(0.4)	(0.2)
Transfers to S1	18.1	(0.1)	(18.5)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	(0.4)	0.1
Transfers to S2	(20.3)	0.8	20.3	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)
Transfers to S3	0.0	0.0	(3.0)	0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	11.3	(0.9)	1.0	0.0	1.4	(4.1)	0.0	0.0	0.0	0.0	13.8	(5.0)
BALANCE AT 31/12/2020	**273.2**	**(1.9)**	**26.4**	**(1.3)**	**24.7**	**(18.8)**	**0.0**	**0.0**	**1.6**	**0.0**	**325.9**	**(22.0)**

7.1.2.2 Change in impairments for credit losses and receivables due from credit institutions at amortised cost

	Stage 1		Stage 2		Stage 3		Assets impaired on origination or acquisition (S2 POCI)		Assets impaired on origination or acquisition (S3 POCI)		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	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2020	**2,566.8**	**(0.2)**	**2.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2,569.5**	**(0.2)**
New contracts originated or acquired	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variations connected to changes in credit risk parameters (excluding transfers)	547.5	(0.1)	(0.2)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	547.3	(0.2)
Contracts redeemed in full or sold during the period	(15.3)	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(15.5)	0.0
Other changes	407.1	0.1	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	406.7	0.1
BALANCE AT 31/12/2020	**3,506.1**	**(0.1)**	**1.9**	**(0.2)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3,508.0**	**(0.3)**

7.1.2.3 Change in impairments for credit losses and receivables at amortised cost

	Stage 1		Stage 2		Stage 3		Assets impaired on origination or acquisition (S2 POCI)		Assets impaired on origination or acquisition (S3 POCI)		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	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2020	**8,613.1**	**(40.6)**	**986.3**	**(33.2)**	**437.4**	**(248.4)**	**0.0**	**0.0**	**0.0**	**0.0**	**10,036.8**	**(322.1)**
New contracts originated or acquired	2,247.1	(9.3)	7.8	(0.4)	0.0	0.0	0.0	0.0	62.4	10.4	2,317.3	0.8
Variations connected to changes in credit risk parameters (excluding transfers)	1,595.2	(27.4)	32.9	4.1	173.1	(62.8)	0.0	0.0	0.0	0.0	1,801.1	(86.1)
Contracts redeemed in full or sold during the period	(2,492.1)	1.4	(114.9)	0.0	(134.7)	1.8	0.0	0.0	0.0	0.0	(2,741.7)	3.2
Impairment (write-off)	0.0	0.0	0.0	0.0	(77.0)	74.5	0.0	0.0	0.0	0.0	(77.0)	74.5
Reclassification of financial assets	(288.2)	16.4	170.0	(11.5)	100.4	(16.6)	0.0	0.0	0.0	0.0	(17.7)	(11.7)
Transfers to S1	235.0	(2.1)	(226.2)	3.6	(3.5)	0.1	0.0	0.0	0.0	0.0	5.4	1.7
Transfers to S2	(424.4)	10.6	411.4	(17.8)	(8.2)	0.4	0.0	0.0	0.0	0.0	(21.3)	(6.8)
Transfers to S3	(98.7)	7.8	(15.1)	2.7	112.0	(17.0)	0.0	0.0	0.0	0.0	(1.8)	(6.5)
Other changes	434.5	6.3	(172.8)	6.5	(63.3)	9.0	0.0	0.0	0.0	0.0	198.4	21.8
BALANCE AT 31/12/2020	**10,109.5**	**(53.1)**	**909.4**	**(34.5)**	**435.8**	**(242.5)**	**0.0**	**0.0**	**62.4**	**10.4**	**11,517.2**	**(319.7)**

7.1.2.4 Change in provisions for credit losses on financing commitments given

in millions of euros	Stage 1		Stage 2		Stage 3		Assets impaired on origination or acquisition (S2 POCI)		Assets impaired on origination or acquisition (S3 POCI)		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	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2020	**2,025.9**	**4.2**	**54.4**	**1.9**	**22.0**	**5.3**	**0.0**	**0.0**	**0.0**	**0.0**	**2,102.2**	**11.4**
New contracts originated or acquired	548.5	2.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	549.5	2.0
Variations connected to changes in credit risk parameters (excluding transfers)	207.2	0.9	34.9	(0.5)	4.3	(3.2)	0.0	0.0	0.0	0.0	246.4	(2.8)
Contracts redeemed in full or sold during the period	(940.6)	(0.2)	(33.2)	0.0	(21.5)	0.0	0.0	0.0	0.0	0.0	(995.4)	(0.2)
Reclassification of financial assets	(43.2)	(1.0)	34.2	1.8	0.0	0.0	0.0	0.0	0.0	0.0	(9.0)	0.9
Transfers to S1	3.8	0.0	(4.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.0)	0.0
Transfers to S2	(45.2)	(1.0)	39.2	1.8	0.0	0.0	0.0	0.0	0.0	0.0	(6.0)	0.9
Transfers to S3	(1.8)	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.0)	0.0
Other changes	213.4	(0.4)	11.2	(0.1)	18.0	0.0	0.0	0.0	0.0	0.0	242.5	(0.5)
BALANCE AT 31/12/2020	**2,011.1**	**5.5**	**102.4**	**3.1**	**22.7**	**2.1**	**0.0**	**0.0**	**0.0**	**0.0**	**2,136.2**	**10.7**

7.1.2.5 Change in provisions for credit losses on guarantee commitments given

	Stage 1		Stage 2		Stage 3		Assets impaired on origination or acquisition (S2 POCI)		Assets impaired on origination or acquisition (S3 POCI)		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	Carrying amount	Impairment for expected credit losses	Carrying amount	Impairment for expected credit losses
BALANCE AT 01/01/2020	**994.8**	**3.0**	**73.1**	**8.4**	**55.0**	**21.4**	**0.0**	**0.0**	**0.0**	**0.0**	**1,123.0**	**32.9**
New contracts originated or acquired	320.7	1.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	320.9	1.7
Variations connected to changes in credit risk parameters (excluding transfers)	96.0	0.6	14.6	(5.1)	12.4	9.8	0.0	0.0	0.0	0.0	123.0	5.3
Contracts redeemed in full or sold during the period	(366.3)	(0.1)	(40.8)	0.0	(17.4)	(6.6)	0.0	0.0	0.0	0.0	(424.4)	(6.7)
Reclassification of financial assets	(22.8)	(1.0)	16.7	1.6	4.2	0.4	0.0	0.0	0.0	0.0	(1.9)	1.0
Transfers to S1	9.3	0.0	(7.6)	(0.1)	(1.8)	(0.8)	0.0	0.0	0.0	0.0	(0.1)	(0.9)
Transfers to S2	(26.6)	(1.0)	24.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0	(1.8)	0.9
Transfers to S3	(5.4)	0.0	(0.5)	(0.2)	5.9	1.2	0.0	0.0	0.0	0.0	0.0	1.0
Other changes	(27.4)	0.3	(9.0)	0.9	(2.7)	0.0	0.0	0.0	0.0	0.0	(39.1)	1.1
BALANCE AT 31/12/2020	**995.1**	**4.6**	**54.8**	**5,.8**	**51.4**	**25.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1,101.3**	**35.4**

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	Impairment
Class of financial instruments impaired (S3)				
Debt securities at amortised cost	26.3	(18.8)	7.5	0.0
Loans and advances to customers at amortised cost	498.3	(253.0)	245.3	112.2
Financing commitments	22.7	2.1	20.6	0.0
Guarantees issued	51.4	25.0	26.4	0.0
TOTAL IMPAIRED FINANCIAL INSTRUMENTS (S3)	**598.7**	**(244.6)**	**299.8**	**112.2**

7.1.5 Guarantees received on instruments not subject to IFRS 9 impairment rules

in millions of euros	Maximum exposure to risk(1)	Impairment
Financial assets at fair value through profit or loss		
Debt securities	18.2	0.0
Trading derivatives	130.7	0.0
TOTAL	**148.9**	**0.0**

(1) Carrying amount on the balance sheet.

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

in millions of euros	31/12/2020			31/12/2019		
	Loans and advances	Off-balance sheet commitments	Total	Loans and advances	Off-balance sheet commitments	Total
Impaired restructured loans	14.2	0.0	14.2	44.6	0.0	44.6
Performing restructured loans	22.4	0.0	22.4	26.0	0.0	26.0
TOTAL RESTRUCTURED LOANS	**36.6**	**0.0**	**36.6**	**70.6**	**0.0**	**70.6**
Impairment	**(6.7)**	**0.0**	**(6.7)**	**(28.5)**	**0.0**	**(28.5)**
Guarantees received	**19.2**	**0.0**	**19.2**	**15.6**	**0.0**	**15.6**

Analysis of gross loans

in millions of euros	31/12/2020			31/12/2019		
	Loans and advances	Off-balance sheet commitments	Total	Loans and advances	Off-balance sheet commitments	Total
Adjustments: amendments to the terms and conditions	35.9	0.0	35.9	37.3	0.0	37.3
Adjustments: refinancing	0.7	0.0	1.0	33.3	0.0	33.3
TOTAL RESTRUCTURED LOANS	**36.6**	**0.0**	**36.6**	**70.6**	**0.0**	**70.6**

Counterparty region

in millions of euros	31/12/2020			31/12/2019		
	Loans and advances	Off-balance sheet commitments	Total	Loans and advances	Off-balance sheet commitments	Total
France	36.3	0.0	36.3	70.6	0.0	70.6
Other countries	0.3	0.0	0.3	0.0	0.0	0.0
TOTAL RESTRUCTURED LOANS	**36.6**	**0.0**	**36.6**	**70.6**	**0.0**	**70.6**

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 2020.

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	Not determined	31/12/2020
Cash, central banks	0.0	911.1	0.0	0.0	0.0	0.0	0.0	911.1
Financial assets at fair value through profit or loss	297.5	0.0	0.0	0.0	0.0	0.0	0.0	297.5
Financial assets at fair value through equity	41.0	13.2	0.0	188.6	363.2	427.7	8.1	1,041.9
Hedging derivatives	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.9
Securities at amortised cost	0.1	0.0	0.0	94.0	159.7	50.1	0.0	303.9
Loans and advances due from credit institutions and similar items at amortised cost	0.0	1,116.9	1,037.5	880.0	263.9	203.9	0.0	3,502.1
Loans and advances due from customers at amortised cost	179.7	1,346.1	631.9	2,517.9	3,736.1	2,756.7	0.0	11,168.5
Remeasurement gains and losses on interest rate risk-hedged portfolios	6.3	0.0	0.0	0.0	0.0	0.0	0.0	6.3
FINANCIAL ASSETS BY MATURITY	**525.5**	**3,387.2**	**1,669.4**	**3,680.5**	**4,523.1**	**3,438.4**	**8.1**	**17,232.2**
Cash placed with central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities at fair value through profit or loss	116.3	0.0	0.0	0.0	0.0	0.0	0.0	116.3
Hedging derivatives	45.5	0.0	0.0	0.0	0.0	0.0	0.0	45.5
Debt securities	0.0	254.1	592.9	613.2	117.6	35.1	0.0	1,613.0
Amounts due to credit institutions and similar items	5.5	60.9	53.5	1,518.4	1,222.0	0.0	0.0	2,860.3
Amounts due to customers	0.1	10,742.9	17.5	132.2	458.9	4.9	0.0	11,356.4
Subordinated debt	0.0		0.0	0.0	0.0		0.0	
Remeasurement gains and losses on interest rate risk-hedged portfolios	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCIAL LIABILITIES BY MATURITY	**167.4**	**11,058.1**	**664.0**	**2,263.8**	**1,798.5**	**240.0**	**0.0**	**16,191.7**
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	22.7	257.4	44.8	140.0	1,664.4	6.9	0.0	2,136.2
TOTAL FINANCING COMMITMENTS GIVEN	**22.7**	**257.4**	**44.8**	**140.0**	**1,664.4**	**6.9**	**0.0**	**2,136.2**
Guarantee commitments in favour of credit institutions	0.0	54.9	12.8	37.1	3.6	0.0	0.0	108.3
Guarantee commitments given to customers	51.4	22.0	19.4	108.9	707.5	83.8	0.0	993.0
TOTAL GUARANTEE COMMITMENTS GIVEN	**51.4**	**76.9**	**32.1**	**146.0**	**87.4**	**707.5**	**0.0**	**1,101.3**

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 2020	FY 2019
Wages and salaries	(79.8)	(74.9)
including expenses represented by equity-based payments	*0.0*	*0.0*
Defined-contribution and defined-benefit plan expenses	(10.5)	(9.3)
Other tax and social security charges(1)	(42.1)	(44.2)
Profit-sharing and incentive plans	(3.6)	(7.8)
TOTAL PAYROLL COSTS	**(136.0)**	**(136.2)**

(1) The tax credit for competitiveness and employment (CICE) deducted from personnel expenses was eliminated and transformed into a reduction in social security contributions on 1 January 2019.

The Group’s average headcount during the year, broken down by professional category, was as follows: 839 managers and 454 non-managers, representing a total of 1,293 employees.

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

	Post-employment benefits under defined-benefit plans		Other long-term benefits			
in millions of euros	Supplementary pension benefits and other	Termination benefits	Long-service awards	Other long-term benefits	31/12/2020	31/12/2019
Actuarial liabilities	0.5	17.6	3.3	6.8	28.2	12.8
Fair value of plan assets	0.0	(11.1)	0.0	0.0	(11.1)	0.0
Asset cap effect	0.0	0.0	0.0	0.0	0.0	0.0
Net amount reported on the balance sheet	**0.5**	**6.5**	**3.3**	**6.8**	**17.1**	**12.8**
Employee benefits, liabilities	0.5	6.5	3.3	6.8	17.1	12.8
Employee benefits, assets[(1)]	0.0	0.0	0.0	0.0	0.0	0.0

(1) Presented on the assets side of the balance sheet under "Accruals and miscellaneous assets".

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 in the balance sheet

Change in actuarial liabilities

	Post-employment benefits under defined-benefit plans		Other long-term benefits			
in millions of euros	Supplementary pension benefits and other	Termination benefits	Long-service awards	Other long-term benefits	FY 2020	FY 2019
Actuarial liabilities at start of year	**0.5**	**3.5**	**2.5**	**6.3**	**12.8**	**21.8**
Service cost	0.0	1.0	0.3	0.0	1.3	1.1
Interest cost	0.0	0.0	0.0	0.0	0.0	0.3
Benefits paid	0.0	(1.0)	(0.2)	0.0	(1.2)	(1.0)
Other	0.0	0.3	0.7	0.5	1.5	(10.2)
Remeasurement gains and losses – Demographic assumptions	0.0	(0.1)	0.0	0.0	(0.1)	(0.7)
Remeasurement gains and losses – Financial assumptions	0.0	0.7	0.0	0.0	0.7	1.5
Remeasurement gains and losses – Experience adjustments	0.0	2.1	0.0	0.0	2.1	(0.1)
Other	0.0	11.1	0.0	0.0	11.1	
ACTUARIAL LIABILITIES AT END OF PERIOD	**0.5**	**17.6**	**3.3**	**6.8**	**28.2**	**12.8**

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				
	Supplementary pension benefits and other	Termination benefits		Long-service awards	Other long-term benefits	Other long-term benefits	FY 2020	FY 2019
Service cost		1.0	1.0	0.3	0.0	0.3	1.3	1.1
Net financial cost		0.0	0.0	0.0	0.0	0.0	0.0	0.3
Benefits paid		(1.0)	(1.0)	(0.2)	0.0	0.0	(1.2)	(1.0)
Other (including income ceiling)		0.3	0.3	0.7	0.5	1.2	1.5	(10.2)
TOTAL EXPENSE FOR THE PERIOD		**0.3**	**0.3**	**0.8**	**0.5**	**1.3**	**1.6**	**(9.8)**

Gains and losses recognised directly in equity of defined-benefit plans

in millions of euros	Supplementary pension benefits and other	Termination benefits	FY 2020	FY 2019
Cumulative remeasurement gains and losses at start of period	**(0.7)**	**3.6**	**2.9**	**2.2**
Remeasurement gains and losses in reporting period	0.1	2.7	2.8	0.7
CUMULATIVE REVALUATION DIFFERENCES AT THE END OF THE PERIOD	**(0.6)**	**6.3**	**5.7**	**2.9**

8.2.4 Other information

Main actuarial assumptions

	31/12/2020	31/12/2019
	CGP-CE	CGP-CE
Discount rate	0.45%	0.65%
Inflation rate	1.60%	1.52%
Life tables used	TGH05-TGF05	INSEE (TH 00-02 and TF 00-002)

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 23 for managerial-grade and 20 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 2020, a 0.25% change in the discount rate would have the following impact on the actuarial liabilities:

in millions of euros	31/12/2020		
	Termination benefits	Long-service awards	Supplementary pension benefits and other
Discount rate	0.23%	0.03%	0.04%
Central scenario	6.5	3.3	0.5
0.25% increase	6.2	2.8	0.5
0.25% decrease	7.0	3.4	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 Groupe BPCE 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 "Guarantee 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 derivative instruments

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:

	31/12/2020			
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**	**148.6**	**0.0**	**148.6**
Loans due from credit institutions and customers	*0.0*	*148.6*	*0.0*	*148.6*
Derivatives	**0.0**	**51.4**	**0.0**	**51.4**
Interest-rate derivatives	*0.0*	*13.5*	*0.0*	*13.5*
Currency derivatives	*0.0*	*37.9*	*0.0*	*37.9*
Financial assets at fair value through profit or loss – Held for trading	**0.0**	**200.0**	**0.0**	**200.0**
Derivatives	**0.0**	**79.4**	**0.0**	**79.4**
Interest-rate derivatives	*0.0*	*91.3*	*0.0*	*91.3*
Currency derivatives	*0.0*	*(11.9)*	*0.0*	*(11.9)*
Financial assets at fair value through profit or loss – Economic hedging	**0.0**	**79.4**	**0.0**	**79.4**
Debt instruments	**0.2**	**13.9**	**4.1**	**18.2**
Debt securities	*0.2*	*13.9*	*4.1*	*18.2*
Financial assets at fair value through profit or loss – Non-standard	**0.2**	**13.9**	**4.1**	**18.2**
Debt instruments	**1,023.5**	**10.3**	**0.0**	**1,033.8**
Loans due from credit institutions and customers	*0.0*	*0.0*	*0.0*	*0.0*
Debt securities	*1,023.5*	*10.3*	*0.0*	*1,033.8*
Equity instruments	**0.0**	**4.9**	**3.3**	**8.1**
Shares and other equity securities	*0.0*	*4.9*	*3.3*	*8.1*
Financial assets at fair value through equity	**1,023.5**	**15.2**	**3.3**	**1,041.9**
Interest-rate derivatives	0.0	0.9	0.0	0.9
Hedging derivatives	**0.0**	**0.9**	**0.0**	**0.9**

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**	**53.4**	**0.0**	**53.4**
Interest-rate derivatives	*0.0*	*20.5*	*0.0*	*20.5*
Currency derivatives	*0.0*	*32.9*	*0.0*	*32.9*
Other financial liabilities	**0.0**	**0.0**	**0.0**	**0.0**
Financial liabilities at fair value through profit or loss – Held for trading	**0.0**	**53.4**	**0.0**	**53.4**
Derivatives	**0.0**	**62.9**	**0.0**	**62.9**
Interest-rate derivatives	*0.0*	*74.9*	*0.0*	*74.9*
Currency derivatives	*0.0*	*(12.0)*	*0.0*	*(12.0)*
Financial liabilities at fair value through profit or loss – Economic hedge	**0.0**	**62.9**	**0.0**	**62.9**
Interest-rate derivatives	*0.0*	*45.5*	*0.0*	*45.5*
Hedging derivatives	**0.0**	**45.5**	**0.0**	**45.5**

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	01/01/2020	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	31/12/2020
FINANCIAL ASSETS										
Debt instruments	4.8	0.6	0.0	0.0	0.0	(1.3)	0.0	0.0	0.0	4.1
Debt securities	*4.8*	*0.6*	*0.0*	*0.0*	*0.0*	*(1.3)*	*0.0*	*0.0*	*0.0*	*4.1*
Financial assets at fair value through profit or loss – Non-standard	**4.8**	**0.6**	**0.0**	**0.0**	**0.0**	**(1.3)**	**0.0**	**0.0**	**0.0**	**4.1**
Equity instruments	3.1	0.0	0.0	0.0	0.5	(0.3)	0.0	0.0	0.0	3.3
Shares and other equity securities	*3.1*	*0.0*	*0.0*	*0.0*	*0.5*	*(0.3)*	*0.0*	*0.0*	*0.0*	*3.3*
Financial assets at fair value through equity	**3.1**	**0.0**	**0.0**	**0.0**	**0.5**	**(0.3)**	**0.0**	**0.0**	**0.0**	**3.3**

9.1.3 Analysis of transfers between levels of the fair value hierarchy

As part of the migration, a review of the securities was carried out and the SAGESS securities were reclassified.

in millions of euros	FY 2020						
	From	Level 1	Level 1	Level 2	Level 2	Level 3	Level 3
	To	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Financial assets							
Debt instruments		**10.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Debt securities		10.3	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through equity		**10.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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”.

	31/12/2020				31/12/2019			
in millions of euros	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS AT AMORTISED COST	**14,974.5**	**0.0**	**1,154.3**	**13,820.2**	**12,703.3**	**0.0**	**1,665.0**	**11.038.3**
Loans and receivables due from credit institutions	3,502.1	0.0	443.1	3,059.0	2,569.3	0.0	1,124.2	,445.1
Loans and advances due from customers	11,168.5	0.0	711.2	10,457.3	9,714.7	0.0	540.8	9,173.9
Debt securities	303.9	0.0	0.0	303.9	419.3	0.0	0.0	419.3
FINANCIAL LIABILITIES AT AMORTISED COST	**16,029.9**	**0.0**	**9,371.4**	**6,658.6**	**13,223.3**	**0.0**	**7,601.0**	**5,622.4**
Amounts due to credit institutions	2,860.3	0.0	76.9	2,783.4	1,313.3	0.0	10.1	1,303.3
Amounts due to customers	11,356.4	0.0	9,294.5	2,062.0	9,492.9	0.0	7,590.9	1,902.0
Debt securities	1,613.0	0.0	0.0	1,613.0	2,216.9	0.0	0.0	2,216.9
Subordinated debt	200.2	0.0	0.0	200.2	200.2	0.0	0.0	200.2

Note 10Taxes

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.

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.

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.

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”.

in millions of euros	FY 2020	FY 2019
Current tax	0.1	(6.0)
Deferred tax	7.3	(5.1)
INCOME TAX EXPENSE	**7.4**	**(11.1)**

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

	FY 2020		FY 2019	
	in millions of euros	Tax rate	in millions of euros	Tax rate
Net income attributable to equity holders of the parent	(14.7)		18.4	
Changes in the value of goodwill	0.0		0.0	
Non-controlling interests	0.0		0.0	
Share in net income of associates	(0.3)		(0.6)	
Taxes	(7.4)		11.1	
Income before tax and changes in the value of goodwill (A)	**(22.4)**		**28.9**	
Standard tax rate in France (B)		**32.02%**		**34.43%**
Theoretical tax expense/(income) at the tax rate applicable in France (A*B)	**7.2**		**(10.0)**	
Change in unrecognised deferred taxes	0.0		0.0	
Impact of permanent differences	(0.5)		(0.6)	
Reduced tax rate and exempt activities	0.3		0.0	
Difference in tax rates on income taxed abroad	0.0		0.0	
Tax on prior periods, tax credits and other taxes	0.1		(0.9)	
Impact of tax rate changes	0.0		0.0	
Other items	0.3		0.4	
Tax expense/(profit) recognised	**7.4**		**(11.1)**	
EFFECTIVE TAX RATE (INCOME TAX EXPENSE AS A PERCENTAGE OF TAXABLE INCOME)		**33.04%**		**38.41%**

10.2 Deferred taxes

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	31/12/2020	31/12/2019
Unrealised capital gains on UCITS	0.0	0.0
Tax EIGs (Economic Interest Groups)	0.0	0.0
Provisions for employee benefit obligations	0.6	0.5
Provisions for regulated home savings products	0.8	0.8
Non-deductible impairment in respect of credit risk	11.6	11.7
Other non-deductible provisions	1.9	0.8
Fair value of financial instruments with changes recognised in other retained earnings	(9.5)	(5.4)
Other temporary differences(1)	14.7	11.6
Deferred tax assets and liabilities related to temporary differences	**20.1**	**20.2**
Deferred taxes related to the activation of tax losses carried forward	4.4	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 TAXES	**24.9**	**20.5**
Recognised		
As an asset	24.9	20.5
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 Groupe BPCE, the Palatine Group presents information for the following three segments:

- retail banking;
- asset management;
- other activities.

The “Retail banking” segment encompasses all the activities of the Banque Palatine entity.

The “Asset management” segment 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.

in millions of euros	Retail banking		Asset management		Other activities		Total Group	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Net banking income	305.9	316.4	16.7	16.4	0.4	0.5	323.0	333.3
Operating expenses	(235.1)	(253.8)	(8.7)	(8.5)	(0.3)	(0.2)	(244.1)	(262.5)
Gross operating income	**70.9**	**62.6**	**8.0**	**7.9**	**0.1**	**0.3**	**78.9**	**70.8**
Cost/income ratio	76.8%	80.2%	52.4%	51.8%	83.3%	35.6%	75.6%	78.7%
Cost of risk	(100.3)	(49.0)	0.0	0.0	0.0	0.0	(100.3)	(49.0)
Share in net income of associates	0.0	0.0	0.0	0.0	0.3	0.6	0.3	0.6
Net gains or losses on other assets	(1.0)	7.2	0.0	0.0	0.0	0.0	(1.0)	7.2
Change in value of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income before tax	**(30.4)**	**20.8**	**8.0**	**7.9**	**0.3**	**0.9**	**(22.1)**	**29.4**
Income tax	9.7	(8.5)	(2.3)	(2.5)	0.0	(0.1)	7.4	(11.1)
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	**(20.7)**	**12.2**	**5.7**	**5.4**	**0.3**	**0.8**	**(14.7)**	**18.4**
TOTAL ASSETS	**17,500.7**	**14,707.1**	**19.0**	**19.0**	**4.2**	**4.2**	**17,524.0**	**14,730.3**

11.2 Information on leasing 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 5.5). 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 involves identifying an asset and the lessee’s control of the right to use said 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.

The term of contracts not renewed or terminated at this term, known as “tacit extensions”, is determined on the basis of an expert judgment as to the prospects for holding these contracts and failing that in the absence of ***ad hoc*** information over a reasonable period of three years.

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 2020	FY 2019
Interest due on rental liabilities	(0.1)	(0.1)
Amortisation of the basis of rights of use	(7.8)	(7.5)
Variable rent payments not included in the valuation of the rental liabilities	0.0	0.0
LEASE EXPENSES RELATED TO LEASES RECOGNISED IN THE BALANCE SHEET	**(7.9)**	**(7.6)**

in millions of euros	FY 2020	FY 2019
Rental expenses on the basis of short-term leases	(1.5)	(2.2)
Rental expenses related to low-value assets	0.0	0.0
LEASE EXPENSES RELATED TO LEASES NOT RECOGNISED IN THE BALANCE SHEET	**(1.5)**	**(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

	31/12/2020				
	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	Total
Rental liabilities	**3.9**	**3.9**	**14.5**	**4.3**	**26.4**

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

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).

	31/12/2020		01/01/2019	
in millions of euros	BPCE	Associates	BPCE	Associates
Loans	3,174.9	0.0	2,281.3	0.0
Other financial assets				
Other assets				
TOTAL ASSETS WITH RELATED ENTITIES	**3,174.9**	**0.0**	**2,281.3**	**0.0**
Liabilities	2,934.6	6.5	1,349.9	4.8
Other financial liabilities				
Other liabilities				
TOTAL LIABILITIES TO RELATED ENTITIES	**2,934.6**	**6.5**	**1,349.9**	**4.8**
Interest and similar income and expenses	19.7	0.0	23.2	0.0
Fees and commission	0.0	0.0	(3.9)	0.0
Net income from financial transactions				
Net income from other activities				
TOTAL NBI GENERATED WITH RELATED ENTITIES	**19.7**	**0.0**	**19.4**	**0.0**
Commitments given				
Commitments received	0.0	0.0	30.1	0.0
Commitments on forward financial instruments				
TOTAL COMMITMENTS WITH RELATED ENTITIES	**0.0**	**0.0**	**30.1**	**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 executives

The main senior executives are the members of Banque Palatine’s Executive Management Committee and Board of Directors.

Short-term employee benefits

The short-term benefits paid to senior executives came to €1.3 million in 2020 (€1.8 million in 2019).

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 2020	FY 2019
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

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 Partnerships and other associates

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

in millions of euros	31/12/2020	31/12/2019
Conservateur Finance	4.1	3.8
Financial companies	4.1	3.8
TOTAL INVESTMENTS IN ASSOCIATES	**4.1**	**3.8**

11.4.1.2 Financial data of the main partnerships 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	31/12/2020	31/12/2019
Dividends received	**0.0**	**0.4**
MAIN AGGREGATES		
Total assets	**25.7**	**24.8**
Total debt	**5.3**	**5.7**
Income statement		
NBI	19.6	23.4
Income tax	0.7	1.4
Net income	1.4	2.8
RECONCILIATION WITH THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED COMPANIES		
Equity of associates	20.3	19.0
Percentage interest	20.0%	20.0%
Value of shares in associates	**4.1**	**3.8**

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 2020	FY 2019
Conservateur Finance	0.3	0.6
Financial companies	**0.3**	**0.6**
SHARE IN NET INCOME OF ASSOCIATES	**0.3**	**0.6**

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 2020:

Excluding insurance investments in millions of euros	Securitisation	Asset management	Structured financing	Other activities
Financial assets at fair value through profit or loss	**0.0**	**14.0**	**0.0**	**0.0**
Financial assets at fair value through profit or loss – Non-standard	0.0	0.2	0.0	0.0
Financial instruments classified at fair value (option)	0.0	13.8	0.0	0.0
TOTAL ASSETS	**0.0**	**14.0**	**0.0**	**0.0**
Maximum exposure to the risk of loss	0.0	14.0	0.0	0.0
Size of structured entities	**0.0**	**7,444.6**	**0.0**	**0.0**

FY 2019:

Excluding Investments in insurance activities 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**

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 Statutory Auditors' fees

	Deloitte				PricewaterhouseCoopers				KPMG				Total			
	Amount		%		Amount		%		Amount		%		Amount		%	
In thousands of euros	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Role of certification of financial statements	**0**	**2**	**0%**	**100%**	**240**	**204**	**76%**	**95%**	**204**	**177**	**73%**	**93%**	**444**	**383**	**57%**	**94%**
• Issuer	0	2			202	162			196	169			398	333		
• *Fully consolidated subsidiaries*	0	0			38	42			8	8			46	50		
Services other than the certification of the financial statements	**181**	**0**	**100%**	**0%**	**77**	**10**	**24%**	**54%**	**77**	**13**	**27%**	**7%**	**335**	**23**	**43%**	**6%**
• Issuer	181	0			77	10			77	13			335	23		
• *Fully consolidated subsidiaries*	0	0			0	0			0	0			0	0		
TOTAL	**181**	**2**	**100%**	**100%**	**317**	**214**	**100%**	**100%**	**281**	**190**	**100%**	**100%**	**779**	**406**	**100%**	**100%**
Change (%)	8950%				48%				48%				92%			

The total amount of Deloitte' fees recorded in the corporate income statement for the financial year amounted to €181 thousand, corresponding to a specific assignment involving a review of the reconciliation between accounting and management.

The total fees of PricewaterhouseCoopers Audit included in the consolidated income statement for the year amounted to €317 thousand, including €240 thousand for the certification of the financial statements, and €77 thousand for services other than the certification of the financial statements;

The total fees of KPMG included in the consolidated income statement for the financial year amounted to €281 thousand, including €204 thousand for the certification of the financial statements and €77 thousand for services other than the certification of the financial statements.

Note 12Preparation 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 2020. It has been supplemented to take into account the effects of the transactions mentioned above.

Note 13Details of the scope of consolidation

13.1 Scope of consolidation at 31 December 2020

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 EU Regulation 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.

	31/12/2020				
	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 Non-consolidated companies at 31 December 2020

Regulation No. 2016-09 of 2 December 2016 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC) 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 DELEGUEE SOCIALE	France	100%	Not significant
STE IMMOBILIERE D’INVESTISSEMENT	France	100%	Not significant

3
STATUTORY AUDITORS' REPORT

1 Statutory Auditors' report on the parent-company financial statements

Year ended 31 December 2020

To the General Meeting,

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 SA for the financial year ended 31 December 2020, as appended to this report.

In our opinion, the parent-company financial statements give a true and fair view of the assets and liabilities and of the financial position of the company, and of the results of its operations for the year then ended in accordance with French accounting principles.

The above opinion is consistent with the content of our report to the Audit Committee.

Basis of opinion

Audit standards

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

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

Independence

We conducted our audit in accordance with the applicable standards of independence between 1 January 2020 and the date of our report. We did not provide any services prohibited under Article 5, paragraph 1 of EU Regulation No. 537/2014 or the French Statutory Auditors' Professional Code of Conduct.

Observation

Without calling into question the opinion expressed above, we draw your attention to the change in accounting method brought about by the application of Regulation No. 2020-10 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC) relating to the presentation of special customer deposits and the associated centralisation claim with *Caisse des Dépôts et Consignations,* on the one hand, and to the presentation of securities borrowing, on the other hand. The scope of this change is described in Note 2.2 to the annual financial statements.

Justification of our assessments – Key audit matters

The global crisis related to the Covid-19 pandemic created special conditions for the preparation and audit of the financial statements for the year in question. Indeed, this crisis and the exceptional measures taken in the framework of the health emergency entailed multiple consequences for companies, particularly for their activity and financing, as well as increased uncertainties about their future prospects. Some of these measures, such as travel restrictions and teleworking, also affected the internal organisation of companies and the implementation of audits.

It is in this complex and evolving context that, in application of the provisions of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the key points of the audit relating to the risks of material misstatement which, in our professional judgment, were the most important for the audit of the parent-company financial statements for the year, as well as the responses we have provided to these risks.

Risk identified	Our response
Banque Palatine is exposed to credit risk and to counterparty risk. The bank constitutes impairments and provisions to cover these 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. Outstanding loans and commitments bearing a proven counterparty risk are subject to impairments determined mainly on an individual basis. These impairments are assessed by your bank's management according to the estimated future recoverable flows, taking into account the guarantees available on each of the loans concerned. Given the importance of judgement in determining these impairments and provisions, we believed that the estimate of expected losses on doubtful loans and commitments was a key point of our audit. In particular, in the context of the crisis linked to the Covid-19 pandemic, we considered that the assessment of the adequacy of the level of credit risk coverage by provisions and the level of the associated cost of risk constituted an area of special attention for the 2020 financial year. At 31 December 2020, outstanding customer loans came to €11,506.3 million, and gross doubtful loans to €501.8 million. The impairments and provisions made to cover customer credit risks classified as doubtful amounted to €257.2 million. For further details on accounting principles and exposures, see Notes 3.9 and 4.2 to the financial statements.	We examined the system set up by the risk management department to classify loans (non-doubtful and doubtful) and to assess the amount of expected or established losses on these loans, taking into account, in particular, the crisis linked to the Covid-19 pandemic. We tested the controls implemented by the management to identify 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 checked the impairment calculations on a portfolio basis; • Furthermore, we carried out control tests on the system for identifying and monitoring doubtful and disputed counterparties, on the credit review process and on the guarantee appraisal system, • On the basis of two samples of credit files compiled statistically and according to expert opinion, we reviewed the level of impairment retained by the bank *via* contradictory analyses of impairment amounts, • 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 have no matters to report as to the fair presentation and the consistency with the parent-company financial statements of the information given in the Board of Directors' management report and in the other documents on the financial position and financial statements sent to shareholders, with the exception of the observation made above.

The fair presentation and consistency with the parent-company financial statements of the information relating to payment terms referred to in Article D.441-6 of the French Commercial Code call for 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 produced.

Board of Directors' report on corporate governance

We certify that the Board's report on corporate governance contains the information required by Articles L. 225-37-4 and L. 22-10-10 of the French Commercial Code.

Other verifications or information required by law and regulations

Format of the parent-company financial statements intended to be included in the annual financial report

In accordance with III of Article 222-3 of the AMF General Regulation, the management of your company has informed us of its decision to postpone the application of the single electronic reporting format as defined by EU Delegated Regulation No. 2019/815 of 17 December 2018 to financial years beginning on or after 1 January 2021. Consequently, this report does not include a conclusion on the compliance with this format in the presentation of the parent-company financial statements intended to be included in the annual financial report mentioned in section I of Article L. 451-1-2 of the French Monetary and Financial Code.

Appointment of Statutory Auditors

We were appointed as Statutory Auditors of the company Banque Palatine SA by the shareholders at the General Meetings 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 2020, KPMG Audit FS I had conducted its duties for 14 years without interruption and PricewaterhouseCoopers Audit had done so for 20 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.

The professional standards applicable in France require that the Statutory Auditor exercise professional judgement throughout the audit. In addition, they:

- identify and assess the risks of material misstatement in 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 the internal control procedures 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 the 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;
- assess the overall presentation and content of the parent-company financial statements and whether the 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 the 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.

The 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 EU Regulation 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, 29 April 2021

KPMG AUDIT FS I	PricewaterhouseCoopers Audit
Marie-Christine Jolys	Antoine Priollaud
Partner	*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 2020)

To the Shareholders

In our Statutory Auditors of your «typesociete»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

We inform you that we have not been given notice of any authorised agreement concluded during the past financial year to be submitted for approval to the General Meeting in accordance with the provisions of Article L. 225-38 of the French Commercial Code.

Agreements already approved by the General Meeting

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

Pursuant to Article R. 225-30 of«ARTICLE_E» 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 until 26 May 2020 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 SA, 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.

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, at the end of the migration to Natixis EuroTitres, €345,000 to be paid per year from June 2018 (inclusive) to 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 2020 financial year was income of €345,000 excluding tax.

2. Agreements with executives

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 2020 was an expense of €3,200,000, excluding tax.

3. Agreements with shareholders and their subsidiaries

a. Benefit in the event of enforced departure

Persons concerned:

Christine Jacglin, Chief Executive Officer of Banque Palatine SA.

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 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).

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 2020.

b. Retirement benefits

Person concerned:

Christine Jacglin (Chief Executive Officer of Banque Palatine SA)

Patrick Ibry (Deputy Chief Executive Officer of Banque Palatine SA)

Nature and purpose:

This agreement was authorised by the Board of Directors on 21 October 2019 for Christine Jacglin and by the Board of Directors on 8 February 2018 for Patrick Ibry.

If so decided by the Board of Directors, the Chief Executive Officer and the Deputy CEO 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.

This commitment did not have any financial impact on the financial statements at 31 December 2020.

c. No employment contract or suspended employment contract – Unemployment insurance

Person concerned:

Christine Jacglin (Chief Executive Officer of Banque Palatine SA)

Patrick Ibry (Deputy Chief Executive Officer of Banque Palatine SA)

Nature and purpose:

This agreement was authorised by the Board of Directors on 21 October 2019 for Christine Jacglin and by the Board of Directors on 8 February 2018 for Patrick Ibry.

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

This commitment did not have any financial impact on the financial statements at 31 December 2020.

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

Person concerned:

Christine Jacglin (Chief Executive Officer of Banque Palatine SA)

Patrick Ibry (Deputy Chief Executive Officer of Banque Palatine SA)

Nature and purpose:

This agreement was authorised by the Board of Directors on 21 October 2019 for Christine Jacglin and by the Board of Directors on 8 February 2018 for Patrick Ibry.

The Board of Directors has decided that the Chief Executive Officer and the Deputy CEO will benefit from the plan to maintain her remuneration for a period of 12 months in the event of temporary incapacity for work.

This commitment did not have any financial impact on the financial statements at 31 December 2020.

e. Supplementary pension plans for the Chief Executive Officer and the Deputy CEO

Person concerned:

Christine Jacglin (Chief Executive Officer of Banque Palatine SA)

Patrick Ibry (Deputy Chief Executive Officer of Banque Palatine SA)

Nature and purpose:

Banque Palatine SA's Chief Executive Officer and Deputy CEO benefit from:

- the defined-contribution pension plan applicable to unclassified executives (Klésia), subject to the same conditions as Banque Palatine SA's employees.
- 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.

For the financial year ended on 31 December 2020, the amount of Klésia contributions (employee and employer) paid by Banque Palatine SA to the Chief Executive Officer and the Deputy CEO was as follows:

- Christine Jacglin: €15,840.24
- Patrick Ibry: €15,840,24.

Bordeaux and Paris La Défense, 29 April 2021

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

3 Statutory Auditors' report on the consolidated financial statements

Year ended 31 December 2020

To the General Meeting,

Opinion

Pursuant to the mission entrusted to us by your General Meeting, we conducted an audit of the consolidated financial statements of Banque Palatine SA for the financial year ended 31 December 2020, as appended to this report.

In our opinion, the consolidated financial statements give a true and fair view of the operating results for the year 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 the applicable standards of independence between 1 January 2020 and the date of our report. We did not provide any services prohibited under Article 5, paragraph 1 of EU Regulation No. 537/2014 or the French Statutory Auditors' Professional Code of Conduct.

Justification of our assessments – Key audit matters

The global crisis related to the Covid-19 pandemic created special conditions for the preparation and audit of the financial statements for the year in question. Indeed, this crisis and the exceptional measures taken in the framework of the health emergency entailed multiple consequences for companies, particularly for their activity and financing, as well as increased uncertainties about their future prospects. Some of these measures, such as travel restrictions and teleworking, also affected the internal organisation of companies and the implementation of audits.

It is in this complex and evolving context that, in application of the provisions of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the key points of the audit relating to the risks of material misstatement which, in our professional judgment, were the most significant for the audit of the consolidated financial statements for the year, as well as the responses we have provided to these risks.

These assessments are made in the context of the audit of the consolidated financial statements taken as a whole and the formation of our opinion expressed above. We have no comment to make on the items of the consolidated financial statements taken in isolation.

Risk identified	Our response
The Banque Palatine Group is exposed to credit and counterparty risks. The Banque Palatine Group constitutes impairments and provisions to cover these risks of losses arising from the inability of its customers to meet their financial commitments primarily on non-performing loans (Stage 3). Impairment of loans presenting actual counterparty risk (Stage 3) is determined on an individual or collective basis. These individual impairment charges are assessed by the management according to estimates of the recoverable future cash flows taking the available guarantees into account or using IFRS 9 parameters for collective impairments. The assessment of the impairments and provisions requires judgment to be exercised to classify exposures (Stage 3) or to estimate the recoverable future cash flows or recovery times. Given the importance of judgment in determining these impairments on Stage 3 outstanding loans, we believed that the estimate of expected losses on outstanding loans was a key point of our audit. In particular, in the context of the crisis linked to the Covid-19 pandemic, we considered that the assessment of the adequacy of the level of credit risk coverage by provisions and the level of the associated cost of risk constituted an area of special attention for the 2020 financial year. At 31 December 2020, outstanding customer loans came to €11,509 million, including €435.8 million of Stage 3 receivables. The impairments recorded on loans and other receivables outstanding came to €242.5 million for Stage 3. For further details on the accounting principles and exposures, see Notes 5.5.3 and 7.1 to the financial statements.	We examined the system set up by the risk management department to classify loans (Stage 3 or other) and to assess the amount of expected or established losses on these loans, taking into account, in particular, the crisis linked to the Covid-19 pandemic. We tested the controls implemented by management to identify these outstandings and to assess the expected recovery and impairment. For impairment: • We checked the impairment calculations on a portfolio basis, • Furthermore, we carried out control tests on the system for identifying and monitoring doubtful and disputed counterparties, on the credit review process and on the guarantee appraisal system, • On the basis of two samples of credit files compiled statistically and according to expert opinion, we reviewed the level of impairment used by the bank *via* contradictory analyses of the impairment amounts, • 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

In accordance with the professional standards applicable in France, we also performed the specific verifications required by law and regulations on the information relating to the Group, provided in the Board of Directors' management report.

We have no comments to report with respect to the fairness of its presentation and consistency with the consolidated financial statements.

We hereby certify that the consolidated statement of non-financial performance provided for by Article L. 225-102-1 of the French Financial Code is included in the Group's management report, it being specified that, in accordance with the provisions of Article L. 823-10 of said Code, the information contained in this statement has not been verified by us as to its fairness or consistency with the consolidated financial statements.

Other verifications or information required by law and regulations

Presentation format of the consolidated financial statements intended to be included in the annual financial report

In accordance with III of Article 222-3 of the AMF General Regulation, the management of your company has informed us of its decision to postpone the application of the single electronic reporting format as defined by EU Delegated Regulation No. 2019/815 of 17 December 2018 to financial years beginning on or after 1 January 2021. Consequently, this report does not include a conclusion on the compliance with this format in the presentation of the consolidated financial statements intended to be included in the annual financial report mentioned in section I of Article L. 451-1-2 of the French Monetary and Financial Code.

Appointment of Statutory Auditors

We were appointed as Statutory Auditors of the company Banque Palatine SA by the shareholders at the General Meetings 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 2020, KPMG Audit FS I had conducted its duties for 14 years without interruption and PricewaterhouseCoopers Audit had done so for 20 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.

The professional standards applicable in France require that the Statutory Auditor exercise professional judgement throughout the audit. In addition, they:

- 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 the 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.

The items covered in the report to the Audit Committee include the risks of material misstatement that we judge to be the most significant for the audit of the consolidated financial statements for the year and which constitute one of the key audit matters, which we are obliged to describe in this report.

We also present to the Audit Committee the declaration required by Article 6 of EU Regulation 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, 29 April 2021

Paris La Défense, 29 April 2021

KPMG AUDIT FS I

Marie-Christine Jolys

Partner

Bordeaux, 29 April 2021

PricewaterhouseCoopers Audit

Antoine Priollaud

Partner

4

2020 RISK MANAGEMENT

The 2020 financial year was marked by the management and effects of the Covid-19 health crisis. Faced with this health crisis, Groupe BPCE's establishments set up systems to ensure business continuity and the monitoring of risks of all types from the start of the crisis.

Local establishments managed the crisis with two main measures to support corporate and professional customers:

- mass or specific moratoria;
- the introduction of loans guaranteed by the French State.

At the level of Groupe BPCE's central body, numerous crisis dashboards have been set up on a regular basis. These tables cover all types of risk: credit risks, market risks, operational risks, etc.

In addition, impact studies and specific stress tests were also carried out.

With regard to the management and monitoring of credit risks, several systems have been put in place:

- new reports were deployed on State-guaranteed loans to monitor each week the production of these loans (sectors financed, counterparty ratings, etc.). In the context of the Covid-19 crisis, on 25 March the European Banking Authority (EBA) indicated that the moratoria put in place at the initiative of banks fall under general measures and not specific to borrowers, loans guaranteed by the State does not automatically lead to the classification of the loan agreement as forbearance;
- a summary Covid indicator to identify customers who may be affected by the health crisis has also been introduced. This system makes it possible to detect and deal with risk situations and to quickly deal with any unfavourable changes on the basis of multiple information, in particular on professional and very small business customer segments where data is more accessible;
- an override grid as part of the management of the health crisis has been defined: it modifies the override standard currently in place for customers affected by the health crisis;
- a change was made to the segmentation standard for professional revenue in the Covid context. This change aims to smooth out the Covid crisis effect and avoid untimely segment changes.

With regard to business continuity and IT security, on the strength of the experiences and the pandemic plan put together following previous influenza alerts (avian and swine), the Group undertook a rapid, relevant and proportionate response in the rest of the world and particularly in metropolitan France.

The handling of the situation resulting from the Covid-19 pandemic confirmed the relevance of the crisis management guidelines adopted, both in terms of the measures and the tools deployed; However, the Group remains aware that these measures cannot be reproduced for all types of crisis and has therefore developed other responses adapted to the various possible contexts.

The remote working infrastructures, already operational, have been densified in order to continue the activity within the framework of the lockdown decided by the authorities. The security of information systems, including the GDPR aspects, compliance and anti-fraud controls have been adapted to the logic of remote work on all operational processing chains concerned.

Human resources and Group communications have been heavily mobilised to adapt the nominal working environment of employees and strengthen social ties during lockdown periods.

At the same time, the establishments have deployed their crisis management system, in constant contact with and in line with the Group system.

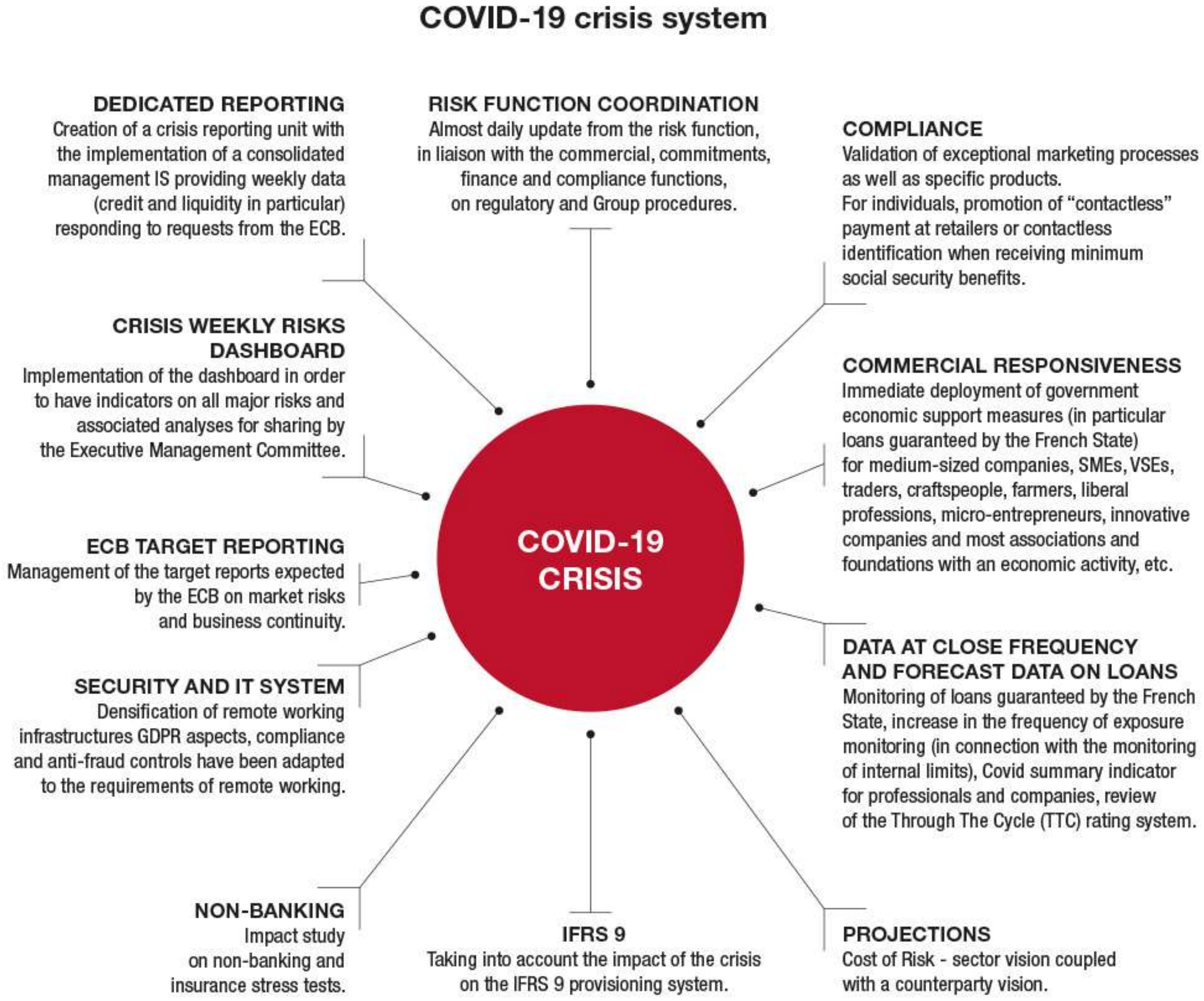
Organised around a group coordination unit, specific business crisis units have been added to the system to meet specific challenges (retail banking and insurance, finance, etc.).

With regard to Compliance, due to an exceptional health crisis, the year 2020 was marked by the approval of exceptional marketing processes as well as specific products (*e.g.* State-guaranteed loans, student loans, postponement of the expiry date of business customer loans and home loans).

Customer protection has also been at the heart of the Group's concerns, first of all physical, through the promotion of technological contributions and in particular "contactless" payment by retailers or contactless identification when receiving basic social welfare benefits, but also through the immediate deployment of government economic measures (in particular State-guaranteed loans).

Exceptional processes have also been put in place for existing products and services, commercial or internal, to support customers, particularly for extensions of deadlines.

The diagram below summarises these systems:



1 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 2020

In %	31/12/2020	31/12/2019
Tier 1 ratio	8.56%	9.20%
CET1 ratio	9.51%	10.22%
Total capital adequacy ratio	11.40%	12.26%

Supplemental indicators

in millions of euros	31/12/2020	31/12/2019
Total assets	17,524.0	14,730.3
Customer loans	11,168.5	9,714.7

IFRS cost of risk

in millions of euros	31/12/2020	31/12/2019
	100.3	49.0

Rate of doubtful loans

	31/12/2020	31/12/2019
Doubtful S3 loans in millions of euros	599	541
Doubtful loans/total loans in %	3.40	3.67%

LCR

In %	31/12/2020	31/12/2019
	125.3	114.6

Main risks and emerging risks

Groupe BPCE pays particular attention to anticipating and managing emerging risks, given the ongoing changes in the environment.

The global Covid-19 pandemic and lockdowns in most countries in the spring and fall resulted in a violent and sudden contraction of economies. This crisis, the duration and intensity of which are still very uncertain, has profoundly changed the environment in which the Group’s activities are conducted. It has greatly increased the intensity of the shocks caused by the various types of risks affecting our businesses.

The risk of future deterioration of the Group’s credit portfolios now appears to be preponderant. The impact of the health crisis, particularly marked for certain sectors, the increase in corporate debt to cope with it, in particular through loans guaranteed by the French State, as well as the expected rise in unemployment despite partial-work arrangements, appear to be drivers of the future deterioration of the Group’s exposure and an inevitable and potentially significant increase in the cost of risk.

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 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. The management of climate risk is also mentioned in the regulatory guidelines of the revised Capital Requirements Directive and Regulation (CRR2-CRD5).

Risk factors for Groupe BPCE including Banque Palatine

The risk factors presented below concern Groupe BPCE as a whole, including Banque Palatine, and are fully described in Groupe BPCE's universal registration document.

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 the liquidity of BPCE as well as that of its affiliated parent companies and subsidiaries, including Banque Palatine, which operate in the financial markets.
  - a substantial increase in asset impairment charges recognised in respect of Groupe BPCE's portfolio of loans and receivables could have a negative impact on its results and financial position.
- future events could differ from the assumptions used by senior executives to prepare Groupe BPCE financial statements, which could expose it to unforeseen losses;
- any interruption or failure of Groupe BPCE IT systems or those of a third party could lead to losses, notably commercial. Unforeseen events can cause an interruption of Groupe BPCE activities and lead to substantial losses as well as additional expenses. On this basis, Emergency Business Continuity Plans (EBCP) are reviewed regularly and exercises are carried out in particular to maintain continuity of those services deemed to be essential;
- Groupe BPCE 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

Banque Palatine is exposed to risks that were identified as part of its macro-risk mapping:

- 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 positioning in the medium-sized market, the of concentration is particularly monitored. The main exposures, by type of credit, by business sector, to specific risks such as leveraged transactions (LF), LBOs, etc. are presented to the Risk Committee each quarter.

  The Risk Appetite Framework (RAF) consists of ten limits which define the credit business. A threshold of resilience was crossed during the year: that on LBOs in the second quarter. In accordance with the regulatory provisions, a remediation plan was put in place and from the third quarter onwards the limit was once again respected.
- 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;
- non-financial risks: risk of external fraud, credit frontier risk, risk of non-compliance, in particular those related to know-your-customer for which major action plans are still in progress.

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 when 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;
- because of its focus on medium-sized business, the establishment is particularly sensitive to the national economic environment;
- Banque Palatine could also face a shortage of liquidity should any of the Groupe BPCE entities in the financial solidarity mechanism get into financial difficulties;
- Banque Palatine is subject to the European Bank Recovery and Resolution Directive (BRRD): the directive imposes a framework for recovery and resolution of credit institutions and investment firms and may have an impact on their management and, in certain circumstances, the rights of their creditors. Specifically, potential bond investors must consider the risk that they could lose all or part of their investment, including both principal and interest, most notably if the bail-in measures are triggered. If the competent resolution authority decides to impose resolution, this could have a negative impact.

2 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 departments:

- the risk management department;
- the Group’s compliance and permanent controls department, responsible for permanent control;
- and the Group general inspection department, 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 departments. In particular, the link encompasses:

- approval by Groupe BPCE on the appointments and withdrawals of the heads of permanent or periodic control functions in the establishment;
- 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 departments 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 control department using the Group permanent control monitoring (PRISCOP) tool.

Second level

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

- the risk management department, in charge of second-level permanent control of credit risks, financial and market risks, and operational risks;
- the compliance and permanent controls department, including information systems security;
- the accounting review;
- the security of assets and of employees (reporting to the human resources and services department).

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

More specifically, the compliance department's Permanent Control Steering Unit supervises the control framework of the operational departments:

- centralising the key controls for the departments, sections and units;
- 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 December 2020. Any exceeding of the quantitative limits defined in the RAF is subject to an alert and an appropriate remediation plan that can be approved by the Executive Management Committee and communicated to the Board of Directors if necessary.

In 2020, three thresholds were crossed:

- the limit of LBO commitments mentioned above;
- the completeness of the customer regulatory file (individual customers): a remediation plan was drawn up in early 2021;
- the limit on the cost of operational risk: an "Article 98" declaration was made following the decision to postpone the IT migration due to the health crisis, which led to an additional operational cost at the origin of this limit crossing.

3 Capital management and capital adequacy

Regulatory framework

The Basel III agreement, transposed into European Union 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	31/12/2020	31/12/2019
Consolidated equity	1,008.33	1,037.31
Perpetual deeply subordinated notes classified as equity	(100.0)	(100.0)
Consolidated equity excluding perpetual deeply subordinated notes classified as equity	908.33	937.31
Non-controlling interests		
Common Equity Tier 1 (CET1) capital before deductions	892.66	911.54
• Deductions from common equity		
• Goodwill		
Other intangible assets	(7.88)	(9.10)
Other prudential adjustments	13.19	(1.66)
Common Equity Tier 1 (CET1) capital	897.97	900.78
Deeply subordinated notes		
Other Additional Tier 1 (AT1) capital	100.00	100.00
Tier 1 capital (A)	**997.97**	**1000.78**
Tier 2 capital	198.11	200.00
Tier 2 capital (B)	**198.11**	**200.00**
TOTAL REGULATORY CAPITAL (A + B)	**1,196.08**	**1,200.78**
Credit risk-weighted assets	9,873.04	9,156.85
Market risk-weighted assets	3.26	3.67
Operational risk-weighted assets	603.27	603.33
CVA risk-weighted assets	9.74	29.70
TOTAL BASEL III RISK-WEIGHTED ASSETS	**10,489.31**	**9,793.54**
Capital adequacy ratio		
Core Tier 1 ratio	8.56%	9.20%
Tier 1 ratio	9.51%	10.22%
Overall solvency ratio	11.40%	12.26%

Tier 1 ratio

The regulatory capital is determined in accordance with EU Regulation No. 575/2013 (“CRR”) of 26 June 2013 on the prudential requirements applicable to credit institutions and investment firms.

They are organised into three main categories:

- Common Equity Tier 1 capital (CET1);
- additional Tier 1 capital (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 €897.9 million includes the following elements:

- share capital, reserves, and undistributed profits: €892.6 million;
- prudential restatements (including intangible assets, AVA, OCI): €5.3 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 7%.

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 corresponds in particular to subordinated instruments issued, meeting the restrictive eligibility criteria according to Article 63 of the CRR. Banque Palatine’s Tier 2 capital consists of two eligible fixed-term subordinated loans for an 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	31/12/2020	Weighted exposures 31/12/2019
Central governments and central banks	66	59
Public sector entities	0	0
Institutions	36	91
Secured obligations	3	3
Corporates	6,673	6,200
Retail customers	544	479
High-risk exposure	566	518
Exposures guaranteed by a mortgage on a real estate asset	1,278	1,372
Exposures in default	459	303
Collective investment undertakings	20	20
Exposure in the form of equities	8	8
Other items	219	102
Credit risk exposures	9,873	9,157
Market risk exposures	3	4
Operational risk exposures	603	603
CVA risk exposures	10	30
TOTAL AMOUNT OF RISK EXPOSURES	**10,489**	**9,794**
CET1 capital	898	901
CET1 ratio	**8.56%**	**9.20%**
T1 capital	998	1,001
AT1 ratio	**9.51%**	**10.22%**
Total capital	1,196	1,201
Total capital adequacy ratio	**11.40%**	**12.26%**

At 31 December 2020, the risk-weighted assets calculated in accordance with Basel III amounted to €10,489 million.

Since 1 January 2014, the “Basel III” capital adequacy ratio has been defined, in accordance with EU Directive No. 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.

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 Delegated Regulation No. 2015/62 of 10 October 2014. Banks have had to publish their leverage ratios since 1 January 2015.

Integration into the Pillar I requirements system is planned 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 5.38% at 31 December 2020, compared with 6.08% for the previous financial year, based on its Tier 1 capital.

in millions of euros	31/12/2020	31/12/2019
Total consolidated assets according to published financial statements	17,524	14,730
Adjustment for financial derivatives	(41)	105
Adjustment for commitments given (conversion of loan-equivalent amounts of off-balance sheet exposures)	1,971	1,652
Adjustments for capital assets	(8)	(16)
Deduction of Central Bank exposures	(901)	
TOTAL LEVERAGE EXPOSURE	**18,545**	**16,471**

4 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 Control. 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 departments 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 department (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 entities.

On this last point, a special effort was made by the risk management department, which led numerous training sessions, in particular on:

- forbearance (monitoring of which has been strengthened at Group level);
- the Leverage Finance guidance (LF); and
- the rating with the transition to the new default (NDOD, Group standard) and the Group's rating engines NIO and NIA.

Within BPCE's central body, the risk management, compliance and permanent control departments provide consistency, homogeneity, efficiency and completeness in the measurement, monitoring and control of risks. They are in charge of the Group's consolidated risk management.

Their mission is carried out independently of the operational departments. Their operating procedures, particularly in terms of channels, are specified in the Group's Risk and Compliance Charters, approved by the BPCE Management Board.

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 the internal control of banking firms, the Risk Committee is also responsible for assessing the effectiveness of the internal control systems.

Coordination Committee for Internal Control Functions

The permanent control, periodic control and compliance functions are all represented on the Coordination Committee for Internal Control Functions, which met twice in 2020. It is chaired by a member of Executive Management.

The other members of the committee are: the second effective manager, the Head of Internal Audit, the Head of Risks, Compliance, Permanent Control and Financial Security and his or her deputy. 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.

As such, it is informed of any inconsistency, or any factor of ineffectiveness, in the organisation of the permanent controls identified by the Chief Risk Officer or the Compliance and Permanent Control Director.

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.

Audit and Internal Control Committee

This quarterly committee, chaired by a member of Executive Management, is made up of the second effective manager, the Head of Audit, the Head of Risk Management, the Head of Compliance and Permanent Controls and the representative of the Group risk management department. 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 2020.

The committees common to the various permanent control functions are as follows:

Committees	Frequency	Type of risks
Coordination Committee for Internal Control Functions	I	Coordination of control functions
Audit and Internal Control Committee	Q	All risks
Operational Risks and Security Committee	Q	Operational risk
Products and Services Approval Committee	M or Q	All risks

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

Risk management, compliance, permanent control and financial security department (RC^{2}S)

The RC^{2}S department reports hierarchically to the Chief Executive Officer and functionally to Groupe BPCE's risk and compliance departments.

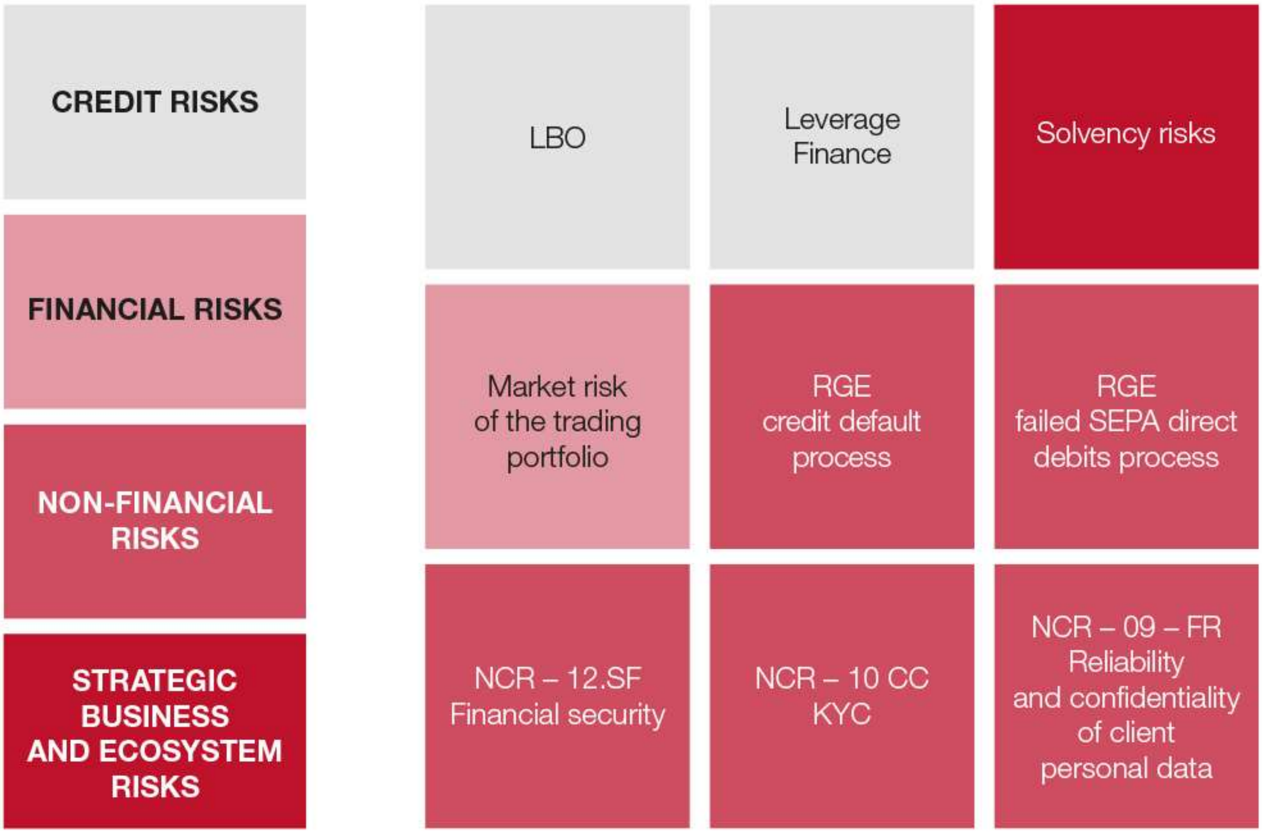
This department, like those of Groupe BPCE, covers all risks: credit risks, financial risks, operational risks and risks of non-compliance. In accordance with Article 75 of the order of 3 November 2014 regarding internal control, it provides for the measurement, monitoring and control of risks.

The RC^{2}S department includes the risk department and the compliance and permanent control department. In risk management, Banque Palatine applies all principles of the Group's Risk, Compliance and Permanent Controls Charter. RC^{2}S 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

Banque Palatine's overall risk profile corresponds to that of a retail bank: the summary of the main risks presented to the Audit and Internal Control Committee, as shown in the risk mapping, can be summarised in four risk groups:



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.

Palatine Asset Management has a Head of Compliance and Internal Control in charge of second-level controls. He or she reports back to the Palatine Asset Management Audit Committee which includes, as permanent guests:

- Banque Palatine's Head of Risk Management and Compliance and his deputy;
- Banque Palatine's Head of Internal Audit;
- the Head of Group General Inspection.

The minutes of the meetings of Palatine Asset Management's Audit and Risk Committee are systematically sent to Banque Palatine's Audit Committee and Risk Committee.

In addition, to supplement this system, the Head of Compliance and Internal Control attends Banque Palatine's Operational Risks and Security Committee.

Finally, the bank's Head of Information Systems Security fulfils the same role at Palatine Asset Management.

Quality controls on accounting and financial information

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

Accounting and financial information is prepared and processed by the finance department headed by the Deputy CEO responsible for finance. Accounting and management control are placed under its responsibility.

Accounting

The main duties of the accounting department 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 department’s internal control framework

For Banque Palatine, the accounting function prepares quarterly consolidated financial statements in accordance with IFRS and publishes them half-yearly. 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. Accounting uses Groupe BPCE’s accounting tool, which ensures the internal consistency of scopes, charts of accounts, processes and analyses for the entire consolidated scope of Banque Palatine and Groupe BPCE.

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 departments 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 Groupe BPCE’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.

Since the migration of Banque Palatine’s SAB information system to the i-BP Equinoxe platform, the Comptabase tool has been upgraded in 2020 which has been accompanied by new developments for the bank, namely the opening to the accounting production of the tool for entering entries in euros, in the same way as other Group entities.

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 December 2020, in order to comply with the decisions of the 3CIG on the reinforcement of the independence of the review, the Head of Review reports:

- functionally to the compliance and permanent control department. 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 the French Anti-corruption Agency (*Agence française anticorruption* – AFA).

Within BPCE

The financial review is attached to the department for the coordination of permanent control, which is one of BPCE's four expertise departments. It is still organised as a function and has, as in the past, its own body of standards and governance. 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 entities presenting 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 department is to maintain a strong functional link between the function within the Group entities and that of the central body in order to safeguard the quality of Groupe BPCE's accounting information and regulatory reporting.

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 level of requirements of the standard "Principles for the aggregation of risk data and risk notification" (BCBS 239).

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 department, the head of which reports to the Deputy CEO, 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

Since 1 September 2020, the communications department reports to the resources and services department. In conjunction with the institutional affairs and investments department, which manages governance operationally, it is responsible for disseminating the financial information published and made available to financial analysts and institutional investors on Banque Palatine's website and through documents updated annually and registered, if necessary, with the French Financial Markets Authority (*Autorité des marchés financiers* – AMF).

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 bank's control processes include the immediate reporting to Executive Management, the Board of Directors, BPCE and the French Prudential and Resolution Supervisory Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR) of any provisioned or definitive loss greater than or equal to 0.5% of its Common Equity Tier 1 capital, for operational risks, in accordance with Article 98 of the Order of 3 November 2014 on internal control, and BPCE's decisions.

In this respect, one incident was the subject of an "Article 98" declaration: it concerned an exceptional charge linked to the postponement of the IT migration for six months.

Credit risks

Banque Palatine is subject to the Groupe BPCE standard on credit risks of 2 December 2015, which sets an alert threshold of 2% of capital.

This threshold, calculated on the basis of shareholders' equity at 31 December 2020, amounts to €23.9 million.

In this regard, no incidents were reported in 2020.

Risk measurement and monitoring

The risk management department:

- 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 department is made up of four sections whose duties are mainly to:

For the credit risk management department:

- carry out contradictory analyses on the files presented to the Credit Committees;
- 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 and Provisions 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 risk-weighted assets (RWAs), 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 the reporting on the collective provision for the Watch List and Provisions Committee;
- produce the Anacrédit report.

For the 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 the Common Solvency Ratio Reporting (COREP) of operational risk.

For the 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.

5 Credit and counterparty risk

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 department and the Lending department 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 Watch List and Provisions Committee.

The risk management department produces performing and doubtful Watch Lists on a quarterly basis.

The risk department analyses the performing watch list and the special affairs department and the litigation and amicable recovery department analyse the doubtful Watch List. This work is reported monthly to the Watch List and Provisions Committee.

Finally, the risk management department 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 department 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 establishment'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.

The commitments department, which reports to the Deputy CEO in charge of finance, assumes the prerogatives of second reading for credit applications 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 department 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 department carries out a dialectic analysis, independently of the operational functions, of the credit applications put forward by the bank's operational entities and issues a formal opinion on the files presented to the various committees in which it participates. It also runs a posteriori controls on applications decided by the branches, the lending department 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 grants delegations that fall within the overall framework of the limits in force, caps and existing or future freezes, and rules on internal and regulatory limits at Groupe BPCE and Banque Palatine. They are broken down by segment and rating. The last delegated letter was received on 16 December 2019.

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 Groupe BPCE's risk management department. This credit risk framework covers the standards and best practices to follow in each of the Groupe BPCE entities and the management and reporting standards established by the BPCE Supervisory Board or Management Board upon the recommendation of the Group Risk Committee. It is a work tool for risk management department participants within the Group and represents an element of the permanent control system of the Group's institutions.

Banque Palatine's risk management department has strong functional ties with Groupe BPCE's risk management department, 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 department's 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 department 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 2020

IT migration: 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.

Coronavirus crisis: the year was mainly impacted by the Covid-19 crisis, which greatly mobilised the risk management department across all its functions: implementation and analysis of loans guaranteed by the State and extension of deadlines, adaptation of permanent controls, emphasis on identification and formalisation of forbearance, among other things.

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. In 2020, operational integration work continued with the implementation of a new Groupe BPCE calculator and educational support for sales teams.

Risk policy: Banque Palatine's risk policy has been updated, in accordance with Groupe BPCE's risk policies, or as a result of recommendations from Banque Palatine's internal audit, in particular on the sections concerning the Leverage Finance standard, LBOs, home loans, consumer loans, the policy concerning property developers and SCPIs, and the transport and hotel and catering sector policies.

Rating: during the year 2020, the bank maintained a rating rate above the regulatory threshold of 95% of rated exposures. The bank's rating engines were replaced in October 2020 by those of Groupe BPCE for individual customers (NIA) and professional customers (NIO).

Moreover, work was done to improve COREP production, including efforts to make the reconciliation of accounting items and data quality more reliable.

RWA: work to improve the quality of risk data, which began in 2018, continued in 2020 as part of the risk monitoring and control plan concerning the Risk-Weighted Assets (RWA), as part of Banque Palatine's strategic plan.

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 departments, including the risk management department, perform second-level controls on the validity and registration of the guarantees. All of the permanent controls were moreover standardised by Groupe BPCE in early 2019.

In 2020, work was carried out in order to reduce the establishment's exposure to credit risk and, therefore, its capital requirements. This work is on-going and involves:

- the management of customer loans;
- data quality through 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 department carries out crisis simulations relating to credit risk, including all establishments, 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 Groupe BPCE'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

H1 and H2 provisions increased compared to the previous financial year (€110.1 million at the end of December 2020 compared to €93.5 million at the end of December 2019) due to the health crisis and the review of macroeconomic forecasts (forward looking approach). The overall provisioning rate for the outstandings concerned remained stable at 0.6%.

Stage 3

The doubtful receivables and commitments amounted to €598.7 million compared to €541.5 million in the previous financial year. This increase is due to:

- the application of the new default rule (NDOD) within Groupe BPCE;
- granting loans guaranteed by the State to counterparties classified as declared doubtful.

As in 2019, a bad debt disposal programme was carried out at the very beginning of the second half of 2020 for an amount of €41.4 million.

These receivables and commitments are covered by provisions for which the coverage rate decreased to 50% compared to 54.8% in 2019. This decrease is mainly due to the low provisioning of doubtful outstandings of loans covered by a guarantee by the French State.

The cost of risk amounted to €100.3 million, an increase of €51.3 million compared to 2019. This increase is due to:

- a sharp increase in provisions (up €31.1 million) for counterparties in Stage 3;
- and a review of the macroeconomic forecasts for the counterparties allocated in Stages 1 and 2 (up €20.1 million).

IFRS 9 provisioning rate – Stages 1 and 2

	2020			2019		
in millions of euros	Loans	Provisions	Provision rate	Loans	Provisions	Provision rate
Loans and receivables due from credit institutions	3,507.7	0.3		2,569.4	0.2	
Loans and advances due from customers	11,018.9	87.6		9,599.4	73.7	
Debt securities at amortised cost	299.6	3.2		415.2	2.0	
BALANCE SHEET	**14,826.2**	**91.1**	**0.61%**	**12,584.1**	**76.0**	**0.60%**
Guarantee commitments given	979.9	10.3		1,027.3	11.5	
Financing commitments given	2,113.5	8.6		2,080.3	6.1	
Other provisions as liabilities		0.0			0.0	
BALANCE SHEET AND OFF-BALANCE SHEET	**17,919.6**	**110.1**	**0.61%**	**15,691.7**	**93.5**	**0.60%**

IFRS 9 provisioning rate – Stage 3

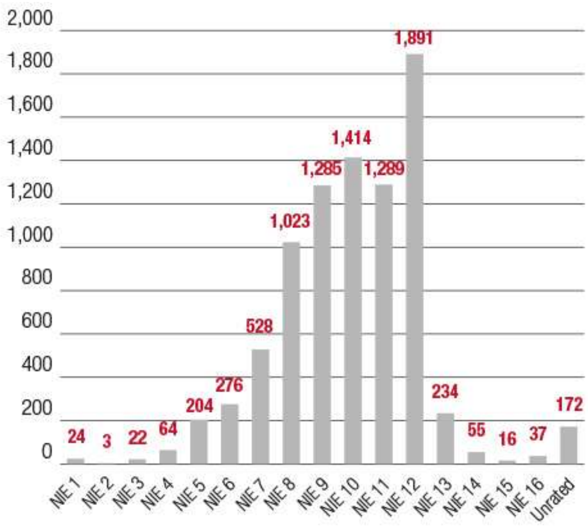
in millions of euros	2020 Loans	2020 Provisions	2020 Provision rate	2019 Loans	2019 Provisions	2019 Provision rate
Loans and advances due from credit institutions in default						
Loans and advances due from customers in default	498.3	253.0		437.4	248.4	
of which outstanding State-guaranteed loans	62.5	4.1				
Debt securities at amortised cost in default	26.3	18.8		27.0	21.0	
DOUBTFUL BALANCE SHEET LOANS	**524.6**	**271.8**	**51.8%**	**464.5**	**269.4**	**58.0%**
Doubtful financing commitments given	51.4	25.0		55.0	21.4	
Doubtful guarantees given	22.7	2.1		22.0	5.3	
Other provisions as liabilities		0.6			0.7	
DOUBTFUL EXPOSURES, ON- AND OFF-BALANCE SHEET	**598.7**	**299.5**	**50.0%**	**541.5**	**296.8**	**54.8%**

Quantitative information

Monitoring of concentration risk by counterparty

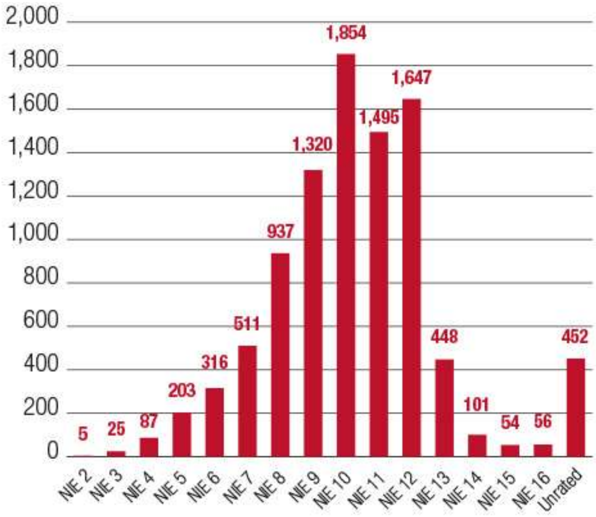
Breakdown of corporate exposures by internal rating

Corporate counterparties with revenues of less than €1 billion (2019)



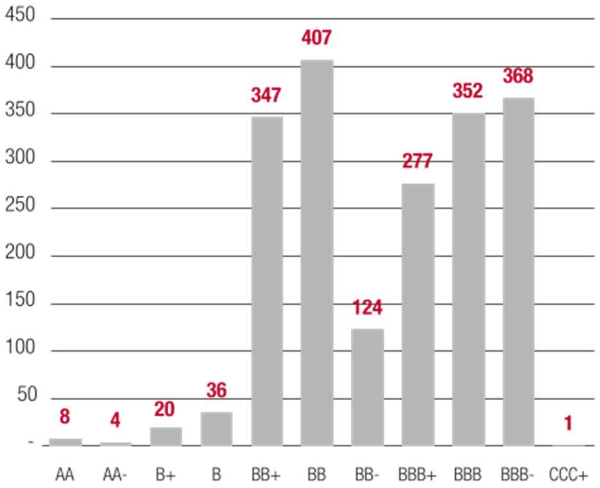
Gross exposures BPCE Corporate segments extracted from COREP 31/12/2019

Corporate counterparties with revenues of less than €1 billion (2020)



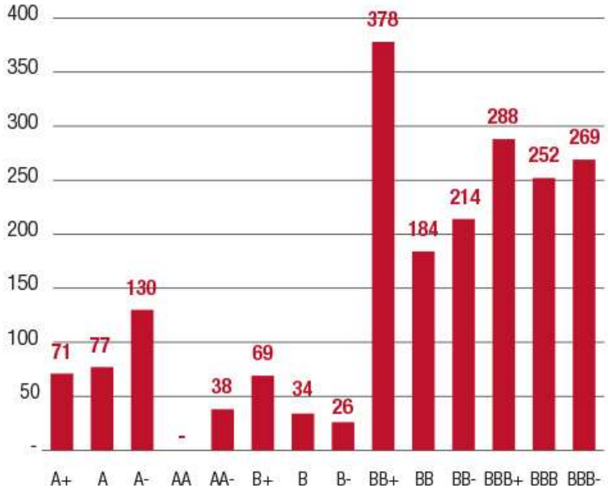
Gross exposures BPCE Corporate segments extracted from COREP 31/12/2020

Corporate counterparty with revenue of more than €1 billion (2019)



Gross exposure to BPCE Corporate segments extracted from COREP at 31/12/2019.

Corporate counterparties with revenues of more than €1 billion (2020 – rated *via* the TRR grid)



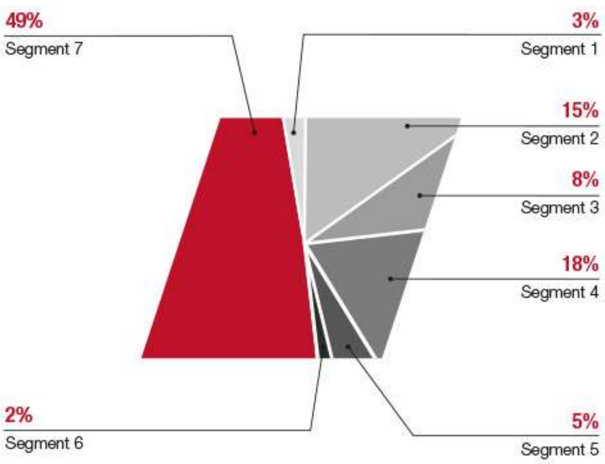
Gross exposures BPCE Corporate segments extracted from COREP 31/12/2020

The concentration of risks is stable while maintaining a good quality of risks.

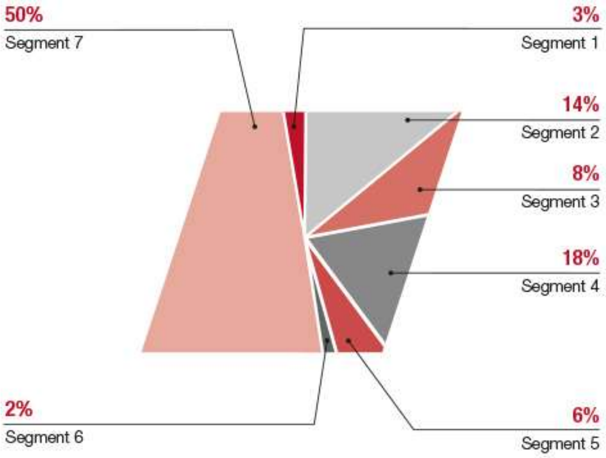
Breakdown of credit risk exposure categories across the different Basel III credit segments at 31 December 2020 (corporate only)

Credit segment	Banque de France rating	Credit segment
1	3++	20%
2	3+ to 3	50%
3	4+	100%
4	4 to 5+	100%
5	5 to 6	150%
6 and +	7 to 9	150%

Breakdown of exposures to rated and unrated corporates by credit segment (2020)



Breakdown of rated and unrated corporate exposures by credit segment (2019)



In terms of comparison, Segments 1 and 2 combined remained stable at 18% of Corporate exposures (17% en 2019). The scope of unrated companies (Segment 7) improved slightly in 2020 but remained high at 50% (49% en 2019).

This information is taken from Groupe BPCE's RWA calculation tool.

Loans in forbearance are, logically, distributed more towards the lower credit segments (14% in Segment 4.33% in Segment 5 and 28% in Segment 6). No cases of forbearance were noted in Segments 1 and 2. In Segment 7.25% of loans are classified as being in forbearance. In total, forbearance loans represented 0.59% of Corporate loans in 2020, compared with 0.16% at the end of 2019.

Monitoring of concentration rates for on- and off-balance sheet exposures

	Gross risks 31/12/2019 *(in thousands of euros)*	% total equity in 2019 *(€1,200,782 thousand)*	Gross risks 31/12/2020 *(in thousands of euros)*	% total equity in 2020 *(€1,196,083 thousand)*
Counterparty 1	100,274	8.35%	70,000	5.85%
Counterparty 2	56,357	4.69%	50,000	4.18%
Counterparty 3	50,000	4.16%	50,000	4.18%
Counterparty 4	50,000	4.16%	49,816	4.16%
Counterparty 5	45,122	3.76%	46,807	3.91%
Counterparty 6	43,620	3.63%	45,258	3.78%
Counterparty 7	43,446	3.62%	42,004	3.51%
Counterparty 8	40,132	3.34%	39,426	3.30%
Counterparty 9	40,026	3.33%	38,742	3.24%
Counterparty 10	39,463	3.29%	38,037	3.18%
Counterparty 11	37,052	3.09%	37,657	3.15%
Counterparty 12	34,505	2.87%	37,616	3.14%
Counterparty 13	34,053	2.84%	35,105	2.93%
Counterparty 14	32,662	2.72%	34,130	2.85%
Counterparty 15	32,262	2.69%	30,938	2.59%
Counterparty 16	31,524	2.63%	30,730	2.57%
Counterparty 17	31,408	2.62%	30,279	2.53%
Counterparty 18	30,123	2.51%	30,123	2.52%
Counterparty 19	30,028	2.50%	30,028	2.51%
Counterparty 20	30,018	2.50%	28,927	2.42%
TOTAL	**832,078**	**69%**	**795,621**	**67%**

Breakdown of weighted risks

Risk-weighted assets of Banque Palatine at 31 December 2020

in millions of euros	31/12/2020	Gross exposure 31/12/2019	31/12/2020	Weighted exposures 31/12/2019	Weighting (%) 31/12/2020
Central governments	1,901	1,670	66	59	3.5%
Public sector entities	11	24	0	0	2.0%
Institutions	3,637	2,734	36	91	1.0%
Secured obligations	32	32	3	3	10.0%
Corporates	10,136	8,647	6,673	6,200	65.9%
Balance sheet	7,351	5,984	5,386	5,040	73.3%
Off-balance sheet items	2,785	2,664	1,287	1,160	46.2%
Retail customers	829	802	544	479	65.7%
Balance sheet	748	635	517	427	69.0%
Off-balance sheet items	81	168	28	52	34.4%
Exposures guaranteed by a mortgage on a real estate asset	3,275	3,302	1,278	1,372	39.0%
High-risk exposure	463	431	566	518	122.3%
Exposures in default	712	585	459	303	64.4%
Equities	26	26	28	28	107.7%
Other items	254	131	219	102	86.2%
TOTAL	**21,278**	**18,385**	**9,873**	**9,157**	**46.4%**

6 Market risks

Organisation of the management of market risk

With regard to financial risks, the decision-making committees are the Audit and Internal Control Committee, mentioned 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 Asset-Liability Management 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 department;
- monitoring trading portfolio business, including calculations of VaR sent by the risk management department 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.

In parallel with the work on the banking regulation and separation law, the strengthened compliance programme with the Volcker Rule (subsection of the US Dodd-Frank Act) was certified as of 31 March 2020 on the scope of BPCE and its subsidiaries (qualified as a “small group”), according to the system in force since 2015, providing for annual certification.

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 2020, 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.

The Volcker system has been amended within Groupe BPCE to take into account the Volcker 2.0 and 2.1 regulatory changes.

In addition, Banque Palatine, through its membership of the BPCE “small group”, signed, in 2020, certifications attesting its compliance with the US Legal Entity Management Regulation. The date of the latest certification, pursuant to Group procedure, is 31 October 2020.

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 department. The latter notably handles:

- the definition of the market risk measurement system: value at risk (VaR), 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 department, 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 ALM risk.

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.

Limits 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 limits

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 department to the risk management department, 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 department’s Financial Risk Section performs second-level controls.

The back office and middle office, within the banking services department, 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. In addition, an authorisation to process Futures with CACEIS was granted to Banque Palatine in December 2017.

Possible breaches of limits

The risk management department makes sure breaches are rectified and informs the Executive Management Committee and/or Executive Management, 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 risks (interest rates, foreign exchange, option risk, etc.), have been calculated by Banque Palatine since September 2019 using a tool developed in-house. The risk management department 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 department 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 a 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

Segment	Sub-segment	VaR at 31/12/2019	VaR at 31/03/2020	VaR at 30/06/2020	VaR at 30/09/2020	VaR at 31/12/2020	Change in VaR between 31/12/2019 and 31/12/2020
Capital markets	Currency, interest rates...	13,869	57,510	64,985	75,591	41,518	27,649

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 2020.

Work done in 2020

The financial risk department notably worked on IT and regulatory projects.

IT projects

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 Group ChRome system.

Regulatory projects

Changes related to the SRAB/Volcker regulations and the European Market Infrastructure Regulation (EMIR) were the subject of work or new controls, on the instructions of the ACPR and the AMF and under the oversight of the Group compliance department (Volcker Office).

7 Liquidity, interest and exchange rate risk

Liquidity and rates risk management policy

Banque Palatine manages its balance sheet independently within the standardised Group Asset-Liability Management 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 establishment, assessed individually, and by Groupe BPCE 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 Asset-Liability Management Committee.

Accordingly, the finance department's ALM Section handles interest-rate risk management in concrete terms, and this is monitored by the risk management department 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 department, 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 department.

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, in particular through the Targeted Longer-Term Refinancing Operations (TLTRO) programme.

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 a 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

The 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's asset-liability management ensures that the bank's assets and liabilities are sufficiently balanced over a long-term horizon to avoid finding itself in a situation of imbalance 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 department informs the Executive Management Committee and the internal audit department. The finance department is in charge of presenting, as swiftly as possible, an action plan tracked by the risk management department. Executive Management monitors the bank's liquidity through a number of committees: the Finance Committee, the Asset-Liability Management Committee and the Audit and Internal Control Committee. The Risk Committee is also kept informed of its liquidity risk exposure every quarter.

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), in 2019.

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.

The regulatory indicators subject to SOT and EVE limits are supported in the ALM framework by:

- a static interest rate gap indicator;
- two interest-rate risk indicators with mandatory limits:
  - **on a static basis,** a fixed-rate gap limit system,

  The bank's gap position is measured and is subject to limits. Initially, the analysis relates to on- and off-balance sheet transactions existing at the balance-sheet date, as part of a static approach.
  - **on a dynamic basis,** the sensitivity of the interest margin is measured over a rolling future four-year period.

Over a management horizon (a rolling four-year period), the bank measures the sensitivity of our results to possible movements in interest rates, business forecasts (new business and changes in customer behaviour) and sales margins.

During the 2020 financial year, the limit on the fixed rate gap was structurally exceeded on all accounts due to the bank's de-transformation position. However, some actions have been taken to reduce overruns (investments in sovereign securities).

Work is underway to review the limit models within Groupe BPCE.

Management of structural exchange rate risk

As Banque Palatine's exposure to structural foreign exchange risk is below regulatory thresholds, there is no specific local monitoring.

Work completed in 2020 (liquidity, exchange rate and interest rate risk)

The financial risk department worked on the proper deployment of changes to the Groupe BPCE system of ALM limits, in particular those related to the neutralisation of the effects of the health crisis, and on the strengthening of controls, according to the indications of the RCPCD and/or pursuant to regulatory changes.

Regulatory projects

Work has been conducted 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 compliance department (Volcker Office).

8 Legal risks

The legal affairs department 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. Each employee is able to handle legal consultations and projects, and take charge of claims and claims against the bank.

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 (Brexit, effective interest rate, Eckert law, international desks, mortgages, vulnerable customer offer, unbundling of products, basic banking services, management under mandate, 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 through the following actions:

- 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.

Flow of consultations and assignments

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

In conjunction with conducting its legal watch, major projects, telephone consultations and direct conversations with user services, the legal affairs service answered 1,800 questions in 2020.

In conjunction with the compliance and permanent control department, it also plays a role in ensuring the consistency and effectiveness of controls on non-compliance risks arising from laws and regulations specific to banking and financial activities. Under the aegis of the Products and Services Approval Committee, it is solicited for its opinion on any legal risks potentially arising from new products and services that the bank is considering marketing.

The legal affairs department operates independently of the operational departments.

Within the bank, the inventory of loans in dispute at the end of 2020 was 114 loans broken down between 80 subpoenas totalling €19.1 million, and 34 claims filed by lawyer seeking a total of €1.1 million.

The new disputes in 2020 amount to 11 subpoenas for €1.1 million and 16 claims by lawyer for €1.3 million.

9 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 Groupe BPCE's risk management, compliance and permanent control department.

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 department (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. 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 Groupe BPCE's behavioural watch system, integrated in the IT system. This service is the main contact for the Tracfin organisation. In 2020, the main changes are related to the IT migration which led to the adoption of the Groupe BPCE alert filtering tool, Norkom, and the implementation of the Groupe BPCE Gaia filtering system;
- a permanent control department, which provides second-level control, with the exception of controls in the following areas: IT (which falls within the scope of the HISS); loans, accounting (provided by the accounting audit) and safety of property and people (EBCP).

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 function, bringing together the Business Continuity Plan Manager (BCPM) and Emergency Business Continuity Plan Manager (EBCPM) of Banque Populaire, Caisse 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 Groupe BPCE's Risk, Compliance and Permanent Control Charter is ensured.

Groupe BPCE'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 Groupe BPCE ENCP 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 person responsible for the Emergency and Business Continuity Plan at Banque Palatine has been reporting to the Head of Risk Management since 1 September 2020. The Emergency Business Continuing Plan Steering Committees, integrated into the Operational Risk and Security Committee, meet quarterly. Exceptional meetings may be held where an urgent decision is required.

Composition of the business continuity system

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 business recovery plan, which enables IT equipment to be restarted, under the responsibility of the i-BP IT centre;
- business continuity plans which describe the bypass procedures for each critical activity and for the crisis scenarios selected: permanent unavailability of the information system, unavailability of premises, unavailability of skills, flooding, 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.

  It should be noted that during the 2020 financial year, very atypical due to IT migration and the Covid-19 pandemic, the business documentation was not fully updated (report validated by the Operational Risk and Security Committee) at its meeting of 30 April 2020). However, it is noteworthy that successive crises (yellow vests, strikes against the pension reform and pandemic) have shown that the teams are sufficiently prepared to continue their activity in an almost normal manner;
- a second-level business continuity permanent control campaign, organised by the Group safety and business continuity department (G-SBCD), which is supervised by the BCPM and registered in the Group's PRISCOP tool.

In 2020, Banque Palatine, among other entities, was subject to a BPCE third-level thematic audit on a sample of its 2019 controls.

The responses and audit trails sent on 30 June 2020 were not the subject of any comments by BPCE.

Highlights of the year and areas for improvement identified

2020 was a special year marked by several crises and by the IT migration that involved all teams. None of the usual exercises could be carried out. However, the organisation of teleworking has made it possible to test a certain number of business continuity plans.

The highlights included:

The postponement of the annual reviews, by derogation, was validated by the ORSC at its meetings of 10 July and 25 November 2020.

The conditions for continuing the activity were validated by the following circumstances:

- unavailability of premises: withdrawal of employees working from home thanks to the widespread use of IT and telephone tools (transport strikes and Covid-19);
- unavailability of skills: the business lines were very naturally organised to continue their activity in conditions, sometimes degraded, but no essential activity was suspended (transport strikes and Covid-19);
- long-term unavailability of the information system: remote or relocated site connections (transport strikes) were tested and the IT migration took place with a scheduled interruption of the systems during the three-day changeover weekend. All systems were restarted fully operational at the end of the IT migration.

A new BCPM/EBCPM, validated by the ORSC at its meeting of 25 November 2020, was appointed with effect from 1 January 2021.

The action plan for 2021 also includes:

- update all business supports (BIA and PCM) with the roll-out of the Group's new "Drive BCP" tool and in light of the updating of processes due to the IT migration;
- 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 BCPs at external service providers of critical activities, based on work done by the Group to monitor its own suppliers;
- taking part in one of the PRA "Unavailability of IT systems" exercises run by i-BP, 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 completed in October 2020. A date has however been agreed with IBM (transfer site) for the period 2021;
- 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.
- to carry out a crisis management exercise on the "unavailability of key skills" scenario.

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 entities 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 Groupe BPCE establishments.

The G-ISSP materialises Groupe BPCE's security requirements. It includes an ISS Charter, with 430 rules classified under 19 themes and 3 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 Group establishments. Changes made in 2017 reassigned the 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.

The entire information system of Banque Palatine is now entrusted to i-BP, which coordinates all the players in the IT sector within BPCE.

Permanent ISS controls are carried out by i-BP 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, Groupe BPCE has set up a cyber security vigilance system called VIGIE.

This exchange of information among Groupe BPCE establishments 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 department. The department defines, implements and develops Groupe BPCE's ISS policies. It reports functionally to Groupe BPCE's risk management, compliance and permanent control department.

Within this framework, Groupe BPCE's information systems security department (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;
- Groupe BPCE's information systems security policy is adopted by the entities and each local ISS policy is submitted for the opinion of the Group HISS, prior to its implementation in the institution;
- reporting in relation to the level of compliance of the entities with Groupe BPCE'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 department (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.

Operational risk

The definition of operational risk is, according to the regulations, the risk of losses resulting from an inadequacy or failure of processes, personnel and internal systems or external events, including legal risk. Operational risk includes risks related to events with a low probability of occurrence but with a high impact, risks of internal and external fraud defined by regulations, and risks related to the model.

Operational risk monitoring organisation

The framework for managing operation risks is part of Groupe BPCE's Risk Assessment Statement (RAS) and Risk Appetite Framework (RAF). These provisions and indicators are broken down for each of Groupe BPCE'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 entailing operational risks, including outsourced activities as defined by Articles 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. They are functionally attached to it.

The operational risk department coordinates and trains its operational risk correspondents.

The operational risk department ensures permanent second-level control of the operational risk management function.

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 department of the establishment, by its action and organisation, contributes to financial performance and to the reduction of losses, ensuring that the system for controlling operational risk within the institution is reliable and effective.

Within Banque Palatine, the guidelines and governance rules are defined in the following manner:

- Banque Palatine has opted for a decentralised system;
- the effective managers are informed of major incidents through two channels:
  - the Audit and Internal Control Committee, which reports on the major elements of the Operational Risk and Security Committee,
  - any alerts issued under Article 98 of 3 November 2014.

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:

- ensure the deployment of the Group’s methodologies and tools to users;
- guaranteeing the quality of the data recorded in the OSIRISK operational risk tool;
- ensure the completeness of the data collected, in particular by carrying out periodic reconciliations between the incidents of the operational risk database and in particular:
  - insurance claims,
  - losses and provisions for human resources disputes, legal disputes, fraud and tax incidents;
- 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;
- controlling the various business lines and functions in the implementation of corrective actions;
- 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 the reports (available in OSIRISK from the Group operational risk department);
- formalise or update procedures;
- lead the committee in charge of operational risks;
- participate, as the case may be, in committees involving other cross-functional functions or business lines (quality, electronic payment, etc.).

The establishment uses the OSIRISK tool to apply the methodologies disseminated by the BPCE risk management department and to collect the information necessary for the proper management of operational risks.

This system makes it possible to:

- identify and evaluate operational risks, making it possible to define Banque Palatine’s risk profile;
- the collection and day-to-day management of incidents generating or likely to generate a loss;
- update the rating of risks in the risk map and monitor the action plans.

Lastly, as part of the capital requirement calculation process, Groupe BPCE uses the Basel II standardised approach. COREP regulatory reporting documents are produced in this respect. At 31 December 2020, the capital requirement to be allocated to cover operational risk was €48,262 thousand.

The missions of the operational risk department are carried out in conjunction with the BPCE risk department, which monitors the effectiveness of the systems deployed within Groupe BPCE and analyses the main proven and potential risks identified in the establishments, particularly during the Groupe BPCE Non-Financial Risk Committee meeting.

Operational risk measurement system

In accordance with the Group’s Risk, Compliance and Permanent Control Charter, Banque Palatine’s operational risk management function 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 missions of the operational risk function of our establishment 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.

An operational risk incident is considered serious when the potential financial impact at the time of detection is greater than €300 thousand. Any operational risk incident that would have a significant impact on the image and reputation of Groupe BPCE or its subsidiaries is also considered to be serious.

This procedure is supplemented by the procedure dedicated to significant operational risk incidents within the meaning of Article 98 of the Decree of 3 November 2014, for which the minimum threshold is set at 0.5% of Common Equity Tier 1 capital.

Work done in 2020

During the year 2020, the following work was carried out:

- the tools and procedures relating to the monitoring and management of operational risk have been updated to incorporate changes related to IT migration;
- the operational risk mapping has been updated;
- Group operational risk indicators have been deployed;
- indicators Risk Appetite Framework and Group/local risk indicators were regularly monitored by the Operational Risk and Safety Committee.

129 incidents were collected in the OSIRISK tool for the year 2020 (incidents created in 2020).

Some incidents (created before 2020 and reassessed in 2020) are still being processed. These were reviewed during the 2020 financial year.

Bank's cost of risk for operational risks

For the year 2020, the annual amount of losses recognised amounted to €10,708,495.

Company COREP	31/12/2015*	31/12/2016	31/12/2017	31/12/2018**	31/12/2019	31/12/2020
TOTAL IN AMOUNT (920)	**3,987,039**	**6,415,576**	**7,250,973**	**1,353,319**	**2,009,327**	**10,708,495**
of which gross loss nvx evts				2,072,018	2,521,372	12,116,101
of which adjustment previous net losses (+)				(718,699)	(214,139)	(1,184,664)
of which recovery of direct losses (-)					297,906	222,942

* *Financial period in place of rolling periods by flows.*

** *Excluding RORC and new events.*

The main losses are related to the health crisis. In accordance with regulations and Groupe BPCE's operational risk standards, a significant incident (Article 98) was reported on 10 July 2020 (applicable threshold: €4,463 thousand, corresponding to 0.5% of core tiers 1 capital at 31 March).

At that date, the overall loss related to the health crisis amounted to €11,117 thousand (thus an overrun of €6,654 thousand) corresponding to all expenses that would not have been incurred in the absence of the pandemic, including the additional cost generated by the postponement of the IT migration: €9,700 thousand, this amount corresponds to the financial losses related to the additional cost due to the maintenance of service providers on the migration project.

10 Climate risk

Governance and organisation

On 1 January 2019, Groupe BPCE set up a Climate Risks Unit within the Risk Governance Section of the BPCE risk department. Following the creation of this department, climate risk correspondents were appointed in the establishments of the Banque Populaire and Caisse d'Epargne networks, as well as in the Group's subsidiaries in summer 2020.

Briefly, the climate risks department has carried out numerous projects relating to the governance, strategy and management of climate and environmental risks.

The creation of a Climate Risk Committee, chaired by the Chairman of Groupe BPCE and bringing together three members of BPCE's Executive Management Committee, shows the Group's interest in these issues. This half-yearly committee will meet for the first time in December 2020 and will enable climate issues to be addressed from a cross-functional perspective for the Group and its various business lines.

Integration of a section dedicated to climate risks and Environmental, Social and Governance (ESG) criteria

Climate risks are integrated into the RAF and macro-mapping, as well as into risk forecasts. They are presented as risks that cut across credit and financial risks.

The ESG criteria are included in the Group's overall risk policy and applied in sectoral policies.

The consideration of climate risks has been updated by the credit risk department each time the Group's sector policies are reviewed.

In 2021, the establishment's risk policy will be completely reviewed and will include climate risk.

Macro-risk mapping

Since 2019, the macro-risk mapping includes climate risks in the "strategic, business and ecosystem risks" category. Initial indicators have been defined and are being monitored in order to assess their relevance: the sum of "brown" assets under the ACPR definition dating from 2017, *i.e.* renewable energy assets and sectoral climate provisions, are measured. These indicators, which may be subject to change, enable an initial identification of outstandings and raise employee awareness of the climate risk of transition.

Climate risks, like the risk mapping of the ACPR and BCE supervisors, are clearly identified in the forward-looking risk analysis.

Awareness and training

Deployment of a thematic version of the Risk Pursuit on climate risks

The Climate Risk Pursuit is an interactive training tool that was developed by the BPCE risk department, in conjunction with the BPCE CSR/sustainable development department. This tool aims to raise awareness among all Group employees about climate risks, their impacts and environmental, social and governance issues. This interactive training module, accessible on the Group's "click and learn" training platform, takes the form of fun quizzes. This module was opened in July 2020.

Distance learning in the form of MOOCs

The climate risks department is developing online training on climate risks and their challenges for bankers and insurers on a suitable platform.

This training will take place in one -hour chapters, combining video, interview, presentation and accessible to all Group employees.

The purpose of this online training is to:

- understanding the challenges of climate change and the risks involved;
- identify the climate risks weighing on customers and their financial impacts;
- analysing climate risks using associated tools;
- formalise the opportunities and action levers for the banker and the insurer.

Its deployment began at the end of 2020 and will continue in 2021.

5

NOTES TO THE MANAGEMENT REPORT

1 Statement of non-financial performance

A CSR approach at the heart of Banque Palatine's strategy

Banque Palatine is part of Groupe BPCE, the second largest banking group in France. A little over 1,200 employees serving 14,000 corporate customers and 60,000 private customers work closely with natural persons or legal entities, responding in a concrete way to the needs of the real economy.

Banque Palatine's ability to serve its customers and create value is strongly influenced by the environment in which it operates: a globalised economy, profound societal changes, and increasingly demanding regulation.

In this year, specific due to the health crisis, Banque Palatine, a key partner of medium-sized companies, their managers and private banks, has mobilised to face the unprecedented Covid-19 crisis: loan deadlines extended, setting up loans guaranteed by the French State, listening to and supporting all customers in the difficulties encountered, on the financial aspects but also on the deployment of digital banking tools. This figure is indicative of the bank's commitment to its customers: six weeks after the start of the first lockdown, business and private banking managers had contacted respectively 99% and 97% of their customers.

In this context of crisis, Banque Palatine paid particular attention to the health of its employees, by implementing protective measures for those who had to go to work and by massively promoting teleworking.

Faithful to its local commitments and values, it has carried out societal initiatives, made donations or supported solidarity projects to act against the consequences of this crisis.

The Banque Palatine model presented below has proven its relevance, effectiveness and resilience during this very special year.

Banque Palatine, a hybrid business model within Groupe BPCE

For over 240 years, Banque Palatine has established a relationship of excellence and partnership with each of its corporate customers, senior executives, and private banking. Its added value: relational proximity, recognised business expertise and tailored solutions based on a unique business model.

1

A REASONABLY SIZED BANK

→ A network of **45 branches** in France, working with specialist business lines (private banking, corporate finance, real estate, international, dealing room, etc.) today supports **14,000 companies and 60,000 private customers.**

2

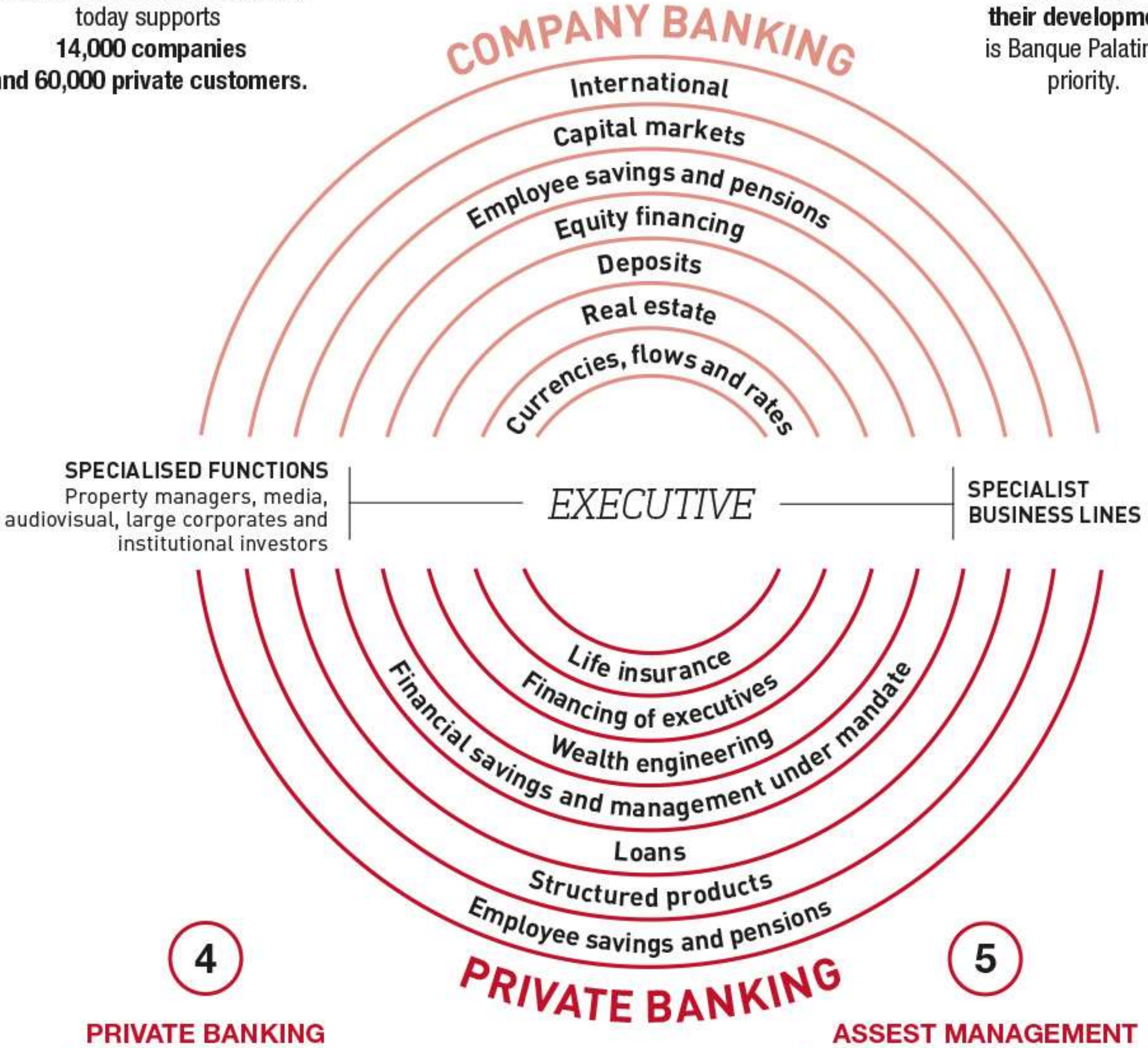
THE STRENGTH OF THE 2ND LARGEST FRENCH BANKING GROUP

→ 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

→ Banque Palatine provides tailored solutions and high value-added advice on **the global approach to private and professional assets.**

5

ASSEST 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.

Our commitment: supporting sustainable development goals

Introductory remarks

Set on 25 September 2015, the Sustainable Development Goals (SDGs) constitute a call from the United Nations (UN) to all stakeholders in society to deploy means of action to build an inclusive and sustainable future. These objectives cover all development issues such as climate, biodiversity, energy, water, poverty, gender equality, economic prosperity and peace, agriculture, education, etc. With 17 thematic objectives and 169 targets, they aim to eradicate poverty, strengthen resilience to climate change and ensure prosperity and future prospects for everyone by the year 2030.

These 17 SDGs are now a common reference for many public and private companies around the world.

In addition, the **Principles for Responsible Investment** (PRI) were introduced by the United Nations in 2006. This voluntary commitment, aimed at asset management players, encourages investors to integrate environmental, social and governance (ESG) issues into the management of their portfolios. The PRI are a means for promoting the generalisation of the consideration of non-financial aspects by all financial businesses.

At the end of 2019, Palatine Asset Management (PAM) joined the signatories of the Principles for Responsible Investment.

Lastly, on 23 September 2019, Groupe BPCE signed the **Principles for a Responsible Bank** (PRB): another UN initiative as part of its programme for the environment and the financial sector. This involves the transposition to the banking sector of the Principles for Responsible Investment intended for asset management players.

Our contribution to the SDGs according to the actions implemented

The way in which Banque Palatine conducts its business is as important as its primary activity, which consists of offering banking products and services. Banque Palatine is convinced of the importance of its contribution to the SDGs through its core business, its internal operations and its philanthropic activities. The SDGs set up by the UN therefore constitute a reference framework for all the actions carried out as part of Banque Palatine’s CSR policy. Banque Palatine is part of this dynamic and wishes to report on it through its Statement of Non-Financial Performance (SNFP).

Banque Palatine is helping to build a sustainable future by 2030 by directly covering 9 of the programme's 17 SDGs through actions with its employees or indirectly through the financing of its clients or by its Foundation. The contributions are presented below in the form of a table:

3 GOOD HEALTH AND WELL-BEING

Empower people to live healthy lives and promote well-being at all ages

- charters and systems (*e.g.* quality of life at work, agreements on teleworking, etc.) as well as resources (*e.g.* office equipment) to enhance well-being at work;
- systems to limit psychosocial risks;
- through the "salary rounding" operation offered to its employees, whose donations are paid to Institut Curie.

4 QUALITY EDUCATION

Ensure equitable quality education for all and promote lifelong learning opportunities

- commitments to develop employee employability and professional training; commitments to integrate disabled workers into the workplace and guarantee their career paths; measures to promote work-study programmes;
- through Fondation Palatine des ETI and the funding of the non-profit organisations Les Déterminés, Les Apprentis d'Auteuil and Entreprendre pour apprendre; the partnership with Sciences Po and the NQT "Nos Quartiers ont des Talents" association; Professional and social integration of people made vulnerable by a disability (Disability and Responsible Purchasing policy).

5 GENDER EQUALITY

Achieve gender equality and empower all women and girls

- implementation of internal measures such as the agreement on gender equality, the proposal for personal development workshops for women, the Palatine Pluriel network, etc. Percentage of women on the Executive Management Committee: 60%; Percentage of women on the Board of Directors: 50%; Professional equality index at 96/100;
- through the "salary rounding" operation offered to its employees, whose donations are donated to La Fondation des femmes.

7 AFFORDABLE AND CLEAN ENERGY

Ensuring universal access to affordable, reliable, sustainable and modern energy services

- financing of renewable energies, financing of real estate professionals on green projects

8 DECENT WORK AND ECONOMIC GROWTH

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

- by supporting its corporate clients and in particular by setting up loans guaranteed by the French State and financing renewable energies; specific offers to guarantee access to banking services for all;
- consideration of ESG criteria to integrate human rights and labour rights into investment decision-making (PAM);
- actions to limit the environmental impact of the activity;
- mobilisation in favour of employment and non-discrimination in hiring (partnership enabling the integration of high-potential refugees, etc.);
- support young people in their hiring process *via* the associations "La cravate solidaire", "Nos quartiers ont des talents"; sponsorship by the Palatine Foundation for medium-sized companies and funding for the "Grandir dignement" association; sponsorship of "Fondation pour le Pacte de performance"; membership of the "cancer@work" network.

10 REDUCED INEQUALITIES

Reduce inequality within and across countries

- policies in favour of carers and those related to disability.

11 SUSTAINABLE CITIES AND COMMUNITIES

Making cities and human establishments inclusive, safe, resilient and sustainable

- sponsorship for culture (Directors' fortnight) which takes place during the Cannes Film Festival.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Establish sustainable consumption and production patterns

- inclusion of ESG criteria in investments (PAM);
- a responsible purchasing policy, Banque Palatine supports and participates in Groupe BPCE's AGIR approach;
- reduced energy consumption; reduction of the environmental footprint (reduced business travel, bicycle parking facilities, etc.);
- waste reduction through prevention, recycling and reuse;
- improving the energy performance of buildings.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Promote peaceful and inclusive societies for sustainable development

- measures to combat fraud and crime; fight against corruption; actions for the transparency and accountability of the bank in its relations with suppliers; transparency in its tax practices.

Main pillars of our CSR 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.

An articulation around five axes

The CSR process is built around five principles:

- 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;

- guaranteeing the ethics and transparency of our practices:

By ensuring that we act responsibly and by being a bank that keeps its promises; in order to create the conditions necessary for the development of a relationship of trust with our stakeholders.

- bringing diversity to life on a daily basis:

By cultivating its human capital, by ensuring the development of diversity and by committing to disability; 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;

- cultivate our commitments in the city:

By supporting the arts and literature and strengthening its partnerships for equal opportunities in philanthropy with Fondation Palatine des ETI; in order to reinforce the meaning of its action.

Review of the four CSR projects of the Envol strategic plan (2018-2020)

The year 2020 closes the three-year strategic plan Envol 2018-2020. Over the past three years, Banque Palatine has expressed its ambitions as a specialised, efficient, committed and human bank, through the five orientations of its Envol Plan:

- “Accelerate our development and adapt our distribution model”;
- “Let’s improve our operational efficiency”;
- “Put faith in our human capital and pursue excellence”;
- “Develop synergies within Groupe BPCE”;
- “Strengthen our commitment to society”.

The CSR approach has been driven more specifically by four projects of the Envol Plan, grouped under the “reinforcing our commitment to society” orientation:

- the creation of Fondation Palatine for medium-sized companies (see the section on “Committing to a better life: a societal footprint as a sponsor”);
- the SRI offering (see the section on “Supporting customers by taking into account economic, social and environmental issues”);
- the SRI offering (see the section on “Supporting customers by taking into account economic, social and environmental issues”);
- a reduction of the environmental footprint (see the section on “Caring for the environment: an environmental footprint as an actor in society”).

In summary, the work mainly focused on the following topics:

- establishment of an intermediate-sized company foundation to make entrepreneurship a vehicle for social inclusion. In this respect, five associations were supported following the receipt of donations from 24 medium-sized companies;
- development of the financing of renewable energies by reinforcing structured financing;
- reduction of the carbon footprint by maintaining the supply of green energy, the introduction of cigarette butts collection, equipment and sorting at the head office as well as the promotion of carpooling and bicycles (dedicated car parks);
- as part of its Asset Management activities, the Banque Palatine Group implemented a coal policy at the end of 2020 to exclude from funds companies involved in the thermal coal value chain; In addition, taking CSR issues into account in its strategy has led PAM to transform its range of funds in 2021.

Analysis of CSR issues, risks and opportunities

Methodology: a universe of risks divided into three categories

In order to identify its most strategic CSR challenges, Banque Palatine drew on the work carried out in 2017 as part of its ENVOL strategic plan and on an analysis of its main CSR risks.

The latter was based on the risk analysis methodology proposed by Groupe BPCE, resulting from the work of the risk department and the CSR department. This methodology made it possible to define:

- a universe of 17 CSR risks divided into three types: **products and services, internal operations and governance.** 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;
- an assessment of the risk management systems (DMR).

Risk category	Non-financial risks	Definition
Products and services	Sustainable customer relationship	Lack of mechanisms to ensure sustainable and satisfactory quality of service to customers.
	Financing the environmental transition	Lack of financing strategy in projects favourable to the environmental transition.
	Customer protection	Lack of transparency of offers, inappropriate sale of financial products and services that do not meet the customer's needs.
	Financial inclusion	Lack of provision of an offer for all audiences both geographically and technologically.
	ESG risks	Non-integration of environmental, social and governance (ESG) criteria in financing and investment decisions.
Internal functioning	Employability and business transformation	Aligning the company's need with those of employees to respond to changes in the business lines.
	Employee diversity	Lack of mechanisms to ensure equal treatment of candidates for employment and employees within the company.
	Working conditions	Lack of mechanisms to ensure respectful working conditions for employees.
	Climate risk Physical, pandemic and technological	Consequences of physical, health and technological climatic hazards that reduce or prevent the use of operating resources, impacting the activity of employees and resulting in asset losses.
	Employer attractiveness	Difficulty in attracting talent in a competitive market.
	Purchases	Unsustainable relationship with suppliers and subcontractors.
Governance	Environmental footprint	Contribution to climate change through the emission of greenhouse gases due to the bank's operations.
	Business ethics	Non-compliance with regulations, lack of measures to combat corruption and fraud or to prevent unethical practices and inaccessibility of information.
	Data security	Lack of mechanisms to protect the bank against cyber threats, protect the personal data of employees and customers, and ensure business continuity.
	Leadership diversity	Lack of independence and diversity and representativeness within governance bodies.
	Voting rights	Absence of participation in the governance of the companies involved/supported.
	Executive remuneration	Non-inclusion of non-financial and long-term criteria in executive remuneration.

Raw risk matrix

In 2020, a new review of the non-financial risk mapping was carried out within Groupe BPCE. The objective was to study all current events that could have an impact on the mapping of non-financial risks. This analysis was then submitted to Banque Palatine business line experts.

Following this review, the risk matrix has changed:

- in the **"Internal operations"** category: a change in the name of a risk and four ratings revised upwards:
  - the name in 2019 of the risk "Exposure to the physical risks of climate change" has been changed to "Exposure to physical, health and technological climate risks" in order to take into account the current pandemic but also the accentuation of violent climate phenomena. The rating of this risk has been changed from low, at more than three years, to high, at less than three years.
  - the rating of three risks was revised upwards: "employer attractiveness" and "employee working conditions" went from low in 2019 to high in 2020 with regard to the health context and the impact on team morale, as well as the implementation of full teleworking; the "equal treatment, diversity and inclusion" risk from low in 2019 to medium in 2020 in view of the external context and the strengthening of legislation and the disputes, covered by the media, that have arisen within Groupe BPCE.
- in the **"Governance"** category: three rating changes:
  - the severity of the "Diversity and governance independence" and "Involvement in the governance of the companies invested in" risks was reduced from average in 2019 to low in 2020,
  - the "Executive remuneration" risk increased from low at less than three years in 2019, to medium at more than three years in 2020.

in the **"Products and Services"** category: one change of category and two rating changes:

- the "ESG risk" is included in this category, in previous years it was classified in the "Governance" category,
- the severity of the "Accessibility of the offer and inclusive finance" risk has risen from high to medium and the risk of the "Integration of ESG criteria in credit and/or investment decisions" risk has changed from occurrence in more than three years in 2019 to an occurrence within three years in 2020.

The final analysis reveals 12 priority risks to which Banque Palatine is exposed.

A few key points emerge:

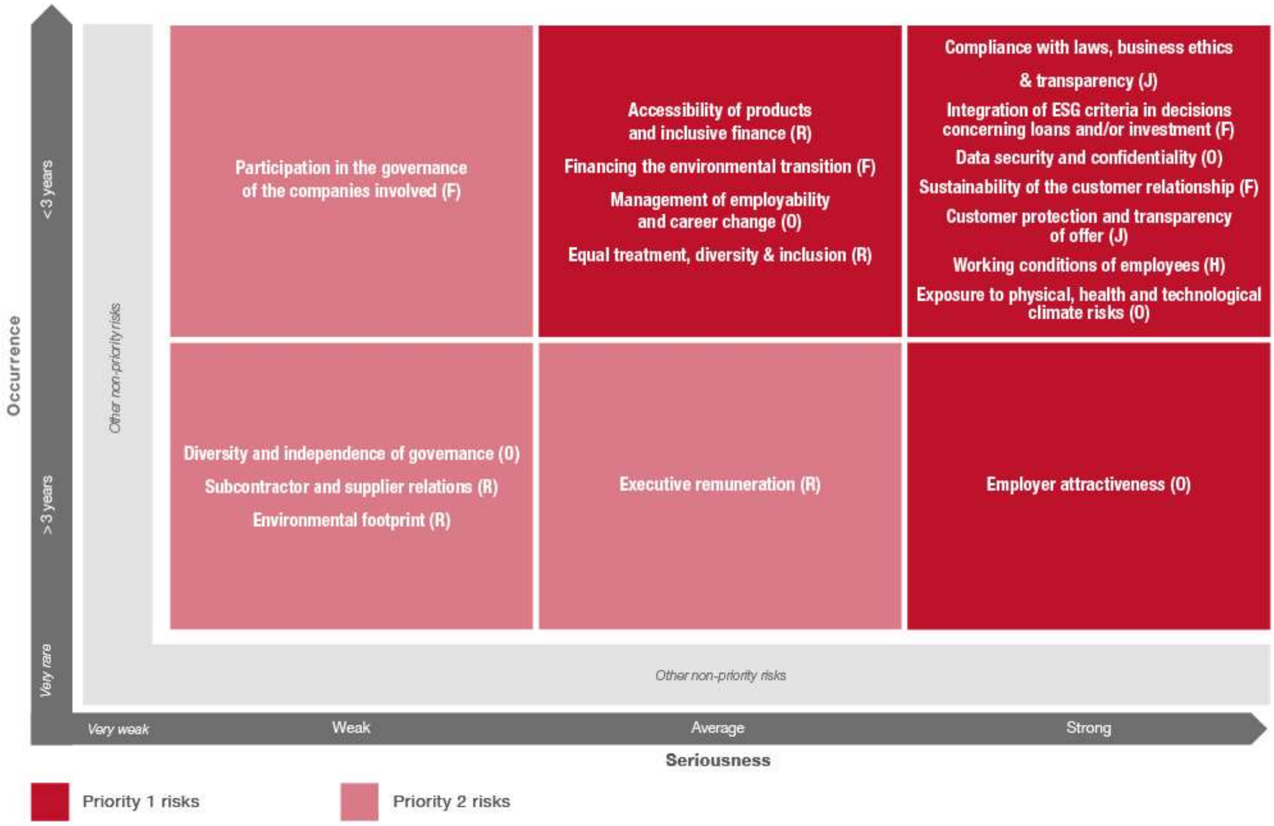
- the analysis conducted did not reveal any critical CSR risks;
- the priority gross risks for Banque Palatine are mainly issues relating to its core business.

As the presentation of the following approaches confirms, in the social, societal and environmental fields, all these risks were the subject of specific commitment, through the Envol strategic plan, or through the presented business action plans.

Key performance indicators to track progress of these projects are included in the Appendix.

This mapping was presented to the Risk Committee.

Gross risk matrix (or risks inherent to Banque Palatine)



Key: risk type
1. Financial (F);
2. Operational (O);
3. Legal (J);
4. Reputational (R);
5. Human (H).

Closeness to customers

Support customers taking into account economic, social and environmental issues

A State-guaranteed loan offer for medium-sized customers released very quickly

Banque Palatine, a reference partner for medium-sized companies in France, responded to the unprecedented Covid-19 crisis: credit extensions for professionals and companies, implementation of loans guaranteed by the French State, listening to and supporting customers in difficulties encountered, concerning financial aspects or the deployment of digital banking tools.

As of 31 December 2020, Banque Palatine had disbursed 1,612 State-guaranteed loans for a total amount of €1,367 million. More than 1,800 requests were made: some customers have abandoned their request, some are still in the process of being set up and for 110 requests, the bank has refused this credit because of a commercial relationship in extinction.

The State-guaranteed loan offer was launched on 25 March 2020 and the first such loan was paid out on 9 April 2020.

Since December 2020, the bank's business managers have been contacting all customers with a State-guaranteed loan. After eight months of disbursement, it is a question of proposing to these customers either to repay these State-guaranteed loans or to put them in amortisation.

Offers in favour of the environmental and social transition

Renewable energy financing activity on the corporate side

Groupe BPCE is one of the French leaders in the financing of renewable energies thanks to its regional roots.

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.

A dedicated section of the corporate market department focuses on the renewable energy sector and analyses the economic, legal and technical characteristics of each project to be financed, and also provides global support, in particular interest rate hedges and documentary credits (for the purchase of equipment), bank guarantees (as part of calls for tenders organised by the Ministry of Sustainable Development).

The majority of financing is granted to wind or solar projects, the best-known technologies to date. The projects financed are located in France, including Corsica and the French overseas departments.

Today, the bank's renewable energy project financing portfolio represents approximately €200 million.

RES financing granted by Banque Palatine	31/12/2020	31/12/2019	31/12/2018
Share of installed capacity in MWp*			
Wind	158.52	3.04	9.28
Photovoltaic	7.64	32.15	33.80
Investment amount in millions of euros	91.9	53.9	70.7

* *Megawatt-peak.*

In addition to this specific activity, Banque Palatine supports its SME and mid-market clients on a daily basis with Capex investment financing, some of which are linked to the energy transition.

Supporting clients on environmental issues, with Real Estate partners

The building sector is the largest consumer of energy in France and is therefore naturally a major contributor to greenhouse gas emissions (CO_2). At Banque Palatine, issues related to the energy transition have been taken into account in the offers offered to customers. Thus in 2020, a partnership signed with Crédit Foncier provides real estate engineering missions with the aim of making an assessment of the technical, legal or tax issues related to the management of a real estate portfolio and offering personalised advice, such as improving the energy performance of buildings.

Directing private clients' savings towards a more responsible economy

Banque Palatine is preparing to roll out its new range of model portfolios in open architecture and has chosen to build them mainly with Socially Responsible Investment (SRI) funds.

In 2021: six out of eight model portfolios will be 100% SRI, *i.e.* 75% of this offering under advisable management (compared to 30% today). Among the selection criteria, the bank retained:

- funds most of which are certified (some of which have Belgian labels that are the most demanding in terms of SRI);
- with strong themes such as a fund dedicated to women "Women Leaders Equity Fund" at Mirova, this fund having a unique partnership with UN Women (a United Nations entity dedicated to gender equality and empowerment of women);
- with visible and immediate actions: some funds donate part of their management fees to philanthropic projects;
- with reports with real added value: investments are reflected in carbon impact, for example.

This offer will complement the one that Banque Palatine has already marketed twice since 2019 through structured products such as Euro Medium Term Notes (EMTN) whose benchmark index is indexed to the 50 companies with the best energy transition scores from among the 75 companies with the largest stock market capitalisations in the Eurozone.

New since November 2019, Banque Palatine can build a bespoke SRI offering for its clients through a dedicated EMTN offering. For a minimum investment of €500 thousand, clients can choose their SRI index or another listed security recognised for its involvement in the energy transition, the duration of its investment and the desired profitability subject of course to the market conditions at the time of the request.

Socially Responsible Investment offer of Palatine Asset Management

Palatine Asset Management (PAM) has been committed to taking climate risks into account in its investment choices for many years, anticipating the value of investing in sustainable development models (low-carbon) in order to fight against the global warming.

In 2006, the creation of the Palatine Or Bleu fund confirmed the choice of the asset management company to develop a thematic investment offering, in particular ecological ones.

At the same time, the thematic investment and the ESG analysis were combined. Convinced of the ecological and climate emergency, PAM has chosen to invest in companies providing concrete solutions for further growth, and to develop its own SRI expertise in order to better identify the risks and opportunities, linked to a value, and to fight against global warming (management of climate-related risks and contribution to the financing of the green economy).

Today, Palatine Planète has taken over from Palatine Or Bleu, opening up to all global issues and offering a more diversified portfolio.

Palatine Planète's portfolio is made up of companies whose activity is linked to the environment, and particularly those that contribute to the fight against global warming, pollution and the scarcity of resources.

The fund covers five investment themes:

1. energies that do not emit greenhouse gas emissions: solar, wind, geothermal, hydraulic;
2. energy efficiency: construction, civil engineering, isolation, clean modes of transport, etc.;
3. adaptation to climate change: new production technologies;
4. treatment, sanitisation, supply of drinking water and waste management;
5. safeguarding people and the “common home”: health and pharmacy.

The selection focuses on companies that seek to deliver long-term performance in the best interests of clients: the classic fundamental analysis (strategic positioning, financial structure, quality of governance) is supplemented by a rigorous non-financial analysis based on data from Vigeo Iris and Ethifinance, in order to refine the selection process by ensuring that companies implement their strategy by mobilising all their environmental and social resources in a responsible manner.

SRI expertise has spread in depth in the practices of financial managers.

PAM has expanded its range of SRI equity funds with the Export Europe and Palatine Entreprises Familiales ISR funds.

In addition, since the end of 2016, in accordance with Article 173-VI of the Energy Transition for Green Growth Act, PAM has been communicating in quarterly non-financial reports on the management of climate-related risks and the environmental impacts of its investments:

- measuring the carbon impact of its investments, which includes companies’ carbon emissions (Scope 1 + First Tier Indirect). This measure is compared to revenue, in order to compare the operational efficiency of companies in the same sector;
- and the share of investments dedicated to low-carbon solutions (measuring the share of “green” investments versus fossil fuel investments).

PAM selects the companies most committed to reducing carbon emissions, not just low-carbon sectors.

Its SRI approach complies with the AFG-FIR transparency Code and has been certified since 2009: guarantee of quality and transparency as well as a pledge of trust for its customers.

SRI management at PAM has been accelerating since 2019, with in particular its adherence to the UN’s Principles for Responsible Investment (PRI) to strengthen its asset management commitments. Similarly, a coal policy has been put in place to align its investment strategies with the Paris Agreements.

Socially responsible investing	31/12/2020	31/12/2019	31/12/2018
SRI assets under management in millions of euros	276	91	66.7

Voting Rights Policy (PAM)

As a responsible investor, PAM exercises its voting rights on all of the shares held in the portfolio at General Meetings with the support of Institutional Shareholder Services Europe SA, and maintains dialogue with companies to encourage them to make progress through its engagement policy and to expand its voting scope.

In 2020, Palatine Asset Management exercised its voting rights at 153 General Meetings across the whole of Europe, not including countries where it has granted powers of attorney.

The principles underpinning this voting policy are available at: www.palatine-am.com.

Data security and IT integrity

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

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

During the year 2020, the Data Protection Officer role has evolved to strengthen its visibility within the bank.

The DPO coordinates and steers the community of IT and Civil Liberties Officers (RILs), appointed within each department as data protection officers.

Two years after the entry into force of the General Data Protection Regulation (GDPR), the bank is entering a phase of fine-tuning of the processes and procedures implemented since 2018.

In this context, several actions were performed in 2020, in particular:

- the personal data mapping was updated;
- the implementation of application remediation work;
- awareness-raising actions for the business lines;
- review of information notices on data protection for the bank’s customers and employees;
- updating of data collection documents and subcontracting contracts;
- conducting audits;
- implementation of reporting.

The bank guarantees its customers and employees:

- the security of personal data;
- the respect of choices in terms of solicitation and commercial prospecting;
- transparency regarding the processing of personal data;
- information on data protection rights.

Exposure to physical, health and technological climate risks

A market approach

In 2007, the Robustesse group wanted to incorporate climate, health and technological crisis scenarios into its working hypotheses, and to prepare market players in the event of such events occurring.

Financial institutions regularly mobilise by participating in large-scale exercises with the aim of testing collective resilience. Climatic, health and technological topics are largely discussed during these events: the power failure in 2008, the preparation for the occurrence of a pandemic in 2009 and the flooding of the Seine in 2010 and then in 2016.

Groupe BPCE has always been present at these meetings.

Banque Palatine also took part in the market exercises mentioned above. The most recent: SEQUANA exercise, which took place in March 2016.

Consideration of these risks in the business continuity policy

These environmental scenarios are included in Groupe BPCE’s business continuity policy, which encourages its affiliated establishments to take the necessary measures to cover this type of situation.

The update of the policy, at the beginning of 2019, reinforced this requirement by imposing a systematic risk analysis, necessary to identify the exogenous factors depending on the place of exercise of the activities.

Groupe BPCE’s business continuity policy is implemented within Banque Palatine.

A daily reality

Groupe BPCE establishments are regularly confronted with climatic, health or technological events of varying magnitude, whether national or very localised.

At Banque Palatine, the personal and property security department is responsible for providing solutions to employees in the event of a disaster causing the premises to be unavailable.

A system lists all the co-working sites located near the branches and likely to accommodate branch employees. The presence of two head offices and the rental of a backup site complete the system and make it possible to deal with any unavailability of sites.

With the lockdown measures, teleworking systems now allow all of our head office employees (with the exception of the trading room) and branch employees to work from home.

In the event of a disaster on a site, the Business Continuity Plan Manager (BCPM) coordinates all the players necessary to restore the site.

To date, Banque Palatine has only recorded minor events, which have not permanently impeded the continuity of its activity.

Below are some examples:

- Lyon Brotteaux branch: in October 2019, a backflow of water caused on-site flooding. As part of a BCP, the employees were housed in the neighbouring Lyon branches;
- La Muette branch: several floods were declared in November 2019, then in February, May and November 2020. Employees were able to work from home.

A comprehensive toolbox

Groupe BPCE has created a documentary base that it constantly reinforces and updates, consisting of plans and reflex sheets.

In 2019, sheets were produced on the food health crisis, heatwaves, electricity blackouts, earthquakes, sudden floods and storms.

Documents specific to ultra-marine areas are also available on cyclones and typhoons. The influenza pandemic plan will be enriched with the lessons of the current crisis. The year 2020 was devoted to adjusting and reinforcing the files relating to the treatment of a pandemic situation. Fact sheets should soon be available on the topics of industrial and CBRN risks (chemical, biological, radiological, nuclear).

In addition, Groupe BPCE has set up a geographical information system, deployed for the first time in 2016 during the flooding of the Seine.

This tool was gradually used to understand the different types of risk by comparing the official maps of the regional and interdepartmental departments of the Environment and Energy with the map of the Group’s locations. In addition to the six establishments benefiting from a complete mapping in 2019 (mainland France and overseas territories), four establishments were added in 2020; two other establishments also have a partial mapping to date.

Groupe BPCE reflex sheets are used by Banque Palatine when an event occurs.

This is aid that the bank adapts according to circumstances.

Business continuity key performance indicators

The business continuity key performance indicator is structured around five themes:

- the governance of the business continuity system, which includes the preparation of employees for crisis situations through awareness-raising actions and the participation in exercises for some of them;
- the analysis of risks, whether inherent or exogenous to the company’s activities;
- the implementation of the system which ensures that the resources to be mobilised are in line with the defined continuity objectives;
- control of the system;
- supplier monitoring.

First lessons from the Covid-19 crisis

The Covid-19 crisis is the first threat requiring massive, widespread and persistent use of business continuity provisions. It is already possible to draw some lessons that can be transposed to other major climate, health or technological risks.

The handling of the crisis is largely governed by the decisions of the public authorities, of almost immediate application and which partly replace the methods defined in the plans at the level of the economic agents.

They must therefore operate with great agility in order to comply with these directives, as was the case with the general lockdown for which Groupe BPCE has anticipated and strengthened its remote access system for its employees and expanded its catalogue of digital customer service offerings.

In addition, whatever the level of preparation, which must be maintained at the highest level of requirement, government decisions, such as the possible requisition of certain categories of masks, may limit the effectiveness of the actions initially planned. However, Groupe BPCE did not wait for this requisition to bring its stock to healthcare staff.

Regarding Banque Palatine, its crisis management system was mobilised in coordination with that of the Group, both for customers (State-guaranteed loans, extension of deadlines, reorientation towards remote banking) and for staff (massive use of teleworking, strict compliance with health protocols). Numerous actions implemented in the context of this crisis can be transposed to other major climate, health or technological risks, in particular:

- increased access to teleworking: the rate of teleworkers increased from 37% at the start of the lockdown to 70% on 10 April 2020;
- the establishment of a Monitoring and Alert Unit from 26 February, followed by a daily Executive Management Committee from 10 March and regular updates;
- mass communication with employees (creation of a collective Covid-19 team mailbox and an FAQ to better respond to employee requests);
- support for employees (training of managers on remote management, wellness workshops);
- safety of workers on site:
  - a kit including masks, disinfectant gel, wipes, gloves and a guide listing all the best practices to be followed was made available to employees upon their return to the site after the first lifting of lockdown restrictions,
  - Plexiglas walls have been installed in the offices and reception areas,
  - on 20 July, the need to wear a mask in branch offices for the reception of the public and in common areas or in situations where it is impossible to respect, or where there is a risk of breaking, the physical distance of at least 1 m was recalled,
  - the practical guide was updated on 2 September in view of the changes in the health crisis and the bank has generalised the use of masks outside individual offices;
- signs were posted on all sites to remind people of the barrier gestures, to identify workstations that may or may not be used to respect distances, or the capacities of meeting rooms, elevators and directions of movement on the stairs.

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 and specifies the provisions to be respected, on the one hand, by all the Group's establishments 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 more Groupe BPCE entities.

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, Groupe BPCE's "IT factories" have been responsible for implementing and monitoring the ISSP at Banque Palatine. Controls remain within its remit for private IT activities.

In 2019, BPCE deployed a tool (DRIVE – Archer Edition) to oversee the security of the IT systems. Each Groupe BPCE establishment must define the division between the rules of the G-ISSP that are the responsibility of BPCE-IT (community) and those under its own responsibility. This division is called "trimming". This work will be carried out in early 2021 for Banque Palatine.

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 to all establishments. Banque Palatine is currently carrying out the ISS mapping, which is managed by Groupe BPCE in collaboration with the business lines.

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, Groupe BPCE 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 Groupe BPCE entities 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 Emergency and Business Continuity Plan Manager of each entity.

The year 2020 was marked by the preparation of the migration to Equinoxe systems.

Demonstrate ethics and business leadership

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 tools.

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 Groupe BPCE's Compliance Charter, the compliance and permanent control department 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 measures meet the recommendations of the French Anti-corruption Agency (*Agence française anticorruption* – AFA).

These arrangements are reflected in the bank's procedures and documentation, including in the following areas:

- corruption risk mapping;
- financial security: efforts to combat money laundering and terrorist financing and internal and external fraud;
- management of embargoes;
- entering into relations with third parties/intermediaries (knowledge of customers/intermediaries, ethics of commercial practices, transparency of the legal structure, absence of any known interest relationship between the third party and a public official (Politically Exposed Person);
- 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 training for employees on the Code of Conduct and the essentials of professional ethics;
- internal whistleblowing system;
- control systems.

The disciplinary system of the rules of procedure makes it possible to sanction the employees of the company in the event of violation of the Code of Conduct and ethics.

In 2020, Banque Palatine did not receive any penalty for any anti-competitive, anti-trust or monopolistic behaviour.

Money laundering/terrorism financing and training schemes

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 for the fight against money laundering and the financing of terrorism and for compliance with international sanctions;
- an AML/CFT training plan as well as interventions and awareness-raising actions;
- a customer knowledge system at the start of a business relationship and during the course of a business relationship that is tending to expand *via* remedial actions and the use of new monitoring tools;
- use of *a priori* and *a posteriori* transaction monitoring tools;
- a system for reporting information to the appropriate administrative authorities, if applicable.

The training system, based on the mapping of non-compliance risks, is based on:

- e-learning courses to combat money laundering and the financing of terrorism provided to new employees;
- an e-learning campaign on anti-money laundering and the financing of terrorism for all employees every two years;
- interventions and awareness-raising actions aimed at those most exposed to the risk of money laundering and the financing of terrorism (branches and head office services).

Banque Palatine Group indicators	2020	2019	2018
% of employees trained in anti-money-laundering (excluding LTI**)	91*	88	97

* *This year, employees who left the company (summer assistants, interns and other departures) are not included. As a result, the scope is reviewed and includes "the number of employees who received anti-money laundering training within two years or less, out of the workforce registered on 31/12/2020".*

** *Long-term illness.*

Fraud

The risk, compliance and permanent control department manages the system for preventing and handling cases of fraud within Banque Palatine through a dedicated unit. This same unit is responsible for listing all of the cases of fraud or attempted fraud detected. This system is supplemented by a Fraud Committee which meets twice a year. This committee is made up of representatives of the bank's main business lines to identify and monitor the action plans identified, to respond to fraud or attempted fraud detected. Significant items related to fraud are also presented to the Operational Risk and Security Committee (ORSC) each quarter. This unit is also in charge of prevention actions, notably through training and communication actions.

For internal fraud, fraud prevention and monitoring systems were strengthened following the IT migration in October 2020, with the integration of the entire system deployed by Groupe BPCE. Anomaly detection requests are processed by this dedicated unit.

Conflicts of interest

The risk of conflicts of interest in banking, financial and insurance institutions is the subject of stricter European Union regulations on "Markets in Financial Instruments" (MiFID) and the increasing attention of regulators.

In accordance with regulations, Banque Palatine has formalised and maintains a policy for identifying, preventing and managing conflicts of interest to guarantee the priority of the client's interests in all circumstances. The summary of this policy is available on the bank's corporate website.

This conflict of interest policy describes the system for preventing, detecting and managing conflicts of interest implemented within Banque Palatine. In order to ensure the protection and primacy of the client's interests in the supply of the products and services offered with regard to the MiFID II and Insurance Distribution Directive (IDD) regulations, the rules of procedure and the Code of Conduct of Groupe BPCE, it exhibits in particular:

- circumstances that give rise or may give rise to a conflict of interest that could harm the interests of one or more clients;

- the procedures to be followed and the measures taken by the bank to manage such conflicts and prevent them from harming the interests of the client.

This policy was fully reviewed and updated in 2020. It is based on:

- a normative framework:
  - the rules of procedure of the bank,
  - BPCE's Code of Conduct;
- rules governing the activity based on:
  - principles for defining and governing remuneration rules,
  - a system to manage the personal transactions of the employees concerned and privileged information,
  - a system to regulate gifts and donations,
  - a specific procedure for managing conflicts of interest that may arise at the level of management bodies,
  - a system to specify the rules relating to external interests,
  - a system to specify the rules relating to the marketing of products or services,
  - marketing mechanisms for products and services offered to customers,
  - an "information barrier" system;
- a mapping of potential conflicts of interest:
  - in the provision of investment services,
  - in the provision of insurance products and services (life and non-life),
  - in the provision of banking services and products;
- customer information:
  - on the terms of business,
  - on risky potential conflicts of interest;
- the introduction of dedicated training to raise employee awareness of conflict of interest issues and applicable rules and procedures.

The risk, compliance, permanent control and financial security department:

- analyses the situation of potential or actual conflict of interest on the basis of the information communicated to it in order to assess the various impacts likely to affect the interests of clients;
- proposes a solution to avoid or resolve the conflict of interest;
- updates the register of proven conflicts of interest, specifying, where applicable, the provisions and measures implemented.

The control system ensures the efficiency of the system put in place within Banque Palatine. When the control of the conflict of interest systems reveals malfunctions, the risk management, compliance, permanent control and financial security department defines an action plan and takes corrective measures.

Investors: transparency

Banque Palatine pays particular attention to regulations relating to financial instruments markets, MiFID2 and Packaged Retail Investment and Insurance-Based Products (PRIIPS), which it has deployed and whose provisions particularly enhance market transparency and investor protection. In this respect, Banque Palatine communicates on its website its best execution and best selection policy, describing the means implemented to obtain the best possible result for orders placed for its clients. The reports[1] RTS 28 reports provide an overview of the main order execution venues.

Banque Palatine has also implemented a best order execution policy for the service it offers its clients *via* the trading room. This policy is also available on the website as well as the Key Investor Information Documents (KIID).

Banque Palatine provides its clients with investment services offered as part of an advisory process based on the collection of client knowledge data (client profile, characteristics of client projects in terms of objectives, risk acceptance and tolerance, and investment horizon). Investment advice is formalised by a report on the suitability of the client's profile. An annual summary of fees and before each transaction ensures transparency and clear information on fees and their impact on returns.

Inclusive finance

Financial inclusion is an important objective of retail banks. Banque Palatine, a subsidiary of Groupe BPCE, which is itself a major player in inclusive finance, is part of this approach, even if the type of its individual customer base does not appear to be financially vulnerable.

Within this context, Banque Palatine has adapted its pricing with regard to the legal and professional obligations, in September and December 2018, namely:

- the implementation since the beginning of 2019 of a ceiling on incident costs of €25 per month for financially vulnerable customers; and
- a ceiling on incident charges of €16.50 per month for customers having subscribed to an offer for vulnerable customers.

In accordance with Decree No. 2020-889 of 20 July 2020, effective on 1 November 2020, a new criterion was created to allow a faster identification of financial fragility.

Groupe BPCE's recommendation to set up a unit dedicated to vulnerable customers led Banque Palatine to work with a Group entity (BPCE Solutions Crédit) specialising in these inclusion topics.

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, in particular when dealing with financially vulnerable customers. 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.

(1) RTS: Regulatory Technical Standards.

Ethics and governance

On 21 March 2018, the European Banking Authority (EBA) published the French versions of two guidelines (Guidelines) concerning the governance of credit institutions and finance companies:

- guidelines on internal governance;
- EBA and ESMA guidelines (European Securities and Markets Authority) on the assessment of the suitability of the members of the management body and key function holders (Fit & Proper guidelines).

The EBA's main guidance on internal governance specifies the internal governance arrangements, processes and mechanisms that credit institutions must implement to ensure "effective and prudent management".

The Board of Directors, at its meeting of 26 May 2020, adopted a new governance framework, comprising:

- a corporate governance framework: an umbrella document that formalises the organisation, operating methods and responsibilities of the management bodies by reference to the various policies and texts applicable in the establishment;
- 2. framework rules of procedure of the Board of Directors resulting from the merger of the rules of procedure of the Board of Directors and the rules of procedure of the Board of Directors in order to obtain more precise rules regarding the composition, the functioning and duties of the Board Committees;
- an Appointment and succession policy: the role of the Appointments Committee in terms of selection (effective managers/directors) is strengthened, as the members of the management body must be selected from among several candidates (have at least one person of each gender among the candidates – Pacte Act). The policy established takes into account the system put in place by the Group human resources department;
- a policy for assessing the suitability of effective managers and Directors: the assessment methods are specified as closely as possible to the ACPR/BCE "Fit and Proper" file. The role of the Appointments Committee in assessing suitability is strengthened;
- a policy for the prevention and management of conflicts of interest for effective managers and Directors and a charter for the prevention and management of conflicts of interest for effective managers have been drawn up;
- a Director's Code of Ethics, updated on conflicts of interest.

Directors' obligations

The actions of the Directors must be based solely on the interests of Banque Palatine.

Directors must consider themselves to be the representative of all shareholders and behave as such in the performance of their duties. They must not expose themselves to conflicts of interest in relation to their business relations with the company.

They must be mindful of their contribution to the exercise of their powers by the Board of Directors.

The Directors ensure compliance with the legal rules relating to the holding of several corporate offices and incompatibilities, as well as those applicable to credit institutions.

The Directors, including the Directors representing the employees, and all persons present, are bound by an obligation of confidentiality with regard to the proceedings of the Board and the specialised committees, without prejudice to the professional secrecy to which they are subject, under criminal law, in relation to certain information pertaining to this secrecy.

The Chairman of the meeting may declare the proceedings of a meeting to be confidential whenever regulations or Banque Palatine's interests so require. He or she may require all individuals taking part in a meeting to sign a confidentiality undertaking. He does the same within the Board's specialised committees. This statement is placed on record in the minutes of the meeting.

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. In the case of a committee member, the Board of Directors may, on the proposal of its Chairman, terminate his or her duties as a member of the committee.

The member concerned will be informed in advance of the proposed penalties and will be given the opportunity to present observations.

All Directors are required to inform the Board of any conflict of interest, even potential, and must refrain from voting on the corresponding deliberation.

A conflict of interest situation is defined as a situation in which a member of the Board of Directors has a personal interest that diverges, or is likely to diverge, from the interests of all the bank's shareholders.

Unless authorised by BPCE, taken in agreement with the Chairman of the Board, the office as Director of the bank is incompatible with a position as Chief Executive Officer, member of the Management Board, Director or member of the Board within another credit institution or another investment services company that is not part of Groupe BPCE.

Directors are expected to participate regularly in the meetings of the Board of Directors and its committees and to attend General Meetings.

Those who are unable to comply with this attendance rule undertake, in accordance with the responsibilities attached to the position of Director, to hand over their office to the Board at the request of the Chairman.

More generally, a Director who considers him- or herself unable to perform his or her duties on the Board, or on the committees of which he or she is a member, must resign.

All newly appointed Directors undertake to participate in at least one training session that is offered to them within one year of their appointment.

Insider trading

When taking office, the Directors sign the Code of Ethics for Directors of Banque Palatine appended to the framework regulations of the Board of Directors.

This Code of Ethics for the Directors of Banque Palatine specifically specifies:

- the management of inside information (Articles 621-1 and 622-1 of the AMF General Regulation);
- transactions on financial instruments issued by Banque Palatine (Article 19-1 of Regulation No. 596/2014);
- black-out periods on the financial instruments of Groupe BPCE's companies;
- conflicts of interest;
- prevention of insider trading.

To ever better serve customers over the long term

Quality of client relationships

Banque Palatine has placed the improvement of service and customer satisfaction at the heart of its strategy and its new strategic plan, Envol, which was completed in 2020.

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 of the bank's 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. Its customer listening system enables it to measure customer satisfaction and the effectiveness of the actions undertaken to improve its quality of service.

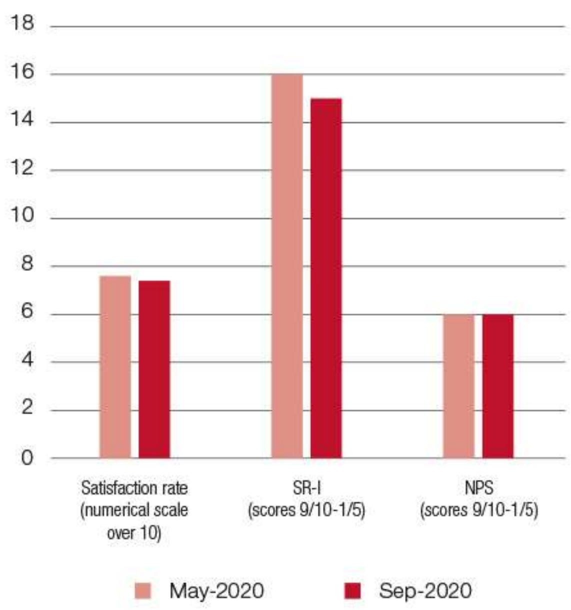
The Net Promoter Score (NPS) remains a key indicator for Groupe BPCE and Banque Palatine because it enables the recommendation and customer experience to be compared with other banking players and other types of service companies. This indicator is internationally recognised and, in addition to measuring customer satisfaction, it gauges the likelihood of their recommending the bank to their friends and family.

Net Promoter Score (NPS)

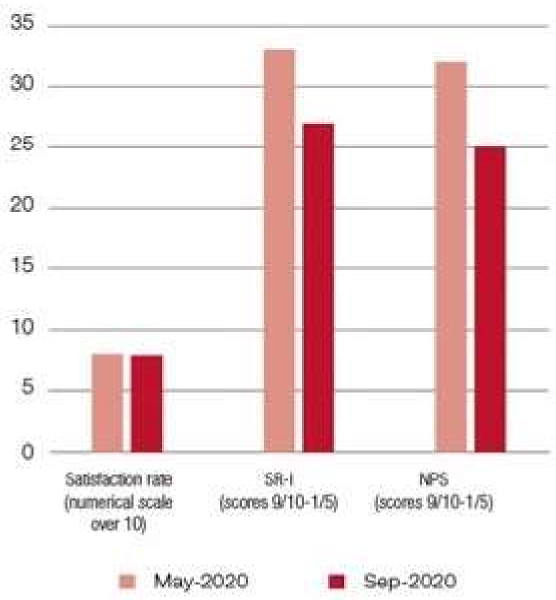
On two occasions, in May and September 2020, the quality department carried out customer satisfaction surveys in its two markets (private and corporate customers), in order to measure the perception of the bank by its customers but also to consider changes in the customer relationship in a complex healthcare context.

The level of NPS obtained in 2020, positive for the various customer targets, confirms the relationship of excellence and partnership that Banque Palatine has with its customers. It should be noted that with an NPS of between 25 and 32 for the Enterprise target, Banque Palatine has an excellent recommendation rate.

Satisfaction of corporate banking customers



Satisfaction of private banking customers



A corporate culture based on human capital

Challenges

In a highly contrasted banking environment and with ambitions to move upmarket, the human resources department has been at the forefront of supporting the deployment of the 2018/2020 strategic plan and the changes to the company brought about by the IT migration.

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 determine their own 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;
- encourage internal mobility and recruit targeted external profiles;
- pursue and develop our diversity and gender equality policy.

This support for professionalism and skills development should make it possible to retain and develop all employees in order to increase the bank's performance and support future transformations, which, in the digital age and with a new data system, will accelerate productivity processes, and thus modify 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.

Analyse the workforce structure

As of 31 December 2020, the bank's headcount was made up of 1,218 employees, of whom 92% were on fixed-term contracts, compared with 86% in 2019. The higher proportion of permanent contracts in the overall workforce is a return to a historic order of magnitude after 2019 and the first half of 2020 which saw significant reinforcement through fixed-term contracts in connection with the IT migration project.

Women represent 52% of the total workforce, stable over the last three years.

The proportion of executives stood at 67.7% in 2020.

The recruitment policy for work-study contracts is continuing with 50 young employees on apprenticeship or vocational training contracts.

Breakdown of workforce by contract type, status and gender

Banque Palatine has employees in mainland France; the geographical distribution is therefore not indicated. n/c: not concerned – n/a: not available

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Total permanent and fixed-term staff including those on work-study programmes	1,218	24	1	1,320	30	1	1,205	27	1
Total permanent and fixed-term staff (not including work-study and internship programmes)	1,168	24	1	1,273	29	1	1,158	27	1
Number of permanent employees	1,117	24	1	1,129	29	1	1,098	26	1
permanent employees as a % of the total workforce	91.71%	100.00%	100.00%	85.53%	96.67%	100.00%	91.12%	96.30%	100.00%
Fixed-term employees, including those on work-study programmes	101	0	0	191	1	0	107	1	0
Fixed-term employees as a % of the total workforce	8.29%	0.00%	0.00%	14.47%	3.33%	0	8.88%	3.70%	0
Total managers	825	24	0	840	30	0	794	27	0
Managers as a % of the total workforce	67.73%	100.00%	0	63.64%	100.00%	0	65.89%	100.00%	0
Total non-managerial employees	393		1	480	0	1	411	0	1
Non-managerial employees as a % of the total workforce	32.27%	0.00%	100%	36.36%	0.00%	100%	34.11%	0	100%
TOTAL FEMALE WORKFORCE BREAKDOWN BY AGE CATEGORY:	**630**	**8**	**1**	**688**	**10**	**1**	**632**	**9**	**1**
18-<26 years of age	49	0	0	58	2	0	48	1	0
26-<31 years of age	73	1	0	93	0	0	87	0	0
31-<36 years of age	101	0	0	109	0	0	99	1	1
36-<41 years of age	96	0	1	104	0	1	89	0	0
41-<46 years of age	65	1	0	69	1	0	67	1	0
46-<51 years of age	64	0	0	59	0	0	49	1	0
51-<56 years of age	56	2	0	83	3	0	89	3	0
56-<61 years of age	107	3	0	98	4	0	91	2	0
61 years of age and older	19	1	0	15	0	0	13	0	0
Female employees as a % of the total workforce	51.72%	33.33%	100.00%	52.12%	33.33%	1	52.45%	33.33%	100
TOTAL MALE WORKFORCE BREAKDOWN BY AGE CATEGORY:	**588**	**16**	**0**	**632**	**20**	**0**	**573**	**18**	**0**
18-<26 years of age	43	0	NC	60	0	NC	35	1	NC
26-<31 years of age	74	2	NC	84	6	NC	88	2	NC
31-<36 years of age	92	3	NC	98	0	NC	78	0	NC
36-<41 years of age	76	1	NC	83	1	NC	81	1	NC
41-<46 years of age	71	0	NC	69	0	NC	55	1	NC
46-<51 years of age	71	2	NC	69	4	NC	73	3	NC
51-<56 years of age	53	3	NC	61	2	NC	58	4	NC
56-<61 years of age	78	5	NC	85	6	NC	80	4	NC
61 years of age and older	30	0	NC	23	1	NC	25	2	NC
Male employees as a % of the total workforce	48.28%	66.67%	NC	47.88%	66.67%	NC	47.55%	66.67%	NC

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 2020 financial year, the total number of hires on permanent contracts was 69 employees and 127 on fixed-term contracts excluding work-study contracts. Total new recruits fell by 39% compared to 2019. This decrease is due on the one hand to the decrease in hiring of reinforcements on fixed-term contracts as part of the migration project (-18%) and on the other hand to the decrease in permanent hires (-55%). The volume of permanent hires therefore returned to the usual level after an exceptionally strong year in 2019.

The majority of those recruited on permanent contracts were managers (65% of permanent recruitments in 65 compared to 68% in 2019). For fixed-term recruitments, the percentage of recruitment at managerial level changed from 18% in 2019 to 19% in 2020; 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 2019. In 2020, women accounted for 43% of permanent recruits, whereas they represented 49% of permanent recruits in 2019.

The breakdown of permanent hires by age group is close to that of 2019. Those under the age of 35 represent 70% of permanent hires, compared with 66% in 2019.

In 2020, seven new jobs were created as part of the ENVOL 2018-2020 strategic plan to support the company's development. This figure, down sharply compared to 2019 (18 creations), can be explained by three factors:

- the third and final year of the strategic plan required fewer business line experts: more than two thirds of the talents recruited joined the bank over the period 2018-2019;
- the year 2020 was dedicated to the bank's IT migration; recruitment mainly concerned temporary resources: fixed-term contracts and temporary staff;
- the health crisis led to a freeze on external recruitment.

At the same time, since the launch of its employer brand in September 2018, Banque Palatine has strengthened its presence strategy on social networks (increase in the number of views and subscribers on its LinkedIn and Twitter accounts) thanks in particular to its ambassadors and brand owners from various business lines. In addition, despite a marked decrease in the number of hires, co-opting, which strengthens our employees' feelings of commitment and belonging, has borne fruit:

- **Co-option:** over the 2016-2018 period, 30 recruitments, of which 18 were on permanent contracts.

  In 2019 only, 14 co-options were completed, with a 100% transformation rate.

  In 2020, 20 co-options were carried out with a transformation rate of 100%, reflecting the quality of the co-opted profiles.
- **Publication of vacancies:** advertisements go through the Groupe BPCE portal with an increase in recruitment *via* Indeed and especially LinkedIn (applications and direct approaches). They are increasingly relayed by our ambassadors and, in a new way, by the managers involved in recruitment.

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Total number of managers hired on permanent contracts	45	0	0	104	6	0	68	3	0
Total number of managers hired on fixed-term contracts	24	1	0	29	0	0	19	1	0
Total number of non-managerial employees hired on permanent contracts	24	0	0	50	0	0	38	0	0
Total number of non-managerial employees hired on fixed-term contracts	103	0	0	136	0	0	72	0	0
Total number of women hired on permanent contracts	30	0	0	75	1	0	55	2	0
Total number of women hired on fixed-term contracts	80	0	0	93	0	0	55	0	0
Total number of men hired on permanent contracts	39	0	0	79	5	0	51	1	0
Total number of men hired on fixed-term contracts	47	1	0	72	0	0	36	1	0

Breakdown of departures by contract, reason and gender

The number of departures of fixed-term employees in 2020 increased significantly compared to 2019, in line with the end of our IT migration: 220 departures of fixed-term employees were recorded in 2020 compared to 81 in 2019, an increase of 171%.

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Number of employees on permanent contracts leaving the entity	81	5	0	123	3	0	142	3	0
of which number of people retiring	22	2	0	22	0	0	34	2	0
People retiring as a proportion of total permanent staff	1.97%	8.33%	0	1.95%	0	0	3.10%	7.69%	0
of which redundancies	8	1	0	14	0	0	11	0	0
Redundancies as % of total permanent employees	0.72%	4.17%	0	1.24%	0	0	1.00%	0	0
Average length of service of permanent employees leaving the entity	13.41	17.44	0	11.40	5.24	0	14.48	19.32	0
DEPARTURES AMONG WOMEN WITH PERMANENT CONTRACTS BY REASON	**46**	**1**	**0**	**63**	**1**	**0**	**73**	**1**	**0**
Resignation	*22*	*1*	*0*	*30*	*0*	*0*	*32*	*0*	*0*
Termination	*4*	*0*	*0*	*5*	*0*	*0*	*6*	*0*	*0*
Transfer within the Group	*5*	*0*	*0*	*4*	*0*	*0*	*6*	*0*	*0*
Retirement	*12*	*0*	*0*	*12*	*0*	*0*	*19*	*0*	*0*
Voluntary redundancy	*0*	*0*	*0*	*7*	*1*	*0*	*8*	*1*	*0*
End of probation period	*3*	*0*	*0*	*4*	*0*	*0*	*2*	*0*	*0*
Other reason	*0*	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*0*
DEPARTURES AMONG MEN WITH PERMANENT CONTRACTS BY REASON	**35**	**4**	**0**	**60**	**2**	**0**	**69**	**2**	**0**
Resignation	*12*	*1*	*0*	*26*	*0*	*0*	*33*	*0*	*0*
Termination	*4*	*1*	*0*	*9*	*0*	*0*	*5*	*0*	*0*
Transfer within the Group	*2*	*0*	*0*	*4*	*0*	*0*	*10*	*0*	*0*
Retirement	*10*	*2*	*0*	*10*	*0*	*0*	*15*	*2*	*0*
Voluntary redundancy	*5*	*0*	*0*	*2*	*1*	*0*	*3*	*0*	*0*
End of probation period	*2*	*0*	*0*	*9*	*1*	*0*	*3*	*0*	*0*
Other reason	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*

There were 81 departures of permanent employees compared with 123 in 2019, *i.e.* a decrease of 34%. Banque Palatine noted as many retirements as in 2019 (22 departures), but fewer resignations (22 fewer resignations) and fewer end-of-trial periods (8 fewer departures than in 2019).

Promoting quality of life at work and employee well-being

Quality of life in the workplace (QLW)

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 5 essential themes to the development of well-being at work.

It should be noted that numerous existing systems within the bank contribute to the improvement of working conditions, the reconciliation of time and the development of the quality of life at work: teleworking agreement, flexible working hours arrangements, on-call agreement, social worker, psychological counselling unit, jobs and skills management planning agreement, etc.

The year 2019 and in its continuation the year 2020 saw the deployment of QLW actions.

At 31 December 2020:

- 24 of them have been completed;
- 16 of them have been completed and rolled out over time to maintain a continuous improvement approach;
- three of them were not deployed due to the difficulty of implementation, particularly related to IT migration.

The annual QLW survey was administered from 7 to 18 September 2020 and the findings are as follows:

- 65% of respondents believe that their QLW has remained unchanged or improved (78% in 2019);
- 81% of respondents (331 people) are satisfied with their working conditions (76% in 2019);
- 75% of respondents consider their work environment to be pleasant and conducive to efficient work (66% in 2019);
- 78% of respondents are satisfied with the content of their work (79% in 2019);
- 80% of respondents consider that the balance between their professional and personal lives is balanced (77% in 2019).

This shows the momentum achieved and the willingness to make quality of life at work a long-term commitment.

With this in mind, the bank negotiated a new QLW agreement signed on 1 December 2020, perpetuating the main measures:

- Measure 1: strengthen communication on QLW;
- Measure 3: manage an annual QLW barometer;
- Measure 4: share the strategy and develop roadmaps by department;
- Measure 26: allocate a conviviality budget by department;
- Measure 27: contribute to solidarity projects.

Seven major chapters structure the new agreement, which focuses its action on support for caregivers, the organisation of the donation of days, the integration and job retention of people with disabilities, support for change, particularly in anticipation of its impacts in terms of working conditions and workload, the right to disconnect and the functioning of spaces of expression, prevention of health risks at work.

A new teleworking agreement was signed in July 2020. Ambitious, it extends the possibilities of teleworking to all employees on permanent contracts (with more than 12 months of service with the company), whether from their primary or secondary residence. From one to three days of teleworking per week are possible at the request of employees and according to their activities. In view of the health crisis, the effective deployment of this agreement was postponed; the bank having massively developed teleworking in accordance with the government protocol linked to the Covid-19 pandemic.

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 2020, 51 employees on permanent contracts had adjusted working hours in the form of part-time work, making up 4.6% of all employees on permanent contracts, of which 94% were women. The number of part-time employees was down in 2020, mainly due to the departure of part-time employees, which the new part-timers did not fully compensate.

Within the framework of the agreements on QLW and jobs and skills management planning (*Gestion prévisionnelle des emplois et des compétences* – 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 2020.

These methods of organising working time are in addition to the variable working hours system already in place for non-managerial employees at head offices.

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Breakdown of female permanent employees on the payroll at 31/12 by working hours	48	2	NC	0	0	NC	0	0	NC
20%	0	0	NC	0	0	NC	0	0	NC
30%	0	0	NC	1	0	NC	1	0	NC
40%	0	0	NC	10	0	NC	11	0	NC
50%	11	0	NC	3	0	NC	1	0	NC
60%	0	1	NC	0	0	NC	1	0	NC
70%	0	0	NC	33	1	NC	42	1	NC
80%	33	1	NC	0	0	NC	0	0	NC
85%	0	0	NC	6	2	NC	9	2	NC
90%	4	0	NC	2	1	NC	6	1	NC
Breakdown of male permanent employees on the payroll at 31/12 by working hours	3	1	NC	0	0	NC	0	0	NC
20%	0	0	NC	0	0	NC	0	0	NC
30%	0	0	NC	0	0	NC	0	0	NC
40%	0	0	NC	1	0	NC	3	0	NC
50%	1	0	NC	0	0	NC	0	0	NC
60%	0	0	NC	0	0	NC	0	0	NC
70%	0	0	NC	1	0	NC	3	0	NC
80%	2	0	NC	0	1	NC	0	1	NC
90%	0	1	NC	30	0	NC	34	0	NC
Number of women on part-time permanent contracts for the non-managerial population	27	0	NC	25	3	NC	31	3	NC
Number of women on part-time permanent contracts for the managerial population	21	2	NC	0	0	NC	0	0	NC
Number of men on part-time permanent contracts for the non-managerial population	0	0	NC	4	1	NC	6	1	NC
Number of men on part-time permanent contracts for the managerial population	3	1	NC	0	0	NC	0	0	NC

Since 2018, Banque Palatine has been a signatory of the life-time balance charter, thereby recognizing the fundamental importance of work-life balance. This priority was reaffirmed in the QLW agreement of 1 December 2020.

The bank is committed to:

- implement information campaigns on best practices to adopt in terms of digital tools;
- make managers aware of the right to disconnect and in particular:
  - exemplarity,
  - the need to discuss the right to disconnect at least once a year (during open discussion meetings),
  - work requests and deadlines forcing employees to work evenings or weekends,
  - workload compatible with compliance with the provisions relating to rest periods;
- include a section on the right to disconnect in the annual staff interview;
- allow the automatic inclusion of a relevant message in internal emails;
- include an item on the right to disconnect and the use of ICT in the annual QLW survey.

Psychosocial risks (PSR)

Given the complexity of the phenomenon of stress at work, the multiplicity of individual reactions to the same factors, the interpenetration of stress arising outside any professional activity, it is established that the main psychosocial risk factors are as follows:

- organisation of the activity: change of position, organisational changes and support, difficulties in personal organisation, workload and, in particular, occasional increased activity, time pressure;
- the modes of management and level of personal responsibility: low autonomy or excessive autonomy and little control or excessive control, risk of error, uncertainty, quality and pace of directives;
- internal relations: manager/employee relations, relations between colleagues;
- customer relations: incivility;
- sexual harassment and sexist behaviour;
- work-life balance: family constraints;
- health and environmental factors: physical environment.

Numerous systems exist within the bank for these different factors, including:

- an external “Qualisocial” support unit;
- development of managerial skills;
- a training offer dedicated to quality of life at work and the prevention of PSR;
- an awareness campaign on well-being at work;
- provision of massages/lectures on movements and postures related to occupational health services;
- the development of teleworking;
- the designation of sexual harassment officers and sexist acts.

As part of its prevention policy, the bank has put in place a procedure (tertiary prevention) for handling situations of violence at work and PSR.

This operating procedure, created in July 2015, was the subject of several communications and was reaffirmed in the QLW agreement of 1 December 2020. It is based on three procedural guarantees:

1. confidentiality of exchanges;
2. individual interviews conducted by a maximum of two people;
3. the drafting of a confidential report strictly reporting the comments made, dated and signed by all participants.

And includes several stages:

- **alert and referral:** Any employee who considers him- or herself to be in a potential situation of violence at work, harassment or PSR can directly contact his or her manager, human resources manager (HR Manager), the contacts (from the human resources department or the Social and Economic Committee [*Comité social et économique* – CSE]) in the fight against sexual harassment and sexist behaviour or a member of the Health, Safety and Working Conditions Commission (*Commission de santé, sécurité et conditions de travail* – CSSCT);
- **interviews:** Alerted directly or *via* the manager or a member of the CSSCT or the CSE Officer in matters of sexual harassment and sexist behaviour, the HR Manager or the HR Officer acknowledges receipt of the alert within 48 hours and receives the employee as soon as possible, for an interview, in order to qualify and identify the alert and collect the factual elements while respecting confidentiality;
- **investigation:** Following this interview, the HR Officer or the HR Advisor continues with the investigation of the file, with the preparation of a report submitted to the employees for approval. The HR Manager or the HR Officer reviews the situation at each stage of the process with the CSSCT member or the CSE Officer who received the alert if he or she is not present at the interviews. The HR Manager or the HR Officer and the CSSCT Member or the CSE Officer present at the interviews draw up a report with the necessary corrective actions and recommendations in terms of prevention, with the help of external prevention stakeholders if needed. The objectives of this investigation are to collect the facts and evidence in a precise manner, to interview any witnesses, to meet the persons involved in an impartial manner and to ensure fair treatment;
- **conclusions and recommendations:** The conclusions of the PSR procedure are presented by their authors in a meeting of the CSSCT in respect of the confidentiality of individuals. The bank, in support of the recommendations, determines the appropriate measures.

The operating mode was activated at the end of 2020 following an alert from the CSSCT with a necessary adjustment given the qualified context.

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.

Any new employee also goes through an awareness session on the “Prevention of psychosocial risks”, which highlights operational points to watch in terms of roles and commitment in relation to PSR.

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.

The year 2020 was particularly marked by the health crisis and the need to adapt the organisation of work to the risks of Covid-19.

The banking sector is considered to be an operator of vital importance. As a result, the bank had to respond to an order from the public authorities to keep as many branches open as possible to ensure business continuity and handle customer requests. These obligations necessarily had to be adapted to the absolute priority of protecting the physical health of employees.

In particular, the following measures have been taken:

- dissemination of the government’s recommendations concerning “barrier gestures” and physical social distancing measures by email and postings in the premises;
- closure of inter-company restaurants during lockdown periods in order to limit the grouping of employees in confined spaces and, in a derogatory manner from the provisions of the rules of procedure, authorisation to lunch at workstations and with rotation in the meeting rooms available by respecting the distancing instructions;
- restriction of business travel and coverage during periods of lockdown of mileage allowances, parking fees and car rental for employees who have to travel and do not have a vehicle;
- provision of plexiglass, masks and hydro-alcoholic gel with an internal replenishment procedure;

- distribution of teams across the three administrative sites;
- change of work organisation with open/closed or shift work, adjustment of arrival and departure times and reduction of the lunch period to avoid peak periods in transport;
- massive development of teleworking with employees being quickly equipped with laptops and smartphones, which has required the updating of internal procedures;
- regular communications with customers to limit traffic in branches and only for transactions that cannot be carried out remotely;
- appointment of a Covid contact person and regular information points with the representative bodies (in bi-weekly webex format at the height of the crisis).

As part of the management of this health crisis, the bank has regularly updated its annual risk assessment document and has adopted a prevention sheet for PSRs linked to the intensification of teleworking inherent in the pandemic situation.

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.

The bank also signed 15 collective agreements and amendments for the year 2020:

- agreement on the matching contribution;
- agreement on the organisation of meetings of bodies in the context of the Covid-19 crisis;
- agreement on exceptional measures related to the health crisis;
- amendment revising the right to organise;
- time savings account agreement (*Compte épargne temps* – CET);
- professional equality agreement;
- agreement on the provisional management of retirements;
- agreement to extend the agreement on forward management of jobs and skills (Gestion *prévisionnelle des emplois et des compétences* – GPEC);
- agreement on incentive schemes (2020);
- technical amendment relating to health costs – mutual insurance;
- two technical amendments relating to the collective retirement savings plan (PERCO) and mandatory retirement savings plan (PERO);
- agreement on the development of quality of life at work;
- agreement on the development of teleworking;
- agreement to extend work over four days.

Compliance with the International Labour Organization (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.

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, Groupe BPCE 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 Organization (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 workplace accidents was down in 2020. This decrease is consistent with the significant teleworking activity in 2020 and the significant reduction in travel (both home-work and business).

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Number of accidents at work recorded during the year with and without time off	9	0	0	13	0	0	13	0	0
Number of fatal accidents recorded during the year	0	0	0	0	0	0	0	0	0
Number of workdays lost*	14	0	0	324	0	0	93	0	0
Severity rate	0.0060	0	0	0.1493	0	0	0.0449	0	0
Frequency rate	2.59	0	0	5.99	0	0	6.27	0	0

* *The number of workdays lost is stated as the number of calendar days. It relates solely to workplace accidents, and excludes travel accidents.*

Absenteeism

Banque Palatine's absenteeism rate changed in 2020. It rose from 4.83% in 2019 to 6.37% in 2020 due to the health situation. During the first lockdown, work stoppages (for childcare or for vulnerable people) were quite numerous, resulting in a rise in absenteeism rates compared to the rather low rates seen in previous financial years.

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
% of absenteeism:									
days of absence/(business days * employees registered at 31/12)	6.37%	1.57%	7.9%	4.83%	2.46%	0	4.82%	2.29%	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.

After a decrease of more than 60% between 2015 and 2018, the number of paid overtime began to increase in 2019 in connection with the Pégase migration. In 2020, due to work related to migration but also due to specific working conditions related to lockdowns and teleworking, the bank noted a significant increase in the number of overtime hours.

In October 2020, the CSE was consulted on an overrun of the legal annual quota of 220 hours. In the end, seven employees are in a situation where the quota is exceeded, with a total of 295 excess overtime hours.

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Overtime (hours)	13,086	4	0	5,972	0	0	5,166	22	0
Number of persons concerned	396	1	0	175	0	0	180	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 fruit and fresh fruit continued to head offices and branches. It was nevertheless suspended during the health crisis and transferred to caregivers.

In terms of the working environment, the new branch office model continues to be rolled out according to renovations or new leases. The new concept has a dual purpose:

more user-friendly spaces to refocus on consulting and showcase new technologies. The Banque Palatine branch must allow the customer to take his or her own banking in hand (using digital technology), while also offering 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 2020, the Rennes and Orléans branches were delivered with this new format.

Office and teleworking

With the unprecedented health crisis in 2020, Banque Palatine had to adapt the working conditions of its employees very quickly and speed up their equipment in computer and office equipment, in order to allow teleworking under the best conditions.

- **Laptop computer:**

The equipment of employees took place in several stages, by business line. This action began in 2019, with the equipment of sales representatives in the branches and half of the head office business lines.

This continued and accelerated in 2020. It is mainly the back office staff, normally working on stationary micro-computers, who were able to use portable micro-computers. This enabled them to work remotely. At the beginning of September 2020, all employees were equipped with portable PCs.

- **Telephony:**

As part of the new work tools, Banque Palatine has decided to equip all its employees on permanent contracts with a professional smartphone. In September 2020, all the bank's teams on permanent contracts were equipped with smartphones.

- **Communication tools**

This unprecedented period of crisis, with the widespread introduction of teleworking, also involved an adaptation of communication methods with the use of tools allowing the organisation of video-conferences, with the sharing of documents. In April 2020, Banque Palatine increased from 100 to 300 Webex licenses, which made it possible to hold a large number of videoconferences. In addition, the deployment of Teams, a Microsoft offering that is part of the Office 365 tools, was accelerated by Groupe BPCE in this particular context. Banque Palatine was able to share this with its employees. This tool was first made available to the head office business lines at the end of the first half of 2020. Then, at the end of the IT changeover, the solution was rolled out at the sales level, in a simplified "Visio Clients" version.

Ensuring the employability and inclusion of employees

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). It continued in 2019 *via* the dissemination on social networks of the video "the seven good reasons to join Banque Palatine", developed with the ambassadors and human resources.

Targeted communication campaigns aimed at the bank's potential candidates were conducted in 2019 with its partners Indeed and Golden Bees (an innovative start-up specialising in programmatic marketing and smart candidate targeting). This made it possible to improve the visibility of its job offers (+695% of candidate clicks in 2019) on all connected media.

In 2020, the partnership continued with Indeed and, in an unfavourable health context, there was a significant increase in the number of applications. This visibility/attractiveness was confirmed by the increase of 9% in the number of visitors to its company page in 2020.

In 2020, and again thanks to its employer brand and the significant work carried out on social networks by the human resources team and brand ambassadors, Banque Palatine now has the capacity to retain its talents but also to seek out new talent from renowned establishments. Thanks to its local career management, individual support and an ambitious training plan, Banque Palatine offers its employees training and development paths that promote their loyalty.

The effectiveness of its actions is reflected in the figures over the last three years:

- the resignation rate at Banque Palatine is decreasing: 5.92% in December 2018, 4.96% in December 2019 and 3.04% in December 2020 in a very competitive recruitment context;
- all job offers were filled thanks to this increased reputation externally and to internal mechanisms: on the one hand, loyalty (introduction of new systems including the Circle of Excellence in 2019 and strengthening of job links job *via* training) and, on the other hand, sponsorship extended to new functions (employees are our best ambassadors).

Integration of new employees

In 2020, the implementation of the policy for the integration of new employees continued in its different forms:

- the creation of a new welcome guide allows users to familiarise themselves with practical information about the company and the documents to be returned before the new employee arrives;
- an induction day was held in February 2020 to create links and promote knowledge of the challenges facing the bank and those involved; the Covid-19 period associated with the migration of the bank's information system in October 2020 significantly slowed down external hires from March to December 2020;
- job immersions have been slowed down and then postponed since the health crisis in order to protect employees, even if they promote cross-functionality and employee meetings;

- access to the “Welcom’In”. This partnership, set up in July 2018 with Furetcompany, allows 100 new employees to benefit from this application every year. It enables employees to be supported very early on in their physical integration, in their discovery of the company and thus to be quickly operational upon arrival. Through a series of mini-challenges, the app helps new employees learn about their new environment. A survey was conducted by Furetcompany on the application Welcom’In among recruited candidates (sample): 93% of new hires follow this digital integration application and 97% consider it differentiating.
- Banque Palatine has strengthened its resources to better control brand risks by carrying out two specific actions: firstly, a two-year partnership with MEDEF, AFB and WERO on the integration of high-potential refugees *via* work-study. Only four local banks responded to this project; on the other hand, an acceleration of the partnership with the target schools, in particular institutes of business administration. This resulted in a rate of 40% of work-study students from IAE (20% in 2018, *i.e.* double).

The Onboarding project, aiming to move towards a digital interface allowing the exchange of documents between the future employee and the company, has been deferred until 2021.

Career management and transfers

The year 2020 started with a strong objective of local proximity to operational staff to support them in their respective needs; namely:

- guiding employees in their career plans in line with the opportunities present within the bank;
- daring to move to managerial positions, new business lines or new regions;
- supporting managers in their needs with tailored advice.

Very quickly, the health crisis forced an urgent readjustment of the initial objectives. Indeed, the team of human resources managers has been heavily involved in the management of the crisis unit. They played a key role in conjunction with management and teams to ensure the proper implementation of actions related to the health protocol, particularly in terms of work organisation (teleworking, shifting teams, etc.).

Thus, the team of human resources managers joined the Covid-19 crisis unit in mid-March 2020 with skills rapidly developed in several specific areas such as:

- support employees in uncertain areas with active and empathetic listening while being able to convince quickly *via* numerous reassurance and follow-up telephone calls;
- coordinating the deployment of teleworking with employees in conjunction with the IT teams and management during the first lockdown period;
- consolidate each individual situation in the light of new government decisions and in connection with the implementation of orders/decrees on the ground;
- support employees in new situations: teleworking, work stoppage according to specific cases, resumption on site, adherence to the rotation in branches and monitoring over time of compliance with barrier and social distancing measures;
- ensure the daily and weekly reporting of key information to secure the reporting set up with Executive Management to ensure proper monitoring of the teams’ organisation;
- find solutions to situations, share questions and enrich the Frequently Asked Questions (FAQ) to secure the answers to be provided;
- support the roll-out of the agreement on exceptional measures taken as part of the management of the health crisis related to Covid-19.

This specific mission required the development of a new, more precise form of communication based on regular and numerous exchanges by telephone to respond to individual situations that are sometimes complex. A rapid understanding of the issues was essential to have a more subtle and effective approach to better support the expectations and needs expressed by all.

In addition, the various periods of lockdown and then lifting of the same required close proximity to the teams. For example, meetings with managers/Directors of the various entities were held to give meaning and explain the rules for on-site recovery: time-sharing between face-to-face and distance learning, request for a certificate justifying the maintenance or not of teleworking for vulnerable people or caregivers, monitoring of people identified as fragile to collect certificates of isolation or recovery on site, etc.

Following the massive and rapid deployment of teleworking during the first lockdown, an agreement on teleworking was signed on 31 July 2020. In this context, the Human Resources Unit, in conjunction with the employee relations department, led 38 meetings with the bank’s departments to explain the terms of the agreement and support the change.

In the last quarter of 2020, several areas mobilised the Human Resources Manager:

- the search for target positions for employees seconded on mission to the Task Force dedicated to the PEGASE project (IT migration);
- the payment of PEGASE bonuses for the employees concerned in conjunction with the managers;
- the first campaign on professional assessment interviews with weekly monitoring of changes in statistics.

At the same time, the human resources team maintained operational activity in the core business throughout 2020; including:

- mobility interviews linked to internal applications for positions to be filled. This allowed for continuity in the processing of internal applications in accordance with the HR strategy of internal mobility, which gives priority to vacant positions;
- support for managers on HR issues that have resurfaced in an even more significant way in light of the two lockdown periods experienced;
- a personalised and tailor-made approach for employees planning to resign with proposed Palatine trajectories, which have been successfully implemented.

Lastly, the jobs and skills management planning agreement remains the guiding principle of the HR Managers; agreement that they implement on a daily basis in the field with employees and management according to the needs expressed both in terms of activity and the profiles expected for the positions to be filled.

Given the Covid-19 crisis, functional mobility was lower in 2020 than in previous years:

	31/12/2020	31/12/2019	31/12/2018
O/w geographical	14	44	65
O/w functional	50	102	155
O/w transfers within the Group	7	8	16
TOTAL TRANSFERS	**71**	**154**	**236**

In summary, the year 2020 was exceptional. The human support provided has made it possible to fine-tune individual monitoring to provide a better understanding of everyone and their needs, while remaining aligned with the needs of the bank and its strategy.

Retention and recognition

In order to take stock of the necessary retention of the sales forces, which 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).

In 2020, 20 employees were recognised and received financial rewards in addition to their variable remuneration, but also non-financial measures.

Training: supporting the development of skills and employability

The training policy fully supports Groupe BPCE’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 35,009 training hours delivered in 2020 (39,037 hours in 2019), Banque Palatine continues to invest in developing the skills of its employees.

During the year 2020, Banque Palatine experienced a major event with the migration of its information system, initially scheduled for April 2020, which, due to the health crisis related to Covid-19, was postponed until October 2020. The combination of this postponement and the extension of teleworking had a strong impact on the implementation of the training plan for 2020, which was mainly focused on PEGASE training.

PEGASE training: a flagship action to support the migration

The system initially planned in person had to be rethought and redesigned to use teaching methods adapted to the health context:

- creation of MOOCs (massive open online courses):
  - 14 MOOCs created internally on banking business lines including quizzes,
  - transformation of training materials into operating procedures made available on the bank’s intranet,
  - e-learning training adapted to the business context;
- creation and making available to the network of memo sheets;
- provision of the school database to users;
- implementation of virtual classes to validate knowledge on topics targeted upstream with employees.

In addition, a dedicated Task Force was set up with the mobilisation of 14 full-time employees over the vast majority of the year, with the following breakdown:

- 2 coordinators;
- 12 employees, designers and trainers.

Four courses were set up to train all employees in the bank’s new information system:

- private Clients programme;
- Corporate customer path;
- mixed course;
- Head office route.

These remote courses took place from 17 August to 31 October 2020.

The entire system and the mobilisation of the Task Force were thus decisive factors in the appropriation of the new IS by all employees.

Private Client Market and Enterprise Market

Initially, the 2020 training plan provided for training in both markets to support employees in mastering and/or improving their skills; in line with the upmarket strategy.

Due to the health situation, all training actions had to be abruptly halted in the first half of 2020 and could not be systematically adapted to remote format in the second half of 2020.

Regulatory training

The banking activity is particularly regulated in particular on the subject of mandatory training. The delivery and monitoring of these training courses by employees has been a major challenge for the Training Section for several years; this is done in conjunction with the compliance department to ensure the proper completion of mandatory training. Despite the health situation, more than 6,000 hours of regulatory training were provided in 2020.

The synergy between the Training Section and the compliance department increased in 2020 to optimise the mandatory regulatory training system. For example, the “Anti-corruption” training in conjunction with OCBF was implemented for targeted employees because of their degree of exposure.

Support for managers

Given the specific health context in 2020, a strong focus was placed on supporting managers to adapt their management from face-to-face to distance learning. Managers were thus supported in two areas:

- specificities of remote management: four one-and-a-half-hour remote modules were offered to all managers to integrate the changes in posture inherent in the distance context:
  - change managerial paradigms: mutual expectations and needs between managers and employees, soft skills in a situation of remote management, managerial agility,
  - clarify the organisation of the remote management: respective expectations and rules of the game,
  - formalise its remote rites and rhythms: structure and content of conference calls, structure and content of individual rites, focus on the lockdown situation,
  - monitoring specific cases: reframing and encouraging from a distance, best remote practices.

  In concrete terms, these were 53 sessions conducted over three weeks during the first lockdown in 2020. These modules were highly appreciated by managers; they will be renewed in the first quarter of 2021;
- induction coaching for new managers: continuation of this personalised support, which is all the more important with remote teams.

In summary, several major areas continued to guide the training activity throughout the year:

- strengthening the expertise of the business lines in order to transform themselves;
- support for the operational efficiency ambition;
- compliance with regulatory obligations;
- the desire to make employees co-players in their professional development with "tailor-made" training support.

Training hours

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Average hours of training per employee, "managers"	25.65	3.15	17	31.49	8.54	NC	NC	8.6	NC
Average hours of training, "non-managerial" staff	22.34	0	17	22.22	0	0	0	0	0
Average number of hours of training per employee	24.39	3.15	17	28.19	8.54	0	0	8.6	0
Average number of hours of training by gender									
Men	25.59	2.84	-	29	9.82	NC	NC	9.7	NC
Women	23.27	3.72	17	27.44	5.87	0	0	6.5	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 purpose of this plan is to define the system for managing human impacts, which will be implemented in the event of the EBCP being triggered.

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 2020, the skills map for the whole company identified 49 critical activities and the associated critical procedures. 240 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 2020, the percentage of female Directors on the Board of Directors reached 50%, excluding the Directors representing employees.

Gender equality

On 16 December 2020, the human resources department signed a new agreement on gender equality. This agreement, as an extension of previous agreements, sets out the actions and objectives for growth in the following areas:

- recruitment;
- vocational training;
- professional development and career path;
- the link between professional activity and personal life and in particular parenthood;
- awareness-raising and communication actions;
- actual remuneration and elimination of remuneration gaps.

It renews the provisions of previous agreements and introduces a new method for identifying pay gaps. This method, the result of joint work, is based on four steps:

- Step 1: preparation of a summary table by Palatine jobs, Palatine job groupings or AFB benchmark trades – differential restated for structural effects;

- Step 2: allocation of points according to the median salary of the AFB employment/groupings/business lines and according to age, length of service in the job and bank seniority;
- Step 3: ranking: adding all the points gives a total number of points and a decreasing ranking of employees;
- Step 4: individual qualitative analysis carried out by the human resources department based on professional situations.

In addition, the following measures are maintained:

- 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);
- CESU vouchers.

All these provisions came into force on 1 January 2021.

The Universal Employment Services Cheque (*Chèque emploi service universel* – CESU), set up through a collective agreement on 25 November 2016, was initially paid by the employer up to 90% of the exemption ceiling authorised by the French Social Security and Family Allowance Contribution Collection Offices (*Union de recouvrement des cotisations de sécurité sociale et d'allocations familiales offices* – URSSAF).

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 267 employees in 2020, stable compared to 2019. Payments were down slightly (-3.5%), due to the lockdown in spring 2020 which resulted in a reduction in childcare costs for employees.

	31/12/2020	31/12/2019	31/12/2018
Number of beneficiaries	267	268	264
Average amount of the provision paid	€1,328	€1,371	€1,345
TOTAL AMOUNT PAID	**€354,618**	**€367,422**	**€355,070**

Gender equality indicator

Mandatory since 1 March 2019, the index published in March 2021 for the 2020 financial year gives a result of 96 points out of 100, proof of Banque Palatine's commitment to ensuring gender equality in the workplace.

	Index for 2020	Index for 2019	Index for 2018	Maximum number of points for the indicator
Pay gap	36	37	36	40
Gaps in individual salary increases	20	20	20	20
Promotions gap	15	15	15	15
% of female employees receiving an increase on return from maternity leave	15	15	15	15
Male/female breakdown among the 10 highest earners	10	10	10	10
TOTALS	**96**	**97**	**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 2020 relate to:

- the continuation of the *à la carte* personal development workshops set up in 2019: proposal of thematic personal development workshops, in partnership with Palatine Au Feminin (internal network within Banque Palatine, renamed in January 2021 "Palatine Pluriel") and "Les Essenti'elles": 21 female Banque Palatine employees took part in these workshops in 2020;
- dissemination of the gender balance guide: the Women's Day on 8 March provided an opportunity to reaffirm the HR policy with regards to gender equality
- the organisation of a conference on 9 March, as part of Women's Day, on the theme: "gender stereotypes, identifying them to learn how to deconstruct them".

Indicators	31/12/2020 BP	31/12/2020 PAM	31/12/2020 ARIÈS	31/12/2019 BP	31/12/2019 PAM	31/12/2019 ARIÈS	31/12/2018 BP	31/12/2018 PAM	31/12/2018 ARIÈS
Permanent contract male/female ratio, non-managerial (average male salary/average female salary)	1.02	NC	NC	1.02	NC	NC	1.01	NC	NC
Permanent contract male/female ratio, managerial (average male salary/average female salary)	1.11	1.04	NC	1.12	0.98	NC	1.12	1.03	NC
Number of female employees taking parental leave in the last year	14	0	NC	8	0	NC	7	0	NC
Number of male employees taking parental leave in the last year	0	0	NC	0	0	NC	0	0	NC
Number of female employees returning to work after parental leave	2	0	NC	4	0	NC	5	0	NC
Number of male employees returning to work after parental leave	0	0	NC	0	0	NC	0	0	NC

Disability

In 2020, 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.

Banque Palatine is involved in the employment of disabled people. It provides local confidential support to meet the demands of employees. In 2020, four new statements recognising workers with disabilities were recorded (twice as many as the previous year in an unfavourable context).

Banque Palatine enables a large number of employees to benefit from individualised working time and/or shift arrangements in order to maintain them in employment. The Quality of Life at Work agreement signed in November 2017, listing 44 measures, saw some of them directly or indirectly related to disability (donation of days; caregiver guide; caregiver label, etc.). Banque Palatine provides practical support to employees faced with difficult situations.

In conclusion, it is important to recall the existence of a human resources policy committed to diversity, inclusion and the fight against discrimination. To this end, the "Recruit without discrimination" training offered by the Defender of Rights was attended by all Human Resources Managers and recruiters in order to raise awareness of this topic. In direct connection with this awareness, it is recalled that when job offers are published on the Groupe BPCE website, *via* the job boards, advertisements are sent to the Handibanque, Handiemploi and Capemploi websites, which generates applications from people with disabilities.

In the midst of the Covid-19 crisis, Banque Palatine continued its HR policy with regard to all forms of diversity (gender, age, disability, etc.) *via* concrete actions in the area of recruitment and support for employees in their career plans.

Indicators	31/12/2020 BP	31/12/2020 PAM	31/12/2020 ARIÈS	31/12/2019 BP	31/12/2019 PAM	31/12/2019 ARIÈS	31/12/2018 BP	31/12/2018 PAM	31/12/2018 ARIÈS
Number of employees with disabilities excluding ESAT	32	2	0	31	2	0	31	1	0
% of employees reported as disabled excluding ESAT/total workforce (permanent)	2.86	8.33	0	2.49	7.02	0	2.82	3.85	0

Indicators	31/12/2020 BP	31/12/2020 PAM	31/12/2020 ARIÈS	31/12/2019 BP	31/12/2019 PAM	31/12/2019 ARIÈS	31/12/2018 BP	31/12/2018 PAM	31/12/2018 ARIÈS
Employment rate of employees with disabilities with reduction + ESAT/total workforce (DOETH (mandatory declaration of the employment of disabled workers) figures)	*		NC	0.036	0.07	NC	0.036	0.059	NC

* *The method for calculating and reporting data relating to the obligation to use handicapped workers will change this year. The contribution will be paid in May. This amount will be calculated via payroll based on information that the URSSAFs have not yet communicated.*

Anti-discrimination policy

Policy for carers

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.

On the strength of this label, the bank decided to reinforce the measures in favour of carers in the QLW agreement of December 2020 with in particular:

- special attention paid to the requests for part-time work, geographical mobility and teleworking from caregivers;
- the granting of three authorised days of paid absences to caregivers per calendar year enables the caregiver to accompany his or her relative in the event of medical appointments or hospitalisation;
- a priority in the provision of paid holidays and RTT;
- the granting of caregiver CESU vouchers with a face value of €300 and financed by the employer (up to 60%);

- the possibility of identifying non-professional skills mobilised as helpers in the context of professional assessments;
- the setting up of a solidarity fund for donations of days supplemented by 20 days by the bank.

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 2020, 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.).

As of 31 December 2020, five Banque Palatine employees were enrolled in this sponsorship programme, and three young graduates were being monitored.

A comprehensive and competitive remuneration system aligned with the interests of the bank and its customers

Basic remuneration

In the context of the high turnover of the workforce mentioned above, the average basic salary of permanent employees has seen contrasting trends depending on the professional category.

For managers, the average salary was down very slightly in 2020 (-0.1%) with a -0.5% decline for men and an increase of 0.3% for women. This change in the average salary of managers is explained by departures on the K and HC classification levels, with significant remuneration.

For non-managers, the average basic salary increased by 2.5% with an increase of 2.3% for men and 2.6% for women.

Observation of the median salary shows a different trend according to gender.

The median salary of men declined by 0.50% in 2020 compared to 2019 due to a decrease of 0.74% in the median salary of managers, in line with the average salary mentioned above.

With regard to the median salary of women, it rose by 1.98% in 2020 with almost 3% for non-managerial women and almost 1.30% 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 2020, disbursements increased again with a 17% increase. Part of the increase in payments comes from the greater number of beneficiaries, but the increase in payments is mainly due to the intervention of the "bank coefficient", which increased individual variable remuneration by 10% due to the good results in of Banque Palatine in 2019.

The amounts distributed in respect of incentive schemes, profit-sharing and employer contributions were lower than in 2019.

	31/12/2020	31/12/2019	31/12/2018
in thousands of euros	**BP**	**BP**	**BP**
Incentive plans, profit sharing and employer's contribution (paid in respect of the year indicated)	7,710	10,096	6,777
Variable remuneration (excluding the Executive Management Committee)	7,357	6,279	6,191

In 2020, 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:

- summary of the training undertaken by the employee during year N-1;
- 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 in the form of CESU vouchers for employees providing personal services, and a list of useful contacts (mutual insurance, personal protection, works council, housing promotion scheme, etc.). The change in remuneration between 2016 and 2019 is also given, in this way creating a four-year trend.

As in 2019, this document was sent digitally, *via* the digital safe set up to also accommodate the dematerialised payslip, a system adopted by more than 80% of employees.

	31/12/2020			31/12/2019			31/12/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Average basic salary of men on permanent contracts for the managerial population (in thousands of euros)	59	66	NC	59	68	NC	58	68	NC
Average basic salary for men on permanent contracts for the non-managerial population (in thousands of euros)	35	0	NC	34	0	NC	33	0	NC
Average basic salary of women on permanent contracts for the managerial population (in thousands of euros)	53	64	NC	53	69	NC	52	66	NC
Average basic salary of women on permanent contracts for the non-managerial population (in thousands of euros)	34	0	44	34	0	43	33	0	
Median basic salary of men on permanent contracts for the managerial population (in thousands of euros)	55	59	NC	56	59	NC	53	63	NC
Median basic salary for men on permanent contracts for the non-managerial population (in thousands of euros)	35	0	NC	35	0	NC	33	0	NC
Median basic salary of women on permanent contracts for the managerial population (in thousands of euros)	50	57	NC	50	61	NC	48	59	NC
Median basic salary of women on permanent contracts for the non-managerial population (in thousands of euros)	34	0	44	34	0	43	33	0	
Change in the N/N-1 median basic salary of men on permanent contracts for the “management” population.	0	0	NC	0	0	NC	0	0	NC
Change in median basic salary N/N-1 for men on permanent contracts for the “non-manager” population.	0	NC	NC	0	NC	NC	0	NC	NC
Change in the median basic salary N/N-1 of women on permanent contracts for the “management” population.	0	0	NC	0	0	NC	0	0	NC
Change in the median basic salary N/N-1 of women on permanent contracts for the non-managerial population.	0	NC	1.00%	0	NC	1.00%	0	NC	1.00%

Banque Palatine’s national footprint

Developing responsible purchasing: a socio-economic footprint as a buyer

Ethics and suppliers, subcontractors, service providers

The procurement unit undertook to respect an Ethical Charter by fulfilling nine commitments since 2018:

- select the best suppliers through a transparent and equitable process based on clear selection criteria;
- 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 the 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 purchasing function also relies on a charter defined in the “Expenditure commitments” procedure, which was updated and distributed in March 2020.

The main changes concerning this charter are as follows:

- implementation of consultation processes or calls for tenders;
- introduction of a summary sheet for purchasing and changes in thresholds;
- changes in the Purchasing Committee (new frequency, exceptional committees, etc.).

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.

In order to monitor all these procedures, the purchasing function has also set up a bimonthly control file to verify, with the departments, the compliance of suppliers, to control the commitment of expenditure with the latter and to validate the proper implementation of contracts and integration into the tool listing contracts.

Also, during each call for tenders, Banque Palatine includes the social policy that the bank wants the candidate to follow.

During the consultation process, candidates and therefore future service providers are encouraged to comply with the various standards and regulations in force in terms of 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.

Procurement unit and the PHARE process

Banque Palatine is not in a position to present results for this year due to a change in the calculation methods and the declaration made to *Association objectif emploi des travailleurs handicapés* (OETH). This was a special year with several projects postponed due to the health crisis.

Nevertheless, in most consultations for standard services, it continues to solicit companies from the sheltered sector in addition to so-called traditional companies, either directly or indirectly (co-contracting, tripartite contract, etc.).

Banque Palatine has subscribed to the Gesat network so that buyers can access discussions, training and information and meet new players in the field.

	2020	2019	2018
Useful purchases in euros excl. tax	*	160,000	113,000
Number of UBs	**	12.33	5.73

* *From 2020, these data will be communicated by URSSAF in view of the monthly declarations via the DSN. The results will only be available from July 2021.*

** *This data will no longer be reported from 2020.*

Committing to a better life: a societal footprint as a 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 French Movement of Mid-sized Companies (*Mouvement des entreprises de taille intermédiaire* – METI), to which Banque Palatine has belonged 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. 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. Fondation Palatine des ETI is the eighth foundation hosted by Fondation Entreprendre.

The Fondation Palatine des ETI is a structure created and managed by Banque Palatine.

The foundation’s strategy is set by a Steering Committee bringing together senior executives of medium-sized companies and community leaders. Meeting for the third time on 17 December 2020, it chose to maintain the two themes of action chosen from the first year in order to perpetuate the support provided to these structures in a difficult health and economic context. Five associations were supported for an amount of €160,000 in 2020.

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 him or her to find a 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;
- **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 the selected project holders develop their entrepreneurial posture and learn the fundamentals of managing a company. The association also makes available to them a rich network of partners.

Reintegration 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 integration of young people aged 18 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 **"Civique adapté" service,** offered to 12 young people over 12 months, allows them to discover the work of business and raises their awareness of entrepreneurship.

Other partnerships and sponsorships

Social actions

Eager to encourage social and geographic diversity within higher educational institutions, since 2010 Banque Palatine has forged **a partnership with 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.

In addition, in December Banque Palatine traditionally offers its employees a Christmas lunch. Given the health measures, this was not possible in 2020. It was therefore decided to donate the sum of €15,000 to Les Restos du Cœur, which enabled the volunteers to distribute the equivalent of 15,000 meals.

In addition, Banque Palatine joined the Cancer@Work network in 2020 and renewed its partnership in 2021. This is the first a network of companies, created in 2012, committed to the subject of cancer and work and which proposes to its members to take action to promote the integration of sick people into the world of work.

Lastly, Banque Palatine offers its employees the opportunity to supplement their salary each month, by making micro-donations of their net payables, in favour of associations that plead the cause of women. Every month, Banque Palatine employees can make a donation on their payslip to Fondation des Femmes or to Institut Curie. Banque Palatine matches all donations, all of which goes to the two beneficiary associations. In 2020, 64 employees of the bank took part in this operation.

Sport

A premium partner of the Paris 2024 Olympic and Paralympic Games, Banque Palatine would like to work more with sportsmen and women. 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 Fondation Pacte de performance offers sportsmen and women with insufficient resources the chance of receiving an annual grant. This would thus allow them to fully concentrate on their sport.

Banque Palatine is therefore pleased to support four athletes (including two in disabled sports) and thus contribute to the performance of the French teams in four disciplines.

Elodie Clouvel, in modern pentathlon

Gaëlle Edon, shooting

Camille Jaguelin, riding

Nicolas Muller, in golf

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.

In 2020, despite the cancellation of the Cannes Film Festival, Banque Palatine maintained its support for the Directors' Fortnight, thus confirming its commitment to the film industry in difficulty due to the health crisis.

In addition, Banque Palatine supports French cinema indirectly through SOFICA Palatine Etoile, co-founded with CINE NOMINE, or directly through its recognised expertise in the **financing of film and audiovisual professionals.** Despite the health conditions that led to the closure of cinemas for several months and resulted in the postponement of many shootings, the 46th César Awards were held to reward the films, Directors, actors, actresses and technicians who made their mark on the year 2020. 70 nominations were obtained by films supported by Banque Palatine. Of the 23 awards, 19 were awarded to films supported directly or indirectly by Banque Palatine.

Once again this year, the numerous awards received for works supported by Banque Palatine confirm its expertise, commitment and solidarity with French cinema.

Groupe BPCE's "Team Imagine 2024" engagement platform

"Team Imagine 2024" is an engagement platform open to all Groupe BPCE employees since September 2020. Its purpose? Enabling everyone to get involved, through individual and collective sporting and societal activities, for the benefit of associations close to the Group's brands. Every Banque Palatine employee can register and participate in an event already scheduled or create their own by bringing together as many people as possible around their project. It thus earns a certain number of points which will be converted into donations for the benefit of three associations and NGOs: Fondation Abbé Pierre, Actions contre La Faim and Surf Insertion.

As of 31 December 2020, 84 employees were registered on this platform.

Caring for the environment: an environmental footprint as an actor in society

Environmental footprint and the Group

Reducing Groupe BPCE'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 in CSR reporting;
- training on the tool used to calculate the Group's greenhouse gas emissions.

Environmental approach of the bank

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. Here is an example of the measures adopted:

- maintenance of a green energy supply (reopening of competition with the supplier Direct Energie *via* a call for tenders) with a switch of all sites (head office and branches) to 100% green energy in 2021;
- promotion of alternative means of transport to the private car – provision of an intranet online carpooling site: http://palatine.trajetalacarte.com/;
- reinforcement of recycling actions: sorting by employees; reuse of computer or telephone equipment; recycling of cigarette butts at offices *via* an ESAT service provider
- 4. abandonment of plastic cups in beverage dispensers in favour of distributing a GOBI water bottle to each employee. However, the Covid-19 health crisis has forced a reversal of the zero plastic approach. In fact, in the course of 2020, water bottles in vending machines were put back into circulation;
- implementation of awareness-raising actions among employees and communication of progress in this area (“zero plastic” communication, “Gobi’s, butts and good habits” communication, communication on the elimination of plastic cups);
- reimbursement of bicycle mileage allowances to employees who choose them since 2017;
- provision of bicycle parking at the two offices (Val de Fontenay and Anjou).

In addition, Banque Palatine has installed beehives on the roof of its head office in Val de Fontenay.

Since 2016, Val de Fontenay employees have had the pleasure of welcoming beehives and bees on the roof terrace of their workplace. This initiative in favour of biodiversity is part of a sustainable development approach and addresses the challenges of environmental protection. In 2020, 20 kilograms were produced.

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

When travelling for business, Banque Palatine encourages its employees to use means of transport that are cleaner than private cars, in particular by favouring trains and public transport.

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.

Lastly, Banque Palatine’s fleet consists mainly of vehicles listed by Groupe BPCE, including electric and hybrid vehicles. Service vehicles are chosen on the basis of their low carbon emissions and will gradually switch to gasoline (by the end of 2021). According to the Group’s recommendation, diesel is mainly used for heavy-duty vehicles (over 25,000 km/year).

Users of service and/or company vehicles have an in-house eco-driver guide.

In order to provide a check processing solution to our customers, check collection runs with partners using clean vehicles as much as possible have been set up. The optimisation of shopping schedules in 2019 has reduced the number of collections and therefore also the greenhouse gas emissions. One-off trips within Paris are carried out exclusively by bicycle or electric vehicles.

The corporate travelling plan 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.

Banque Palatine continues to improve the energy performance of its buildings through annual regulatory checks.

	31/10/2020			31/10/2019			31/10/2018		
Indicators	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**	**BP**	**PAM**	**ARIÈS**
Petrol consumed by company cars (in litres)	15,836	570	0	10,845	251	NC	7,815	2,453	NC
Petrol consumed by fleet cars (in litres)	5,462	NC	0	1,541	NC	NC	2,726	NC	NC
Diesel consumed by company cars (in litres)	29,522	632	0	44,379	1,554	NC	49,945	NC	NC
Diesel consumed by fleet cars (in litres)	45,825	NC	0	72,462	NC	NC	70,325	NC	NC
Business travel by private car (km)	120,400	NC	0	129,277	NC	22,168	167,308	NC	20,462
Average grammes of CO_2 per km for company and fleet cars	99	NC	0	95	NC	NC	99	NC	NC
Business travel by train (km)	1,121,758	NC	0	3,136,751	19,971	NC	2,711,684	15,688	NC
Business travel by air, short-haul (km)	298,867	5,199	0	670,598	6,033	NC	675,842	6,104	1,176
Business travel by air, medium- and long-haul (km)	0	0	0	21,496	NC	NC	31,983	NC	NC

The preventive measures related to the health crisis (teleworking, limited travel) taken by Banque Palatine impacted indicators such as business travel.

Water management

Banque Palatine Group indicators	31/10/2020	31/10/2019	31/10/2018
Total water consumption (in m^3)	350,541	300,096	286,936
Total water consumption per m^2 *	11.19	10.19	9.58
Total amount of water-related expenses (in thousands of euros)	5.30	5.10	4.44

* *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;
- by climate change which generates an over-production of air conditioning every year.

Raw materials consumption

The extension of the use of secure printing and better management of printing and use of electronic document management (EDM) explains the fall in the number of reams of paper used.

The preventive measures related to the health crisis (teleworking) reduced the number of prints.

In addition, the digitisation of customer journeys should accelerate the reduction of paper consumption.

Since November 2018, the bank has chosen to fully digitise its investment advisory process through the O2S solution, thus allowing its customers to benefit from an electronic signature on all regulatory and commercial documents. This makes it possible to avoid printing all this documentation in the branch and sending it by mail for remote journeys, with the impact that this may entail for the carbon footprint.

The paper used is now entirely recycled or certified.

Banque Palatine Group indicators		31/10/2019	31/10/2018
Total paper consumption (tonnes)	33.26	41.89	46.16
Total paper consumption for total workforce (in kg)	25.67	31.66	37.50
Of which total consumption of recycled paper or FSC or PEFC-certified paper (tonnes)	33.26	41.89	46.16

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.

The three remaining agencies (Metz, Grenoble and Strasbourg) will switch to Total Direct Energie in 2021, thus bringing the fleet to 100% green energy.

Banque Palatine Group indicators	31/10/2020	31/10/2019	31/10/2018
Total final energy consumption (kWh)	2,671,278*	3,384,673	3,029,535
Total energy consumption per heated/occupied m^2 (kWh)	82.86	113.83	99.67
Total natural gas consumption (kWh)	75,785**	31,726	43,921
Total electricity consumption (kWh)	2,595,493	3,352,947	2,985,614
Share of renewable energy in total final energy consumption (blue meters) (kWh)	2,399,864	3,164,438	2,700,036

* *Total energy – Estimate for the Anjou site based on the previous year. Missing data in the energy supplier extraction. Correction in progress.*

** *Gas – kWh based on supplier estimate (Lyon Cordeliers branch).*

Cleaning expenses

Since the start of the health crisis, additional services have been put in place to ensure the daily cleaning and disinfection of the points of contact of all our branches and central sites and this has resulted in a considerable increase in costs.

Actions implemented:

- disinfection systems at central sites during the first lockdown;
- disinfection of branches as soon as a Covid-19 case is detected and when teams are rotated every two weeks;
- disinfection of branches as soon as shifts are changed;
- replacement of cloth hand towels by paper towels;
- use of anti-bacterial, fungicidal and virucidal products complying with the E14476 standard.

Banque Palatine Group indicators (in thousands of euros)	31/10/2020	31/10/2019	31/10/2018
Total spending on cleaning services	842*	736	783

* *Of which €96,000 of additional services related to the health situation.*

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, resorts the bags collected. As a result, all the waste produced is recycled.

The voluntary contribution system already in place at the central sites will be gradually extended to branches, which will improve our selective sorting approach.

Banque Palatine has also introduced a new system for the collection and recycling of cigarette butts at central sites by an adapted and protected company.

The total amount of waste produced by the bank is continually decreasing.

Banque Palatine Group indicators	31/10/2020	31/10/2019	31/10/2018
Total amount of waste management expenses by service provider (in thousands of euros excl. tax)	89	91	132
Total Ordinary Industrial Waste (OIW) (tonnes)	31	38 *	526
Total waste produced by the bank (tonnes)	49	68	61
TOTAL RECYCLED WASTE (TONNES)	**57**	**77**	**587**

* *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.*

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;
- electronic and electrical waste (WEEE);
- office furniture;
- light bulbs;
- refrigerant management;
- office consumables (paper, printed material, ink cartridges, etc.).

In addition, in order to improve its waste management, the bank has entrusted its service provider with the destruction of confidential documents throughout its network.

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.

	31/10/2020	31/10/2019	31/10/2018
Total recycled WEEE waste (tonnes)	1.1	2.4	3.1

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 Palatine Group indicators	31/10/2020	31/10/2019	31/10/2018
Number of recycled ink and toner cartridges (tonnes)*	0.23	0.38	*
Number of neon fluorescent tubes collected (number)	240***	93	521
Batteries collected (kg)	0.018	0**	21

* *The data collected is indicated, since 2019, in tonnes and no longer in number. In 2018, 121 cartridges and toners were recycled.*

** *No collection during the period concerned.*

*** *2020 – Fluorescent tubes and bulbs.*

Carbon footprint

Greenhouse gas emissions

Groupe BPCE'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 Groupe BPCE sustainable development department 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 Groupe BPCE, the methodology allows the following to be provided:

- an estimate of the greenhouse gas emissions per company;
- a mapping of these emissions:
  - per item: energy, purchases of goods and services, movement of people, fixed assets and others,
  - by scope[1]. However, direct emissions caused by bank products and services are excluded from the analysis.

Each year, Groupe BPCE, 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 to drive national actions.

Since 2013, Banque Palatine has been able to regard its carbon indicator as reliable. The indicator is monitored with the intention of reducing it over the years.

	31/12/2020	31/12/2019	31/12/2018
Scope 1: Direct combustion of fossil fuels plus leaks of refrigerant gases	251.19	330.09	339.5
Scope 2: Electricity consumption and the heating network	104.24	136.09	182.56
Scope 3: All emissions other than use	8,596.32	9,071.85	7,225.54

Contributing to the State's tax revenue: a corporate citizen footprint

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

The economic dimension of taxes and tax transparency

Tax practices are an important part of Corporate Social Responsibility and its ethical commitment. The regulatory requirements, the expectations of customers, citizens and society in general, are increasingly stringent in terms of transparency, fiscal "citizenship" and the fight against evasion.

Fair tax payment and tax transparency are an integral part of Banque Palatine's social responsibility.

Banque Palatine declares and pays all its taxes in France.

In addition, Banque Palatine has a tax partnership with the administration. This partnership was signed by BPCE in March 2019 and is binding on its wholly-owned subsidiaries. It allows large companies to have access to a privileged rescript mechanism as soon as they commit themselves to an increased level of transparency with regard to tax.

Finally, the implementation of the DAC 6 regulation[2] within Banque Palatine will make it possible to further combat tax evasion.

(1) The GHG Protocol divides the operational scope of GHG emissions of an entity (or organisation) as follows: 1) Scope 1: direct emissions from the combustion of fossil fuels (oil, gas, coal, etc.) and leakage emissions of refrigerants from resources owned or controlled by the company; 2) Scope 2: indirect emissions resulting from the purchase or production of electricity, steam, heat or cooling; 3) Scope 3: all other indirect emissions (from the logistics chain, including the transportation of goods and people). It should be noted that the regulatory requirements under Article 75 of the Grenelle de l'Environnement Act cover Scope 1 and Scope 2.

(2) CAR 6 is a European Union directive establishing the obligation to declare to the tax authorities any cross-border system that, in view of the criteria it defines, is potentially aggressive from a tax point of view.

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	**Financing the environmental transition**
Description of the risk	Lack of a definition of a strategy to support customers towards the environmental and energy transition and its implementation at all operational levels
Description of the associated risks/commitment systems	See Section: supporting customers by taking into account economic, social and environmental issues
Key indicators	

Year	Outstanding financing of the energy transition	Outstanding SRI assets under management
2018 data	€173 million	€66.7 million
2019 data	€185 million	€91 million
2020 data	€211 million	€276 million

Priority risks	**Management of employability and career change**
Description of the risk	Misalignment between the company's needs and those of employees to respond to changes in the business lines.
Description of the associated risks/commitment systems	See Section: ensuring the employability and inclusion of employees
Key indicators	

Number of hours training by FTE employee		
Year	**Banque Palatine**	**Palatine Asset Management**
2018 data	23.6	8.6
2019 data	28.19	8.54
2020 data	24.39	3.15

Priority risks	**Respect of laws, business ethics and transparency**
Description of the risk	Non-compliance with regulations, lack of a system to combat corruption and fraud or to prevent unethical practices and inaccessibility of information
Description of the associated risks/commitment systems	See Section: showing ethics and setting an example in business (money-laundering, terrorism financing and training systems)
Key indicators	% of employees trained in anti-money-laundering (excluding ALD)
2018 data	97
2019 data	88
2020 data	91

Priority risks	Security and confidentiality of data
Description of the risk	Lack of systems to protect the bank against cyber threats, to protect the personal data of employees and customers and ensure business continuity
Description of the associated risks/commitment systems	See Section: ensuring the security of customer data and the integrity of tools
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 phishing 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, Authorisations review.

2020 data	Continuation of monthly phishing testing campaigns for all employees, individual awareness-raising in the event of failure, reinforcement of awareness-raising actions due to remote work (emails, intranet), dissemination of best practices, review of authorisations. Due to the migration, intrusion tests have been postponed until 2021.		
Priority risks	**Sustainability of customer relationships**		
Description of the risk	Lack of mechanisms to ensure sustainable and satisfactory quality of service to customers		
Description of the associated risks/commitment systems	See Section: better serving customers in the long term		
Key indicators	Annual customer Net Promoter Score and trend		
2018 data	Managers of medium-sized companies	Private customers	Corporate customers
	+12	+4	+7
2019 data	Managers of medium-sized companies	Private customers	Corporate customers
	+14	+5	+9
2020 data	Mid-market executives	Private customers	Corporate customers
	No survey conducted	+6	+29
Priority risks	**Accessibility of products and inclusive finance**		
Description of the risk	Lack of provision of an offer for all audiences both geographically and technologically		
Description of the associated risks/commitment systems	See Section: showing ethics and setting an example in business (inclusive finance)		
Key indicators	Number of customers with “vulnerable customer offering”		
2018 data	Existence of a fragile customer offering. Commitment to cap bank incident fees		
2019 data	Implementation of a cap on bank charges for financially vulnerable customers and for customers with a specific product (eight customers)		
2020 data	10 customers equipped in 2020		
Priority risks	**Customer protection and transparency of offer**		
Description of the risk	Lack of transparency of offers, inappropriate sale of financial products and services that do not meet the customer’s needs		
Description of the associated risks/commitment systems	See Section: showing ethics and setting an example in business (customer protection)		
Key indicators	% of complaints for “Information/Advice” reasons processed in 2020 with a favourable response out of total complaints		
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		
2020 data	49%		
Priority risks	**Integration of ESG criteria in decisions concerning loans and/or investment**		
Description of the risk	Non-integration of ESG criteria in sectoral policies and analysis of financing and/or investment files.		
Description of the associated risks/commitment systems	See Section: supporting clients by taking into account economic, social and environmental issues (SRI offering at PAM)		
Key indicators	Rate of SRI assets/total assets under management		
2018 data	2.1%		
2019 data	2.3%		
2020 data	5.8%		

Priority risks	**Employee working conditions**
Description of the risk	Development of occupational risks that include: • psychosocial risks, moral and/or sexual harassment, • accidentology, unsuitable working environment, • inadequate organisational and disciplinary measures, • consequences related to health risks.
Description of the associated risks/commitment systems	See Section: promoting quality of life at work and employee well-being
Key indicators	

Year	Number of workplace accidents with or without lost time	Absenteeism rate = days of absence/(business days * employees registered at 31 December)
2018 data	13	4.82%
2019 data	13	4.83%
2020 data	9	6.37% (pandemic effect)

Priority risks	**Equal treatment, diversity and inclusion**
Description of the risk	Lack of mechanisms to implement equal treatment of hiring candidates and employees within the company
Description of the associated risks/commitment systems	See Section: ensuring the employability and inclusion of employees
Key indicators	

Year	Gender equality index	Percentage of female managers
2018 data	96/100 (index produced in 2019 for the year 2018)	44.3%
2019 data	97/100 (index produced in 2020 for the year 2019)	49.9%
2020 data	96/100 (index produced in 2021 for the year 2020)	45%

Priority risks	**Employer attractiveness**
Description of the risk	Unattractive management of career development, unattractive remuneration policy, negative assessments of the employer brand, difficulty in attracting talent in a competitive market.
Description of the associated risks/commitment systems	See Section: ensuring the employability and inclusion of employees; see Section: a comprehensive and competitive remuneration system aligned with the bank's interests
Key indicators	

Year	Resignation rate	Recruitment times (based on the average time per position for permanent hires only	The conversion rate of our work-study students to fixed-term contracts and permanent contracts
2018 data	5.92%	33 days	22%
2019 data	4.96%	33.5 days	30.2%
2020 data	3.04%	34.7 days	29.4%

Priority risks	**Physical, health and technological climate risks**
Description of the risk	Consequences of physical, health and technological climatic hazards that reduce or prevent the use of operating resources, impacting the activity of employees and resulting in asset losses.
Description of the associated risks/commitment systems	See Section: ensuring the security of customer data and the integrity of tools (exposure to physical, health and technological risks)
Key indicators	Annual BCP compliance rate

2018 data	Not relevant, as the results cannot be transferred from one year to the next, as the questionnaire was redone in 2019
2019 data	100%
2020 data	95%

CSR methodology of the reporting of Banque Palatine

The information in the report is the result of a collective effort by various departments. Those efforts have resulted in CSR indicators that are relevant to the activities, specific features and aims of Banque Palatine.

The information published reflects Banque Palatine Group's desire to achieve transparency and describe objectively its most relevant actions, undertaken in the past as well as new ones, which show its ongoing commitment to CSR.

Reporting period

The data published cover the period from 1 January 2020 to 31 December 2020 except for the environmental data which are provided for the period from 1 November 2019 to 31 October 2020.

Reporting scope

The scope of reporting includes the Banque Palatine SEU, namely Banque Palatine, Palatine Asset Management and Ariès Assurances.

Details on workforce-related data

- The total staff figures are a snapshot at 31 December 2020 of the 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 2019 and 30 December 2020 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 workforce figure used is the number of people on permanent contracts at 31 December 2020. 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 floor space. Only these two buildings use this type 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	2020
SHARE CAPITAL AT YEAR-END						
Share capital	538,803	538,803	538,803	538,803	688,803	688,803
Number of shares[(1)]	26,940	26,940	26,940	26,940	34,440	34,440
OPERATIONS AND RESULTS FOR THE YEAR						
• Revenue	495,554	543,001	542,453	527,355	510,989	435,184
Income before tax, employee profit-sharing, depreciation, amortisation, impairment and provisions[(3)]	128,578	114,673	69,948	67,802	7,700	(10,015)
Income taxes	(25,675)	(19,441)	(21,497)	(17)	(3,420)	2,398
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	50,734	50,555	52,514	(23,072)	22,492	(28,481)
• Distributed income[(2)]	27,748	-	-	-	18,253	-
EARNINGS PER SHARE (IN EUROS)						
Revenue	18.39	20.16	20.14	19.58	14.84	12.64
Income after tax, employee profit-sharing, but before depreciation, amortisation, impairment and provisions[(3)]	4.77	4.26	1.55	2.13	(0.09)	(0.31)
Income taxes	(0.95)	(0.72)	(0.80)	(0.00)	(0.10)	0.07
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	1.88	1.88	1.95	(0.86)	0.65	(0.83)
Dividend allocated to each share[(2)]	1.03	-	-	-	0.53	-
EMPLOYEE DATA						
Average headcount	1,202	1,213	1,170	1,184	1,255	1,293
o/w managerial	*767*	*781*	*793*	*790*	*818*	*839*
o/w non-managerial	*435*	*432*	*377*	*394*	*437*	*454*
Total payroll	66,008	68,138	66,166	69,268	74,049	77,851
Amount of employee benefits during the period	33,214	34,213	34,918	36,205	36,649	38,031

(1) The earnings per share are calculated based on the number of shares outstanding at the date of the 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 at 31 December 2020.

3 Information on supplier and customer payment periods

Article D. 441 I. 1°

Invoices received and not paid at the end of the financial year and whose term is past due **(table provided for in I of Article D. 441-6-1)**	**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	13	13	22	8	22	65
Total amount, inclusive of VAT, of the invoices concerned (in euros)	1,151,304	397,720	402,153	124,399	199,278	1,123,550
Percentage of the total amount of purchases, inclusive of VAT, for the financial year	1.18%	0.41%	0.41%	0.13%	0.20%	1.15%

Invoices received that were late in payment during the year **(table provided for in II of Article D. 441-6-1)**	**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	3,583	3,910	1,553	624	493	6,580
Total amount, inclusive of VAT, of the invoices concerned (in euros)	46,559,299	31,708,354	8,102,461	2,740,952	3,549,584	46,101,352
Percentage of the total amount of purchases, inclusive of VAT, for the financial year	47.83%	32.58%	8.32%	2.82%	3.65%	47.36%

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 Allocation of net income for the 2020 financial year

Sources	
Net income	(€28,480,607.44)
Carried forward	€210,841,696.06
TOTAL	**€182,361,088.62**

Appropriation	
Carried forward	€182,361,088.62
TOTAL	**€182,361,088.62**

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 January to 31 December 2020

- Number of dormant accounts at the bank: 7,611.
- Total amount of deposits and assets in these accounts: €77,382,08.01.
- Number of accounts with deposits and assets deposited with *Caisse des Dépôts et Consignations*: 279 in June 2020 and 239 in December 2020, *i.e.* 518 accounts for the year 2020
- Total amount of deposits and assets deposited with *Caisse des Dépôts et Consignations:* €1,863,501.71 in June 2020 and €2,075,750.92 in December 2020, *i.e.* €3,939,252.63 for the year 2020.

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
Fontenay branch	10, avenue du Val de Fontenay	94120	Fontenay-sous-Bois
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	1, rue des Messageries	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	35, boulevard Solférino 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 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	06205	Nice cedex 3
Nice Promenade branch	7, promenade des Anglais	06000	Nice
Toulon branch	139, avenue Vauban	83000	Toulon
RHONE-ALPES			
Annecy branch	15-17, rue du Président-Favre – CS 17	74008	Annecy cedex
Chamonix branch	7, avenue du Mont-Blanc	74400	Chamonix
Grenoble branch	2, cours Berriat	38000	Grenoble
Lyon Brotteaux branch	12, place Jules Ferry	69006	Lyon
Lyon Confluence branch	12 *ter,* quai Perrache	69002	Lyon
Lyon Cordeliers branch	1, place des Cordeliers	69002	Lyon
Saint-Etienne branch	1, boulevard Dalgabio	42000	Saint-Etienne

6

DRAFT RESOLUTIONS SUBMITTED TO THE ORDINARY GENERAL MEETING OF 20 MAY 2021

First resolution

The General Meeting, having reviewed the Board of Directors' management report and corporate governance report, and the Statutory Auditors' report on the parent-company financial statements of Banque Palatine for the financial year ended on 31 December 2020, approves the parent-company financial statements showing a net loss of €28,480,607.44 million.

Pursuant to Article 223 *quater* of the French General Tax Code, the General Meeting approves the expenditure and charges covered by paragraph 4 of Article 39 of said Code, totalling €77,566.

Second resolution

The General Meeting, having reviewed the Board of Directors' management report and corporate governance report, and the Statutory Auditors' report on the consolidated financial statements of Banque Palatine for the financial year ended on 31 December 2020, approves the IFRS consolidated financial statements showing a net loss of €14.684 million.

Third resolution

The General Meeting resolves to allocate the net income for the financial year ended on 31 December 2020, *i.e.* a loss of €28,480,607.44, to the retained earnings account, the balance of which, after this allocation, will amount to €182,361,088.62.

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 2017	€20	26,940,134	-
31 December 2018	€20	26,940,134	-
31 December 2019	€20	34,440,134	€0.53*

* *Not eligible for the 40% rebate.*

Fourth resolution

The General Meeting, having reviewed the special report of the Statutory Auditors on the agreements referred to in Article L. 225-38 of the French Commercial Code, takes note of 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 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 2020, to be awarded to Ms Christine Jacglin, in her 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 2020, to be awarded to Mr Patrick Ibry, in his capacity as Deputy Chief Executive Officer.

Seventh resolution

The General Meeting, having reviewed the Board of Directors' report on corporate governance, issues a favourable opinion on the total amount of remuneration of all types paid during the financial year ended on 31 December 2020 to all employees belonging to the regulated population, amounting to €8,051,787.

Eighth resolution

The General Meeting sets the total annual amount of remuneration paid to the members of the Board of Directors at the sum of €134,500, applicable for the 2021 financial year.

Ninth resolution

The General Meeting grants full powers to the bearer of a copy or extract of the minutes of this meeting to carry out the publication formalities provided for by law.

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L'Art d'être Banquier

• Financial Report MKG10121-B- 04/2021